

## Statement of Issues: Fletcher Distribution/the Tumu companies

### Summary

This acquisition lessens competition because it further consolidates market power in an already troubled industry structure.

The Sale price speaks for itself, in that it's a premium of what could otherwise be expected in a profitable market (goodwill is the NPV of excessive profitability ( Monopoly rents )

We respect the right of the vendor to sell at the best price and retire to the beach and boat, but it's at the detriment of the customers who supported the business for the last few decades.

The Commission must take more notice of vertical integration in building materials internationally, vertical integration stalls competition in materials and innovation in building techniques.

This is because in competitive building materials markets the competition exists on "time to install", not just price and quality, this means that productivity ( the 75% cost of building a house ) improves

The Plasterboard Crisis is relevant to this submission, why? because it illustrates first had a problem of vertical integration and capture, of the downstream and upstream regulators of a market .

### General Discussion

The Backdrop to this proposed merger clearance is that NZ is a global disgrace in the cost of construction, the Kiwi Taxpayer pays \$4k a meter for a social house, when international best practice is \$1k, on a like for like quality basis . The industry has deep seated competition and structure issues, and its not OK for incumbents like Fletcher to continue to blame all of these on the Council and RMA .

Monopolies over service customers to keep them, this is best illustrated by Plasterboard, where of course there is bespoke delivery service, but it comes at a cost, New Zealand plasterboard installed per meter, is approx. is **\$15 per sqm Versus \$7 per sqm in Aussie, versus, \$4, in EU** installed – That is where the CEO of Fletcher is seriously misleading NZ consumers at his Investors day to suggest " *we are saving customers money by delivering* " , He is using confusion to perpetuate his own dominance

Also he factually incorrect to say Fletchers won 95% of the plasterboard market, they acquired Winstones in 1988, in a outrageous 2:1 merger, and there wholesale and retail

companies don't stock competing products . For example There will be no chance to distribute a competing Plasterboard if Fletchers proceed with this acquisition

We urge the Commission to look at the relevant empirical research in the Market Study , which MWNZ and ABC presented . We also urge the Commission to do a basic customer survey, in suggested competitors, its MWNZ position that Bunnings and Mitre 10 , are largely a different market segment to ITM, PlaceMakers and Carters , the former being DIY , versus the other group being predominately Trade .

We note the ComCom plasterboard 2014 plasterboard report "Senior Economist ," *No one would talk to us they are all scared of Fletchers* " the Proud tradition of successful ComCom reports was evaporated by a monopoly being able to be perpetuated ,

*Its noteworthy In EU regulated markets of similar size to nz this would be banned best catalogued by St Gobains relationship with Travis Perkins and Jewsons, or the merged entity would not be able to sell the parent company products . We urge the Commission to check the European Competition Law on this sector , particularly the acquisition of Travis Perkins and Jewson's in London by St Gobain*

*Time has come , for Fletchers to be held to account and start discussion of benchmarked costs of materials , and more importantly assembly productivity. Their application should have included this benchmarking analysis in their clearance submission . It was not .*

We acknowledge point 108 of the issues paper , and note that this acquisition would only leave Carters as a potential competitor , some organisation which has a " synergistic product range " and they got convicted for co-ordination of prices , and the fine , was " less than the cost of Friday drinks for Fletchers . Really an acquisition that would almost be subject to tacit collusion.

We believe the condition under which the acquisition could be sanctioned, is it PlaceMakers Distribution was ownership divested from Fletcher parent company control and made to stock competing products.

So tone deaf is this acquisition to the disasters that Fletcher has inflicted on its customers with its dominance , and the " *scared people who have to deal with Fletcher* " that we urge the ESG and H&S compliance desks at Fletcher to ensure the Fletcher board has random Drug and Alcohol testing , to meet the high standards their fabulous rank and file construction teams have .

## **Answers to ComCom Questions**

### **111.1 the extent to which the market for the supply of building products to national customers is vulnerable to coordination;**

Continually, competitors quotes circulate the market ,there has been a recent conviction for collusion on pricing and this proposed merger is shrinking a potential challenger in size and scope.

### **111.2 whether the Proposed Acquisition changes the conditions in the market for the supply of building products to national trade customers so that coordination is more likely, more complete, or more sustainable.**

The impact of this proposal, shrinks the capability of the ITM to continue on the pathway to becoming a like for like competitor to PlaceMakers and Carters , ( arguably even with the existing franchise, it still has some way to go ,

This substantially weakens that competition journey and instead is a sale to a existing challenger who has already been nicked for collusion this decade (*with a Fine so small , it was smaller than the drinks bill ! of the company* ) The synergistic product matrix between Carters and PLacemakers ,is worthy of further analysis by the commission, - these organisations do not compete

**111.3 the existence of countervailing power by national customers that would undermine any attempts by merchants to coordinate;**

National customers, of scale don't exist , Scale in NZ should be 1/3 of all houses being built by 5 or 6 operators , then supply chain can be brought in house . No national customers can build without the incumbents products, ANSWER , there is no countervailing power ( 3<sup>rd</sup> party reference is plasterboard crisis )

**111.4 whether ITM is a destabilising factor in the supply of building products to national trade customers , such that any reduction in the competitiveness of ITM with the Proposed Acquisition could make coordination in this market more likely.**

ITM needs more revenue , to build its power , and product base independent of PlaceMakers and Carters , ITM are competing on service ( which is important to small builders ) , not price and not innovation . ITM becomes marginally less effective as it shrinks to an expanding power of PlaceMakers

This application by Fletchers is madness , and illustrates a belligerence which would humiliate most NZ boards .

Core numbers (valuation, Cost of building in NZ, margins on vertically integrated products, lack of scale, similarity in pricing and synergy in product range etc.

We thank the Commerce Commission for engaging with Monopoly watch and setting such a high standard for analysis and enquiry in this matter.

**Thank you for Considering the position of Monopoly Watch NZ**

**Tex Edwards  
Financial Analyst  
MWNZ**

*Monopoly Watch NZ (MWNZ) is a NZ evidence based public policy analysis group which wishes to comment on New Zealand's building materials market and explain the linkage between High HHI Ratios in building materials and low productivity in assembly of houses in New Zealand. We want to promote a fundamental rethink on social houses in entry level market segments so that houses built with taxpayers' money are fundamentally re-engineered so that the New Zealand house assembly industry can deliver pricing at an international best practice price.*