HW Richardson Group Ltd

Invercargill

35 Inglewood Road

Invercargill

4 February 2022

Building Supplies Market Study
Commerce Commission
44 The Terrace
WELLINGTON

By email: buildingsuppliesmarketstudy@comcom.govt.nz

Dear Sir/Madam

RESIDENTIAL BUILDING SUPPLIES MARKET STUDY: PRELIMINARY ISSUES PAPER

The following is Allied Concrete's (part of the H W Richardson Group) response to the questions raised in the Commerce Commission's "Residential building supplies market study – Preliminary issues paper" released 17th December 2021.

Allied Concrete has provided answers to those questions of which it has direct knowledge or experience. It has not commented on questions which fall outside its sphere of activity and experience of ready mixed concrete.

We would like to point out two errors within the document.

1. *In paragraph 43.1, Allied Concrete is cited as a local manufacturer specialising in the manufacture of cement. This is incorrect, Allied Concrete is not involved in the manufacture of cement in NZ or elsewhere, we are a Ready Mixed Concrete manufacturer and supplier. Similarly*
2. *In paragraph 93, Holcim is cited as one of two companies having a combined market share of 85% in the supply of Concrete. In New Zealand, Holcim supplies cement and, although it has shareholdings in two ready mix concrete companies – AML Limited (Allied Concrete in the NI) and Atlas Concrete – it does not have management control in either company.*

We would also like to point out that COVID has resulted in massive disruption in the building industry which has had an economic impact building materials as well as others. Supply chains have been disrupted both internationally and locally. Massive increases in international shipping, local fuel cost increases and labour shortages to mention a few, have all impacted building supply costs. This disruption should be considered when carrying out a study at this time.

Yours faithfully,

Hans Fuchs

Group GM - Concrete

Q1 What impact is the current level of competition in the building supplies industry having on New Zealand businesses and the general public?

The level of competition remains high and healthy. There is an effect of supply and demand through shortage of materials, especially notable in timber availability (common source of frustration from residential building industry customers) and constant concerns regarding labour availability from suppliers, builders, manufacturers, subcontractors.

Q2 How important is it for us to consider building supplies for renovations separately from building supplies used for new builds?

From a concrete supply point of view there is little to no difference in these markets. Our opinion is that there is no need to consider materials supply separately in these two markets.

Q3 Are there any aspects of the building supplies industry which have a particular impact on Māori?

We are not place to answer this question.

Q4 How does our high-level summary of the supply chain fit with your understanding?

The supply chain as it applies to ready mixed concrete is reasonably accurately depicted in Figure. 1. The only discrepancy being that the supply goes <u>from</u> Prefabrication to Construction level, not v.v.

a. Are there any other key steps in the supply chain we should consider? If so, please explain how these steps fit into the supply chain.
Structural and/ or geotechnical engineers have a significant role in determining choices for foundations as the Technical Categorisation of land requires specific engineering design (SED) for all locations not deemed TC1 or for any design considerations outside the scope of NZS3604
b. Are there building supplies relevant to this study that have different supply chain structures? If so, please describe these building supplies and how the supply chain differs?
Some buildings supplies require the use of registered or licenced installers and may only be available for purchase through said installer/ subcontractor.

Q5 How does our characterisation of the key participants and the other key stakeholders in the residential building materials supply chain fit with your understanding?

A generally fair characterisation of the participants, except for the previously noted correction to Allied Concrete's role we would also note that Fletcher Building's span is wider than indicated they are a key raw material supplier through to commercial developer.

a. Are there any other key participants or stakeholders that play a major role in the industry? If so, please explain the role of these participants or stakeholders
Engineers as per 4a. above

Q6 Is the structure of the supply chain changing or evolving? If so, please explain how and over what time period this is likely to occur

There is a shift to an increasing use of specialist subcontractor services. Builders are increasingly moving to project management and the specific carpentry roles. This reflects labour shortages and increased technical skills required for the installation of some building systems. This shift is more pronounced when the market is busy and wanes during periods of easing

Q7 Do you agree or disagree with our preliminary view on the "key building supplies" in scope for this study, as described in paragraphs 49-52 and Table 1? Please explain your reasoning

Note to table 1. Foundations require steel reinforcing, we are not sure of the role of steel joists in this context.

We disagree with the preliminary view. The proposed limitation of scope excludes the significant costs of plumbing, electrical, fitout and compliance which are individually and combined represent a very significant proportion of the final build cost. Currently delays associated with these aspects of the build, particularly compliance, are frequently cited as sources of frustration and additional cost in the build process.

Q8 If we focus on a narrower selection of building supplies to assess certain issues, are the factors set out in paragraph 55.1-55.5 appropriate to guide our focus? Are there any other factors we should also consider?

Para 55.1: The proposed narrower focus ignores the relative cost of electrical, say, to foundations. Both of these vary by individual buildings but, overall, are likely to be similar contributors to the overall building cost.
Para 55.2: This may be ok provided you are accurate in determining these. As already stated you have already cited Allied Concrete as a cement manufacturer, there are three major suppliers in NZ and Allied Concrete is not one of them.

Para 55.3: Again this may be ok provided you are clear on the parameters, concrete is not only used in foundations and floors, but also in walls, paving, decks and landscaping. In each of these elements there are significant choices of alternative materials available

Q9 Which key building supplies do you think should be assessed in greater detail, or otherwise prioritised? Please explain your reasoning

Q10 How will key building supplies evolve in the future? Will different materials become more important?

It is expected that sustainability and CO_2 footprint of building products will become an increasing focus for homeowners and their agents; architects, designers and engineers. This may also be shaped by Government policy and private funding requirements. This will force building product suppliers to develop new or revised products to remain relevant. Not all suppliers will be willing and or capable of doing so. This may increase the prevalence specific products or suppliers being specified.

Q11 Are the characteristics set out above an accurate reflection of residential building in New Zealand? Please explain your reasoning.

We believe this is a fairly accurate summary of residential building in NZ. We would add that there remain a large number of small businesses which collectively represent a significant proportion of residential construction activity and that there are increasing shortages of appropriately skilled and capable labour

Q12 Are there any other characteristics of residential building in New Zealand which are important for us to understand?

There is a varying performance by Building Consenting Authorities (BCA's) across the country. Allied Concrete has CodeMark registered foundation systems, some BCA's readily accept these solutions when included in consent applications, others seem to use their inclusion; and we are sure other Code Marked solutions, as a reason to delay and extend the consenting process.

Q13 Does our summary of the external pressures facing the residential construction industry accurately reflect the current situation? Please explain why/why not.

The summary is fair but, may understate some of the issues. For ready mixed concrete suppliers access to aggregates (quarried stone or processed gravel and natural sand) is an important factor in determining input material costs. The recent history of NZ is dominated by large infrastructure constructure projects placing extraordinary demands on these resources and driving supply shortages which impact on the costs – often aggregate materials are transported, relatively, long distances

This impact is currently being experienced across the lower NI and is looming as an imminent threat in the Auckland market. This is further exacerbated if mining/extraction consents are not extended or granted for these fundamental raw materials or limitations imposed on deliveries. Available alternatives are at a higher cost which in turn increases the overall cost of the products to the residential market.

Other external factors impacting residential, and all, construction are labour shortages. With unemployment running at historically low levels and government determined immigration settings restricting access for necessary trade qualified and other workers – even before COVID closures of the border - employment costs are strongly contributing to increasing construction material costs. These are industries which have historically paid significantly more than minimum wage rates. COVID Border closures have heavily impacted the availability of certain labour groups such as drivers / site labourers and several skilled tradespeople.

Q14 To what extent are these external factors temporary or likely to continue in the long term?

Some of these factors are long term; New Zealand will continue to be a small market remote from many product suppliers, we are likely to continue to favour bespoke houses and have to cope with specific environmental conditions; earthquakes, wind, snow, etc which require structural solutions.

Others such as immigration settings and access to raw materials such as aggregates could be addressed in the shorter term, if the government was minded to do so

Q15 Would an increased use of technology, such as prefabricated housing, help to address some of the longer term pressures facing the industry? Please explain why/why not.

Q16 Please describe any other examples of innovative technologies or approaches that could increase efficiency in the sector over the longer term.

An example is our READY floor system which utilises steel fibre reinforcement to speed construction, reduce labour requirements and reduce embodied carbon.

Q17 Please describe any other major external factors that are currently impacting (or have recently impacted) the New Zealand residential building industry that we should consider in this study and the time horizon over which they will impact the industry

As previously stated COVID has impacted the residential industry
Labour shortages, both of those directly employed in the construction sector and in its supply chain is having an immediate impact on residential construction and are likely to do so for the foreseeable future.

It is also evident that for those materials sourced entirely, or in part, from overseas that the international demand for product and the current inflated costs of shipping, whether in bulk or containerised is strongly impacting pricing and/or availability of materials.

Q18 How might the regulatory changes described in paragraphs 74 and 75 affect the demand for or supply of certain types of residential building supplies?

It is likely that increasing housing density will favour concrete solutions. The concrete industry, or at least some participants have innovative product solutions that will adapt well to the environment including embodied carbon reductions. However, today's standard concrete may be less attractive in some scenarios.

Q19 Please describe any other major recent or ongoing regulatory changes that might affect demand for certain types of residential building supplies.

Recent changes to insulation requirements (H1) will increase the demand for foundation edge systems. In the current high demand market this has the potential to lead to shortages, at least in the short term and will certainly increase building costs.

Q20 Does the regulatory environment pose challenges to the introduction of prefabricated products? If so, please explain where you see the issues and whether these will be addressed by the latest regulatory reforms.

We have no basis on which to comment on this question

Q21 What are the most important 'green' building supplies for us to focus on? Why are these important?

We believe that the focus should be on verifying the green credentials of building products to ensure that these are achievable.

Ensuring that the embodied carbon contents of the building products can be measured, and so genuine reductions can be made through the correct choice of those that are lower than others.

Also, a focus on full Life Cycle Analysis (LCA)as this recognises not only the initial carbon footprint of a material but also its durability and resilience, which as noted in paragraph 77, is increasingly important to resist the effects of climate change.

Q22 Please describe any other ways in which building for climate change might drive change and innovation in the residential construction sector.

Regulation requiring LCA of building systems for total embodied carbon and energy efficiency coupled with target reductions from a base, would significantly impact of choice of product and would drive change.

Q23 Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 83 to 87 above?

No.

Q24 Would international comparisons of key building supplies prices provide insights into the level of competition in the industry? Why/Why not?

Q25 How should we assess the levels of innovation in the industry? Is there a way to measure this or benchmark internationally?

You should consider key areas of interest and ask for information around these e.g., Embodied Carbon, Productivity - What innovations are available around these/ what are the levels of acceptance of these innovations (if low why?). How does this compare with international acceptance – this could be ascertained through various trade associations bodies.

Q26 Would assessing the margins of the manufacturers and/or merchant sales of key building supplies provide insights into the level of competition? Why/Why not?

We do not believe so. Our experience, in the concrete market, is that competition is strong.

Q27 Are there other assessments that would provide better insights

Q28 On what geographic basis (eg, local, regional, national) should we assess the concentration of key building supplies. Please explain your view.

All three, customers as well as suppliers may operate locally, regionally and nationally. A supplier with national reach, such as Allied Concrete has to have an offer that works for customers at each of these levels to be successful. It is clear that customers who operate nationally or across multiple regions leverage their size .

Q29 Are there any key building supplies which stand out as having a limited choice of suppliers? If so, please explain which building supplies.

Yes. Plaster board and seismic (ductility controlled) reinforcing steel

Q30 What are the barriers to importers of key building supplies competing effectively with domestic manufacturers?

A relatively small market a long way from manufacturing bases. In addition, the market, which is on a population basis smaller than Sydney or Melbourne, is geographically widespread with sometimes challenging internal logistics and with specific performance requirements.

These factors add not only financial cost but also add to the products carbon footprint compared to domestic manufacture, which is increasingly playing a role in customer choices.

Parochialism – "buy NZ made" may also be a factor.

Q31 Are there building supplies you are aware of that are not available in New Zealand, but you think would benefit New Zealanders? Please describe these supplies and benefits.

None known

Q32 How do economies of scale in the supply chain for key building supplies impact the number of suppliers?

We can only speak for ourselves. We are a national supplier of concrete which has a limited shelf life and therefore a restricted supply radius. This means that we have to have many Manufacuring units in order to supply a geographic area. We are not represented in every town, or even able to supply concrete to every possible location. The simple reason for that is the cost of establishing operations requires at least an expectation that we can sell sufficient product to secure a return. For us, some locations do not meet that expectation. We are sure that these same economics apply to not only our competitors, but potentially to a number of building products. This will flow through to the number of suppliers servicing any given market.

Q33 What are the main barriers to new providers of key building supplies establishing domestic manufacturing in New Zealand?

There are at least two.

1. *At most times the ability of the existing manufacturers and/ or importers to satisfy market demand in a timely fashion and to the satisfaction of the market.*
2. *The Resource Management Act and all that entails in terms of establishing a new manufacturing base in NZ.*

Q34 Are customers, (for example, merchants when purchasing from wholesalers, or builders when purchasing from merchants) able to constrain their suppliers due to their own size or negotiating position? Please explain why/why not?

Not all customers can achieve this, but certainly some large customers – at local, regional or national level – can, and do, use their size to good effect.

Q35 Does vertical integration act as a barrier to entry/expansion for independent rivals? Does this differ for different building supplies? Please explain your view.

Our observation, for cement, aggregates and ready mixed concrete, vertical integration has not acted as a barrier as there are many ready mixed concrete suppliers who are not vertically integrated within the NZ market.

We are unable to comment on other building supplies

Q36 Is being vertically integrated necessary to compete effectively in this sector? Please explain your view.

No. There are several examples of Ready Mixed Concrete companies which have been/ very successful with no vertical integration:

Q37 What are the benefits in this industry to being vertically integrated? Do consumers benefit from this?

Q38 Are there any other factors we should be aware of in considering the vertical integration of key building supplies?

None known

Q39 What forms do supplier rebates and loyalty payments typically take in this industry? (eg, monetary, non-monetary, lump sum etc.) Does this vary by type of building supply? If so, please explain how.

Q40 Do rebates / loyalty payments usually relate to one product or category of product, or are they often applied across multiple products or product categories?

We only supply one general product.

Q41 Do rebates / loyalty payments inform or restrict a merchant's or builder's decision about which product(s) to acquire? If so, how significant is this consideration?

No

Q42 Is tying of products or product "systems" a prevalent practice? What levels of the supply chain are characterised by tying arrangements?

Q43 Are exclusivity agreements prevalent? What levels of the supply chain are characterised by exclusivity agreements?

Q44 Do the benefits of rebates and pricing pass through to end-consumers? Why/Why not?

We cannot comment. As we have no knowledge on this.

Q45 Are there any other factors we should be aware of in considering the vertical arrangements of key building supplies?

Not that we know of.

Q46 Is accommodating behaviour likely to be an issue in this industry? Please explain why/why not.

Not that we have seen in concrete

Q47 How transparent is pricing for key building supplies?

We price in a competitive market and our customers have many supply alternatives and can be easily compared.

Q48 Are there any other factors we should be aware of in considering accommodating behaviour in building supplies?

No.

Q49 Do the regulatory and standards systems (eg, product accreditation framework, building code and standards or consent process) make it easy or difficult for new and innovative building supplies to enter the New Zealand market and establish a presence? Please explain any difficulties posed and your view on whether it would be beneficial to make it easier for new suppliers to enter the New Zealand market.

Our experience, we have CodeMarked products is that is both difficult and expensive to CodeMark an innovative product. It can take 12 months of testing and accreditation as well as having ongoing re-accreditation and audit fees, only to be rejected by risk adverse councils without explanation.

Q50 What impact does the current regulatory environment have in encouraging or discouraging a move to 'green' building supplies?

We believe that an appropriate regulatory environment will encourage adoption of "green" building solutions. We see a willingness to adopt these.

Q51 Does the current regulatory regime favour incumbent suppliers over new entrants? If so, please explain how.

Q52 Does the current regulatory regime encourage vertical integration (including, for example, in-house product compliance) or vertical arrangements in the sector? If so, please explain how.

The NZ concrete industry, through Concrete NZ runs a plant and product accreditation system which is well accepted by the construction industry and regulatory bodies.

We don't know how this works for other sectors.

Q53 Does the current regulatory regime encourage the offer of 'systems' of products? If so, please explain how.

Please see the above comments on CodeMarked Products..

Q54 Are there any other factors we should be aware of in considering the regulatory and standards systems for building supplies?

No

Q55 Who are the key decision-makers for key building supplies?

This varies significantly. The specifier (architect designer and/or engineer) is a key decision maker, although a large % (quoted as up to 50% by a survey from EBOSS group in 2018) of specified products are changed by builders/contractors. As such the builder/contractor is a significant decision maker, and in larger firms this decision may be influenced by purchasing officers, quantity surveyors, project managers etc.

The end consumers may have some input to the decision, more in some aspects of the building envelope than others we suspect.

Q56 How do decision-makers choose the most appropriate building supplies to use?

This is very difficult to define, we expect that: Price, quality, availability, warranty, past performance, customer preference, assurance information, subcontractor choice etc. will all play some role in the decision process

a. Do decision-makers default to choosing building supplies which have been used in the past? If so, please explain why.
Often yes, but not always. Quality issues and delays are costly, so proven methods, materials and suppliers or contractors are often hard to change without good reason

b. Do decision-makers on key building supplies have full information available to them to make informed decisions? How costly is it to obtain this information?
We believe so. There is an abundance of good information easily available.

c. What role do warranties or other guarantees have in the decision to choose the key building supplies?

Q57 Do the incentives of the decision-makers on key building supplies align with the interests of consumers?

Q58 Are there any other factors we should be aware of in considering decisionmakers' behaviour in respect of building supplies?

Not Known

Q59 Are there any other issues not raised in this paper that could impact competition in the key building supplies?

Not aware of any

Q60 Which potential issues do you think should be the priority issues to focus on? Please detail reasons why.

We do however want to point out that we are concerned the study will heavily be influenced by the current abnormal market conditions and that there are very many factors that influence the cost of residential buildings. Building materials are a small % of the overall cost of residential developments.