M & T Submission for the Preliminary issues Paper for the Residential building supplies market study December 2021

Mike and Tex thank the commission for running the market study and would like to stay participants in the review. Some of the information we would like to submit we would like to do it in confidence by interview.

Mike Greer is the CEO , Founder and majority shareholder in Mike Greer homes , with 30 years of experience at all levels of construction in NZ his organisation builds 1500 houses a year . Mike Greer Homes has been a recognised builder in New Zealand for over 25 years. He has over 15 branches. Mike is skilled in Business Planning, Entrepreneurship, Business Development, Sales Management, and Property Investment. He holds a Certificate in Carpentry.

Tex Edwards is a business consultant, financial analyst, and banker, He has 35 experience of international financial analysis , raising equity , funds management and Telecommunications start up and operations experience . He has on the tools experience in building, earth works, painting and property management in NZ , UK and US. Tex holds a UK qualification in Corporate Treasury.

Mike and Tex have been in informal discussions about house assembly transformation for some years. They have teamed up to share some observations about the NZ house assembly business and with specific regard to the supply of building materials in NZ to the Commerce Commission, to support their market study project.

Mike and Tex have answered some of the questions asked by the Commission in their issues paper, but some matters are commercially confidential and are still under review . In that respect we would be delighted to deliver answers verbally and in a subsequent process

Key M&T themes

1 NZ needs industry transformation
2 Transformation in building supplies comes from Scale
3 OSM and Panelisation are sensible steps but not silver bullets
4 Market structure of building materials needs fixing
5 Electrical, Plumbing and Drainage should be in the study

Answers to the Commerce Commission Questions

What impact is the current level of competition in the building supplies industryhaving on New Zealand businesses and the public?

Its lack of competitive building systems that is frustrating

We would be available to share cost structures with the Commission, to enable international comparison

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

These are 2 different markets and market structures,
We feel that if the Commission can improve pricing, innovation and outcomes in new builds, renovation market will also improve.

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

Māori housing needs direct consultation, around creating scale and building skills in Māori Communities about healthy homes

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12

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

We urge the commission to benchmark internationally at what level suppliers would supply direct (no wholesaler) & no Margin on Margin

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.**

How houses are sold on big subdivisions, Internationally these are "one Builder "projects, (ie Hobsonville would have been built by a Maximum of 2- 3 builders not 30 ,) if it were an international project

b. **Are there building supplies relevant to this study that have different supplychain structures? If so, please describe these building supplies and how thesupply chain differs?**

CIC will discuss in a meeting

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

This is a satisfactory explanation, but we urge the commission to complete some international benchmarking

Are there any other key participants or stakeholders that play a major role inthe industry? If so, please explain the role of these participants or stakeholders.

Insurance companies who insurance against product or construction failure, Kainga Ora

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

No will consult verbally

Questions of the scope of “key building supplies” to be considered in the study

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 Table1? Please explain your reasoning.**

We disagree, Plumbing , Drainage and Electrical should be included

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 guideour focus? Are there any other factors we should also consider?

Yes

1) What is international best practise
2) The time it takes to fix and install products is the real cost of them to the consumers, we urge the commission to consider the impact competition has on productivity

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

- Plasterboard
- Roofing
- Aluminium Windows
- Fixtures
- Sealants
- Premium paints
- Timber
- Plywood
- Drainage pipes
- H3 and H5 poles
  Wiring & Switches in entry level segments
- Plumbing commodities

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

- Insulation

- Windows
- Heating systems

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

- Yes we agreed although Kainga Ora needs to be added to the list

Q12 Are there any other characteristics of residential building in New Zealandwhich are important for us to understand – YES there is no scale where the capital base of the assembly company is larger than that of the material supplier, use of Luxury house building techniques to build social houses . Seismic bracing and Wind

The acute demand and supply chain pressures the industry currently faces

Questions on the demand and supply chain pressures on residential construction

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

Not really the industry was already maxed out in NZ working at full capacity BEFORE Covid the Covid Quantitative Easing meant that it hyped up demand even more . The lowering of Interest rates surged an already at capacity NZ industry

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

Because Immigration was running at 70,000 , PA , the numbers need to be canvased , can the Cabinet publish returnees , immigration and Housing starts simultaneously

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.
Yes , but its not a silver bullet and requires scale , pipeline and "the right sites " can we speak with the Commission privately about our experiences in this .

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

- Scale
- Sensible design
- Standardisation
- Robots

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.

Wealthy returnees to NZ

Improvements to international building codes , particularly EPC ratings in the UK & EU

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?

No regulatory changes look at cost, they are all vested interest to specific clause , the new higher density housing , is a rational place to secure " standardised Scalable structures , in say 3 configurations to compliment this initiative which will lower land prices to simultaneously lower construction costs

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

May we discuss this privately, we are not in the business of criticising other people or Govt agencies in Public .

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

In regulatory all matters need reform, to lower cost to the international benchmark, we urge the Commission to look at international regulatory environments and do a benchmark on costs .

We respect regulation, compliance, and standards, but we want to discuss this in private

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

CLT Cross Laminated Timber,

- Windows,
- insulation,
- Heating,
- Solar systems
- Smart home systems

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

- Recycling timber and materials, Regulation, Heating costs ,

- innovation is not coming from companies with 100% market share in products , why would they ?

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

WE believe the Commission would be well advised to select some well performing markets and make comparisons, Whilst travel is difficult ,benchmarking with other countries is essential

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

Hell yes, please do this with urgency

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

1) Pricing reductions
2) Passive heat performance
3) Energy performance
4) Time to install
5) Use of robots % sqm built
6) Labour hours per Sqm

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?

Its consistent entertainment to the industry, what the profitability of plasterboard is in NZ
Our entire workforce would be inspired to see a break out of Gib Board (Fletcher Wall Boards) profitability with that of 5 other international gypsum wall board companies .

Q27 Are there other assessments that would provide better insights

1) Search out international best practise in economy segment social housing cost per sqm seismic and wind adjusted

2) EPC ratings cost

3) Productivity measures (labour hours per sqm meter) benchmarked

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

Mike to Answer

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

1) Plasterboard
2) Aluminium windows
3) Roofing iron
4) Timber trusses
5) Fixings
6) Concrete
7) Sealants

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

- Regulatory,
- Rebates
- Distribution
- Guarantees
- Insurance companies
- Consumer preference
- Leaky home legacy

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

Will discuss privately

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

This is misguided assumption (NZ too small) , this is why margin analysis is important , We urge a review of XXXYYY NZ division v rest of world

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

1 Distribution
2 architect / designer specification
3 consumer acceptance
4 Govt(Kainga Ora) acceptance

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

- Yes , rebates, delivery times , other discounts , incentive trips , but essentially even a big NZ group house builder has no scale in terms of upstream negotiation capability . We will compare NZ v international market structure for you in private.

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

- Yes
- Can we discuss this in private?

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

- Absolutely not, if distributors didn't own the manufacturers

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

- Yes if there were 5 equal players with low HHI's then there is benefit, the problem is capital intensive business, with vertical integration with high HHIs

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

- Market power
- Accommodating behaviour
- Rebates
- End customer doesn't see "benefits " of training trips , rebates etc
- No incentive for new products, or green products , or quicker to fix products

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

- Some rebates make sense, some training sessions around installation and productivity make sense , But the some don't

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

CIC

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

CIC

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

CIC

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

CIC – will discuss in private , we respect our suppliers , they work for us , we work for them , we are respectful about l what we chat to the Commission about

Q44 Do the benefits of rebates and pricing pass through to end-consumers?

Why/Why not?

CIC – will discuss after more research

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

Yes productivity impact that tidy , prompt deliveries , have and the fact that the major cost to the builder is delivery time , site management and sequencing . Building suppliers add value to the process. We will talk you through it .

47

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

2013 Cook Street PlaceMakers and Carters , a prosecution took place and the fine was less than the cost of drinks on a Friday evening for most businesses

We applaud the ComCom on its discussion of game theory, it gives the Commission a newfound creditability to resolve some big problems . Page 32 discussion is a tremendous discussion.

Q47 How transparent is pricing for key building supplies?

It’s all over the show

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

Yes, we are happy to consult on them in private

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.

1. Lets talk frankly about regulation when you have a comparison with international markets and we benchmark % of costs in comparison with other markets which build similar quality

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

CIC for later discussion

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

Incumbents, by history, control of regulatory process , job swapping , knowledge , distribution chain , industry knowledge , rebates etc, Consumer and regulatory preference

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.

Don’t understand the question

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

Yes currently regulatory is quality focused not cost or competition focused , cost of product means nothing , the issue is the labour time to fix and install it

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

Targets for transformation need to be set to international best practise

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

We will explain our internal processes at a meeting

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

We will explain our internal processes at a meeting

a. **Do decision-makers default to choosing building supplies which have beenused in the past? If so, please explain why.**

We will explain our internal processes at a meeting

b. **Do decision-makers on key building supplies have full information availableto them to make informed decisions? How costly is it to obtain this information?**

We will discuss this in a meeting

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

Huge, CIC in meeting

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

yes

Q58 Are there any other factors we should be aware of in considering decision-makers’ behaviour in respect of building supplies?

Yes meeting discussion

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

3rd party international house builders coming to NZ , like Panasonic

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

1) International benchmarking

2) Why scalable orders & simplicity haven't been used as a mechanism to reduce prices in NZ

3) HHI ratio comparisons with the top 50 products for house assembly

We will submit on this question in Private next week

M & T thank the Commerce Commission for considering our views and respecting confidentiality , we look forward to meeting and discussing these items in more detail later in the market study

Mike Greer

Tex Edwards