

Residential Building Supplies Market Study

Summary of key preliminary findings

Our preliminary view is that 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.

We have identified **two main factors** making it difficult for new or competing products to be introduced and for suppliers to expand their businesses:

- The **regulatory system** continues to incentivise designers, builders and building consent authorities to favour 'tried and tested' building products over new or competing products

- **Quantity-forcing rebates** paid by established suppliers to merchants appear, under certain conditions, to be reinforcing barriers to distributing new or competing products in some product markets.

In addition, as in previous market studies we have identified restrictive land covenants and exclusive lease terms that have the potential to affect competition between merchants.

The regulatory system

The regulatory system has a number of features that prevent competition from working well.

Despite flexibility to use new 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 regulatory and standards systems (comprising the Building Act, the Building Code, and related instruments, and the consenting system) are applied to building products
- The decision-making behaviours of designers, builders and building consent authorities in response to, and in applying, the regulatory and standards systems.

Quantity-forcing rebate structures

Quantity-forcing rebate structures appear, under certain conditions, to **reinforce barriers to distributing competing products**.

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

While they do not always lessen competition, they can deter merchants from stocking competing products in their stores, making it more difficult for new or smaller suppliers to get established in the market, access distribution channels and increase sales.