ROOFING ASSOCIATION
OF NEW ZEALAND

Residential Building Supplies Market Study-Preliminary Issues Paper 17/12/21

Q1. There is a good level of competition for roofing products. Typically and excluding more high end products, competing products/systems are relatively close if considered on a price per m2 basis.

Q2. It is not. While there may be unique products used on renovations to match existing-in general those products are also used in new builds also.

Q3. Not for the roofing industry.

Q4a. Figure 2 does not apply in all instances for our industry. Under Schedule 1 of the Building Act, some types of reroofing is exempt from requiring a building consent. The products must meet the building performance elements of the Building Code. There will be no plans, rarely would a merchant be involved, the BCAs are not involved prior or after reroofing. So the chain would be Materials manufactured/imported, Product Assurance, Roofer and then Consumer.

Q4b. Not for the roofing industry.

Q5 Reasonably well. We do see supply from the wholesale supply level directly to the Developer/end user level occasionally.

Q5a. No comment.

Q6. Some parts of our industry are selective in whom they sell too. Reputational damage can occur if product is sold to anyone without qualifying their ability to install. There is no timeline to be attached to this. This study needs to keep in mind outcomes. If competition is only about the lowest cost, then we can impact on the quality of our housing stock. Building products have to look at all elements such as life cycle cost. Complete performance can in fact result in a lower overall price for the life of the product.
We have also seen more imported products arrive adding to competition and choices for end users.

Q7. We disagree. It is not clear for the roofing industry if you mean all of the components that go into a roof or the specific elements as listed. A steel roof attached to a structure can comprise the roofing, roof flashings, roofing underlay, insulation, fasteners, sealants, penetration flashings, ventilation, sky lights, labour and transport. Transport can be very variable depending on the roof type. A steel roof of long lengths for a domestic dwelling requires a special truck with its own crane. To move for example a two tonne load. Same size roof area by m2 but using membrane maybe a pallet of product. Same roof again in concrete could weigh 10 tonnes. The risk in just being tunnel -visioned about the range is that a key element of competitiveness may not be considered. Likewise labour input varies by roof type and impacts on overall roof price.

Q8. If the focus is too narrow then we may not get a result that reflects the industry. For the roofing industry looking at products that perform in a coastal environment for steel roofing narrows the options considerably. Competition requires alternate choices for the end user-not just a better price.

Q9. We do not consider the need to prioritise a key roofing supply product.

Q10. For the roofing industry we see products being more aligned to our carbon footprint ambitions. We are also aware of more thermally efficient and less labour intensive products coming through.

Q11. Aesthetic requirements are important. Some sites have set criteria as to building components e.g. covenants. We would also point out that most consumers are slow adopters of new options.
In point 61 there is point raised about it possibly being harder for international suppliers to supply our market and meet the demands or regulations of our market. This should not be a consideration. If you want to participate in our market then such suppliers need to bring something that will satisfy the demand but also meet any compliance required.

Q12. Our consumers frequently drive for lowest price or the "deal". This results in roofing installers shopping around for the best rates so that they in turn can then pass on those gains in attempting to secure the work.

Q13. One of the impacts of such acute demand is the labour resource. Many of our members employ contractors whom tend to follow the best rates. There is significant wage pressure as the scarcity of labour causes staff and contractors to seek higher rates. A business in turn cannot keep absorbing such expenses. This would distort cost comparisons with other countries for example. Depending on speciality this can also impact competitiveness as a lack of the skill available can limit choices for the consumer.

Q14. Without the ability to see into the future this is hard to answer. Given the high number of consents and the subsequent high demand we will experience supply chain issues for some time. The lockdown exacerbated the problem as well. Over 80% of the roofing industry's products come out of Auckland. Many suppliers ran out of product and were left to fill orders in a constrained supply chain. When they were able to supply-the cupboard was quickly emptied of stock and with the high demand stock levels have not returned. We have seen some suppliers limit their offering to improve service.

Q15. Prefabrication in itself is a part solution. Factory based building consents are not yet available. Also prefabrication requires scale to drive efficiencies. The consumer needs to also move away from bespoke homes to get greater acceptance.

Q16. Structural Insulated Panels and steel framing in residential building are other examples of innovative technology. Again the end user needs to adapt as well.

Q17. Given our isolation as a country we have to endure and are at the whim of international shipping intentions. Many roofing products rely on imported componentry. With containers being "spot priced" this impacts on pricing competitiveness. In part our isolation and small market size makes NZ less attractive for international suppliers. Ultimately suppliers enter a market based on business principles. The key one being-how much money will be made by entering that market?

Q18. The regulatory changes assist the Product Assurance part of fig.2 and speeds up consenting, we are unsure if this has an impact on competiveness. It must be beneficial for productivity. However there is no mention of improving NZ Standards and how these are funded and operating.

Q19. Risk allocation can cause significant hesitancy. While not a recent impost, the perception is that much of the risk associated with using a particular product sits with the end supplier. With the use of joint and severally as a tenant of law, innovation can be stifled. Countering that our buildings can't be an experiment either.

Q20. The proposed regulatory changes should mitigate the challenges. However with prefabrication it needs to be remembered that distance from the factory could impact on the gains of that construction method. So it could be argued that regions that would benefit more from this method may be hampered by distance and infrastructure. Reduced choice is reduced competition.

Q21. We are struggling to see how climate change ambitions are included in this study. If ultimately it is legislated how compliance is achieved then suppliers will adapt to meet the requirements. To make it fit then a clear definition of competiveness in relation to this study is required. The Notice from the Minister states: "into any factors that may affect competition". As such if there are requirements such as green building supplies give clear concise guidance as to what that means.

Q22. By being clear as to what competitive means then the answer here may be more apparent. E.g. recyclability-does this impact on competiveness. Indeed is a product only required to be competitive at point of sale or over its lifetime?

Q23. 86.1 and 86.2 are to assess prices and margins yet in 87 the study is not to be conclusive about whether prices are high. So if the study is to ascertain the range of prices across similar products only then does this makes sense.

Q24. There are a lot of variables to be factored in so that any comparison is valid. In the roofing industry there are more roll formers in Auckland than in Sydney for example. Economies of scale are significant. I was involved in bringing to market an offshore option in a previous role. There were questions around market size which locally was measured in the 1000s m2. The provider I was working with usually supplied millions m2. This product came out of central Europe. Simply supply your large local market or ship to the other side of the world? What is logical? Then we need to consider performance especially given the attempts to lift outcomes for building occupiers. E.g. higher insulation requirements. Is it realistic to import bulk insulation that meets new requirements given the volume required but cognisant ultimately of the NZ market size?

Q25. Innovation does occur. However there is no expected level of innovation locally. Typically there is a first mover and then fast copiers which results in products being commoditised. We are not aware of any international benchmark.

Q 26. Margin assessment is very complex. Businesses are looking for a return on investment as are shareholders. What is a fair return? Indeed a good to great return impacts on Q25. If the return is low or not there what is left to invest in innovation. A $10m return appears large-but if there is $100m investment in that large business that is only 10%. Conversely a 30% ($300,000) return on a $1m investment for an SME-is this too much return? Risk has also not been factored in either.

Q27.Not sure.

Q28. For our industry the concentration reflects market size and the practicalities of managing distance and product usage. There is little value in placing a large commercial roofing profile in a remote location when for example the majority of sales would be in Auckland for example. Likewise the large size of a metal tile manufacturing plant makes it illogical to have multiple plants. Mindful also that the majority of production is exported, so location relative to a port makes more sense than an inland location. Logistics has to be also considered. Is there transport available that can move product efficiently to its various required locations?

Q29. Not in our industry. Steel is dominant but the various users such as multiple different roll formers keep the market very competitive. Couple that with other roofing products such as membranes, asphaltic shingles, concrete and clay tiles and price wary consumers and our relatively small market-there are plenty of choices. It can be argued our bespoke market stifles competition. If a manufacturer could provide less colour choices, profiles and sheet lengths for example then efficiencies could be gained.

Q30. Distance from the importers base, supply chain, import variable costs, product size (e.g. long sheet length), product suitability (e.g. usable in a marine environment) and warranty surety.

Q31. No.

Q32. Larger suppliers co-exist with smaller suppliers in our industry. Our experience is that we do not seem to be impacted by economies of scale.

Q33. The size of our market is a significant barrier. For off shore providers it is a business decision which must yield a return. In the domestic market in the roll forming sector it could be that there are too many providers. This in turn requires significant capital to support the business start-up let alone the capital intensive requirements of setting up a factory.

Q34. We only see constraint where it relates to product specifics. That is where the skill level required to finish work to the required standard is so high that the installer network is the only way to access these products. Consumers need these choices too. There are commoditised products which are readily substituted and as such are competitively priced.

Q35. Not in our industry. One of the largest steel roofing suppliers purchases coil from a FB company and competes directly with another FB in their vertical model. This illustrates that purchase price enables to both use the same coil supplier. They both also have access and use an alternate coil supplier.

Q36. No as imperative see example in Q35.

Q37. Due to the answers given in Q36 and Q35 the consumer gets the benefit of competitiveness.

Q38. No comment.

Q39. Rebates, functions, discount levels, extended credit are available. These are volume based and the amounts vary as do the non-monetary options. However non-monetary options are coupled with learning opportunities for CPD for example.

Q40. A cumulative bundle of products would be applied. Given the various volume of the various components and hence the amount of margin a rebate from 7-8 different individual suppliers would be impractical.

Q41. Not necessarily. In part such options are also a marketing tool. There is loyalty out there, but many get several supplier prices when bidding for work. So in our view not significant.

Q42. Bundling occurs, but is based on the complexity/skill required of the installed product.

Q43. No, not prevalent. Exclusivity is based on the skill, training and experience involved. Some companies supply a high end product through an accredited installer network but also compete with other companies that do not have such an installer network. This is not uncommon across various roofing products. You can pay for more surety around that outcome-higher quality finish if that makes more sense. This also attaches more accountability to the “exclusive” installer and the supplier.

Q44. You would need to ask businesses directly.

Q45. No comment.

Q46. This is not an issue in our industry. Until the well documented supply chain issues of late, price increases are typically a long way apart-a year or more at times. The market conditions also stop accommodating behaviour. One supplier may put an increase into the market and others choose to not do so. This can cause the increaser to reverse their decision as there is hesitancy due to being seen to price themselves out of the market.

Q47. A savvy operator whom knows their numbers can deduce the market price. Generally variance in price is due variance in what is offered e.g. a different grade of material.

Q48. Any study needs to consider all the elements that go into arriving at the bottom line price. Apples for apples is more relevant. Bottom line price is the sum of all that is offered. Some suppliers simply offer more. Again choice is an element of a competitive market.

Q49. In point 120 in the Cabinet Paper you raise the valid point of “lower quality” “to the detriment of New Zealand consumers”. Simply regulatory and standards provide the consumer and industry a bar. If new suppliers want to enter the market they must meet that bar. If a lowering of the bar occurs then the impact will be detrimental. We also have verification methods to accommodate innovation. However, proof of performance is critical as our buildings cannot be an experiment. It could also be argued that products just meet compliance. Is there any detriment to the NZ consumer if compliance is significantly exceeded?

Q50. What is a clear definition of a green building product? E.g. steel at point of manufacture has a carbon footprint. However it is the one of the most recyclable products available. So a smaller carbon foot print product can have less recycling opportunities. Or the distance from offshore adds to the carbon footprint.

Q51. No. The bar needs to be the same for all.

Q52. We are not sure what you mean by in-house product compliance. Compliance is a Building Code and Building Act requirement which the supplier must satisfy.

Q53. Not necessarily. Suppliers may choose this route to market as it meets consumer needs for a complete "system".

Q54. No.

Q55. Client, designer/architect, builder, land supplier (covenants may apply).

Q56a. The default maybe a current one. Looking at new subdivisions most people opt for similar roofing products. E.g steel products of a similar colour. A default to a product by personal choice not price.

Q56b. There is a plethora of information available which is usually free. We also point out that the consumer is in general very well informed and usually makes the ultimate decision as to what should be used.

Q56c. The part of the decision and do provide surety. However consumers do look for NZ based resolution in the event of a claim. We only hear about poor results when making offshore claims. We do not have information about successful offshore claims. Approaches to us are about complaints not compliments is our point.

Q57. This question makes the assumption that the client just accepts what other decision makers tell them. Business whom do not listen to their clients struggle for longevity. However there is a balance given the expertise that other decision makers or should the word be influencers. We ignore the input of the ultimate client at our peril.

Q58. There are significant variables in the decision makers approach. E.g a developer will approach their decision with an eye on yield as well as the "look" they are wanting. A first home buyer could be very lowest price focussed. Likewise a middle aged couple with no mortgage could be looking for more exclusivity out the product choices. Difficult to be taking a blanket approach to this study when there are significant variables.

Q59. We appreciate this is a study which will provide answers. It should hopefully become apparent what competition actually entails. However we suggest this will be different things for different people and groups. If the perception is that it needs to be lowest price every time then we need to be better an educating all as to what they get for the dollars expended.

Q60. We think we have covered the issues with our preceding answers.

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