Submission

Preliminary Issues Document –
On Residential Building Supplies Market Study

The Commerce Commission

From the New Zealand Metal Roofing Manufacturers Association

Submitted on: 4 February 2022

Level 3, 145 Khyber Pass Road, Grafton Auckland
Private Bag 92066, Victoria Street West, Auckland 1142, Ph: 09-3670913, Fax: 09-3670914, Direct Line: 09-3670935
Email: admin@metalroofing.org.nz

Contents:

Contact Details

Submitter:	Garth Wyllie
Title:	Executive Officer
Organisation:	New Zealand Metal Roofing Manufacturers Association (NZMRM)
Postal Address:	Private Bag 92-066 Auckland 1142 New Zealand
Telephone:	09-3670913
Facsimile:	09-3670914
Mobile:	021-649900
Email:	admin@metalroofing.org.nz
Web Site:	www.metalroofing.org.nz

The New Zealand Metal Roofing Manufacturers Association accepts this submission being publicly available and is willing to consult further should that be requested.

About the NZMRM:

The New Zealand Metal Roofing Manufacturers Association Inc (NZMRM) represents those companies that manufacture Metal Roofing, Metal Cladding, Metal Fascia, Rainwater Systems, or metal flashings for metal roof and wall cladding.

It actively promotes education, which ensures the correct manufacture, handling and application of members' product.

The NZMRM advocates on behalf of its members around specific issues with a high degree of focus on the technical and building requirements.

Our members are both large and smaller businesses made up of both larger corporate entities and independent family-owned businesses.

All deal with builders, roofing companies and other trades, as depending on whether the roof is new or a replacement and with businesses large and small.

Around 50% deal with consumers directly which occurs where they have vertically integrated businesses who engage in the fitting of the roofing and cladding materials that they sell.

As an industry sector NZMRM and its members are actively engaged in providing the best guidance for the products and installation of roofing and associated products to Territorial Authorities, Architects, Builders, Specifiers and LBP's.

This is primarily achieved through the constant maintenance and updating of our Code of Practice available through the association web site www.metalroofing.org.nz

The association undertakes a range of testing on both roofing and associated materials used in roofing of cladding. This testing can include wind-load and corrosion testing. Some testing is undertaken in real world environmental situations supplemented by laboratory testing.

Submission

The New Zealand Metal Roofing Association Inc (NZMRM) has responded to all questions relevant to our sector.
Understanding the supply chain for our sector is however important, as are the drivers for pricing and competition. We have described this in our responses to questions.

In summary however, there are 2 main suppliers of painted steel coil that our members source from although it is possible to source imported steel coil from other suppliers manufactured in Asia or Australia with variable quality associated with steel coil from Asia.

Demand for our members steel products has been exceptionally high since 2020 and this has impacted on the availability/timing for these products but exasperated by Covid lockdowns given both main suppliers of painted metal coil are situated in Auckland.

Our sector remains highly competitive with a combination of corporate and independent manufacturers who deal directly with builders and roofers.
Some members have vertical integration with roofing installation meaning they are able to not only supply the roof but install it as well. These members compete for business with the roofing companies that only install roofing and may source their roofing materials elsewhere.

Some in the pressed metal tile area have dedicated roofing operations to ensure the best quality of the installation.

Metal roofing suppliers compete with other forms of roofing materials as well as compete with other suppliers. That competition is not purely on price but also in convincing builders, architects and home owners that they should be specifying a metal roof and often by the brand names such as Colorsteel or Colorcote for the roll formed products.

We have members who compete for gutter installations and replacement against plastic and must not only be price competitive but have to have a higher performing product that attracts the potential purchaser to use their product over plastic. In some instances these purchases can be influenced by environmental and visual choices.

In this submission we have endeavoured to respond to all questions that are related or appropriate to our membership and sector but it is not reflective on any one member company.

Responses to Questions:

Questions on the importance of building supplies to New Zealanders

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

Response: In the Metal Roofing, cladding and guttering areas there remains a high level of competition whether in roll formed products or pressed metal.
The price of steel and aluminium globally impacts the price of finished coil available in New Zealand for our members and while our local manufacturers may not fully follow the international pricing increases for steel, all aluminium coil is imported and therefore the price is the international price.
It is also important to note that the cost of shipping and delays for any imported coil has impacted the Asian produced coil and that may have some short-term impact until these issues are resolved. This is not a matter of competition however but a result directly of Covid and the global building boom.

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

Response: It is important to consider these differently. A reroof for example does not require a consent and the dimensions are known. The sourcing will often be done by the roofing installation company in such instances and quotes sought from several supplier's.
Renovations and new builds however are different as consents are required and may be driven by the builder or the architects' specifications. Some builders may have suppliers that they prefer to work with and particularly for installation as well as supply.
It should also be noted that in the metal roofing sector a level of skill is required for LBP's and this is not something for DIY's.

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

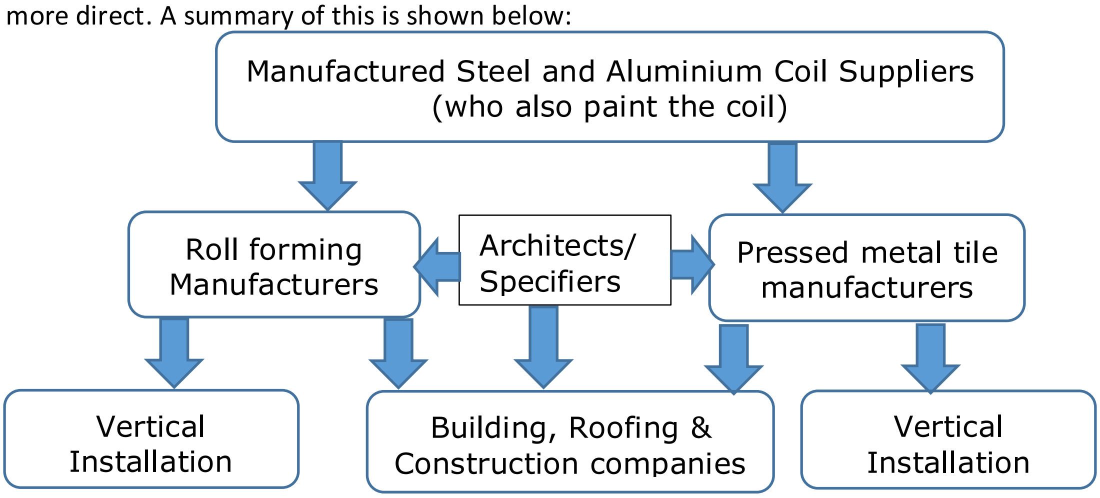
Response: No

Questions on the supply chain for residential building supplies in New Zealand

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

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.
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?

Response: While the overall structure of the supply chain is broadly correct for our sector this does tend to be more direct. A summary of this is shown below:



Level 3, 145 Khyber Pass Road, Grafton Auckland
Private Bag 92066, Victoria Street West, Auckland 1142, Ph: 09-3670913, Fax: 09-3670914, Direct Line: 09-3670935
Email: admin@metalroofing.org.nz

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?
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.

Response: While the characteristics of the key participants are broadly correct for our sector there is little engagement with wholesalers or retailers although some retailers do import standard forms of roll-formed metal sheets and roofing fasteners which are generally not suited to residential housing and do not meet the standards published on our web site.
For our sector there are also several products required for the fitting of metal roofing such as screws and building paper. These suppliers will be identified however separately due to their involvement across sectors of the building industry.

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

Response: There has been no great change in recent times and while local manufacture of painted steel coil remains this is unlikely to significantly change in the near future. Imported steel coil does provide some competition but that is subject to the whims of the current shipping logistics chain and global demand for building materials so for the foreseeable future limited in impact. Additional competition in the supply of Aluminium will occur however with the signalled move by New Zealand Steel into Aluminium for roll forming where historically there has only been one main supplier of this material for the market.

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 Table 1? Please explain your reasoning.

Response: Yes, we agree with this preliminary view.

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?

Response: No, we believe the list is correct as currently set out.

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

Response: We do not have a preference for this.

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

Response: Sustainability will be an increasing factor and is already being driven by local councils in their consent processes along with a broader consumer demand for green buildings with clear sustainability required. This can however add costs to businesses delivering building materials that achieve a higher sustainability rating and ultimately that cost will be borne by the consumer.

Questions on the unique characteristics of building in New Zealand

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

Response: We believe the characteristics set out are broadly correct although not all aspects of housing are unique. In the case of new builds, a number of the franchise builders use standardised designs that can be modified but generally keep to common design elements.
Where new builds are architecturally designed, they can often be unique and this includes roofing design, the particular profile that might be specified, and similarly for wall cladding using steel. Our members provide a wide range of profiles and until recently the colour range was also extremely wide.
In the case of colour, while this has been reduced for the immediate future this was only a measure taken by the manufacturers to increase production and improve delivery times following lockdowns that had created significant backlog.
The colour ranges will increase again later this year as new technology is deployed at New Zealand Steel.

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

Response: No

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 explain why/why not.

Response: For a wide range of building materials this is entirely accurate. For clarity the main issues for metal roofing are the increase of demand and in new building and the disruption caused by the pandemic lockdowns which essentially meant coil while manufactured could not be delivered and requiring large scale warehousing. This has added to delays and such delays may have added cost to building projects when the materials ordered could not be delivered in a timely fashion to meet the project timing.

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

Response: We see the external factors caused by lockdowns as temporary and likely to ease towards the end of 2022. Availability of paints for pre-painted coil production is part of the factors that could still pose some issues and any supply issues could delay or slow production with a resulting downstream impact on the finished roofing and cladding materials availability.

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.

Response: While prefabrication of entire houses would allow metal roofing to be installed off site, this is not possible using a prefabricated panel construction technology. The installation of the roof would still need to be undertaken on site where panel construction was being assembled on site.

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

Response: Our sector uses advanced technologies where they are available and add value however the final leg of installing a metal roof required on site hands on skilled work. More installers is actually the need rather than more technology currently. This is unfortunately a combination of a historical lack of training and a current lack of immigration. More accurate steel framing of buildings would allow total pre-cut roofing and wall cladding and eliminate waste, as well as speed up installation.

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.

Response: Covid and lockdowns are the main external factors and until these are resolved then they will continue to place pressure on our sector. What about the huge increase in demand and shortage of skilled workers?

Questions on the evolving regulatory framework around residential construction

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?

Response: Any regulatory change impacts on business around compliance costs. Zero carbon is an area where our Association has been working for some time to achieve better recognition around the sustainability of steel or metal roofing recognising both the sustainability of the material over the lifetime of the products and their recyclability at end of life.
Our products now achieve green building credits from this work and we work with the Sustainable Steel Council NZ (of which NZMRM is a founder member) to continue this work going forward across our membership.
Regulatory requirements around zero carbon and sustainability do however remain a concern if not targeted correctly and giving recognition around lifetime and recyclability of our products.

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

Response: The Building (Building Products and Methods, Modular Components, and Other Matters) Amendment Act 2021 will have some impact, however our industry Code of Practice and our work on developing an approved materials supplier program we believe will meet the requirements of this law. Most if not all of our members already will be substantially compliant with the Act when it is implemented fully around the information requirements.

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.

Response: As indicated earlier prefabrication of a roof is only practical when the entire building is built off site as the fitting of a roof does require specific skills and is best suited to onsite installation. This does not prevent modular construction of other components, however.

Questions on impact of climate change for building supplies

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

Response: We believe that metal roofing is one of the most environmentally friendly building materials and already able to achieve Green Star credits. This is due to its sustainability, recyclability and the substantial local manufacture of the material which reduces the carbon footprint significantly through lower shipping and logistic requirements.

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

Response: Insulated roofing panels have been developed for some roll formed products however we do not believe there is other significant changes that are being driven specifically by climate change.

Level 3, 145 Khyber Pass Road, Grafton Auckland
Private Bag 92066, Victoria Street West, Auckland 1142, Ph: 09-3670913, Fax: 09-3670914, Direct Line: 09-3670935
Email: admin@metalroofing.org.nz

Questions on our high-level approach for our market study into residential building supplies

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

Response: As outlined earlier there are local 2 main suppliers of painted metal coil that is used in the process of roll-forming or pressed metal tiles. This does provide some level of competition but at this end of the supply chain it would be difficult for a new local supplier to establish due to the high capital cost of entering that part of the market.
Some competition has been present in the market for a number of years from imported pre-painted coil source primarily from Asia although quality of that material has on occasion been questionable. Imported coil is however subject to the supply chain congestion and also driven by international pricing for steel which at present is particularly high due to the high global demand.

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

Response: The international price of steel and aluminium are published commodity figures which move up and down according to demand. It is not realistic to apply that to the local pricing since the international prices are not directly responded to in real time by the local suppliers. While prices could have risen in response to the international pricing we have seen the local suppliers maintain prices and demonstrate a reluctance to increase pricing other than when local costs have driven this need.

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

Response: We have no direct benchmarking that could be reliably used to assess this.

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?

Response: We have no visibility of coil supplier's margins however our roll forming members maintain very competitive margins as we compete not only against one another but against other forms of roofing materials.
As our products do not normally go into merchants for on sale, the issue of margins for them is not an area where our members have visibility.

Q27: Are there other assessments that would provide better insights?

Response: We are not aware of any other assessments currently.

Questions on concentration

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

Response: Our membership is spread geographically. We believe that assessment of concentration should be on a national basis versus a specific geographic region as our members routinely compete across regions for work.

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

Response: The supply of painted steel coil for roll forming or making pressed metal tiles into roofing is based in Auckland and concentrated through 2 core suppliers. The cost of entry for local production is such that it would never be practical to establish a new local manufacturer of steel or the steel coil that is used in roofing manufacture. Imported coil however is available to provide sufficient competition from alternative suppliers.

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

Response: There are no specific barriers although due to the issues created by Covid shipping and international demand may have made it more difficult for those importing painted steel coil for supply in the New Zealand market. There have been some suggestions that on occasion prior to covid some level of dumping had occurred in the market however an investigation by MBIE has not currently found this to be so. Quality of some imported material however is questionable.

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.

Response: We are not aware of any and believe that in our sector New Zealanders are well served with the products made available via our members. Quality of coated metal products is typically revealed only on use and exposure, and experience is that this is difficult to control on imported product.

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

Response: For our sector while there is scope for new roll formers to set up most of the scale is with the corporate members. This does mean however that smaller independents have to be nimble and competitive to get work. Reputation, relationship and reliability can often outweigh those economies of scale when dealing with local builders.

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

Response: Cost of establishment is the main barrier while a secondary barrier is the established business relationships that would already exist for established manufacturers.

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?

Response: Our members mostly do not directly deal with wholesalers or merchants however our members do deal directly with building groups which can be demanding. However even with such building groups it is often the architect or specifiers who dictate what roofing material is used.
It could be reasonably said that metal roofing competes with concrete tile, shingle and membrane roofing, and so getting a metal roof specified with a particular coil brand (Colorsteel or Colorcote) along with a particular profile does negate some of the ability of the builder's ability to constrain our members.
We therefore do not believe this is an issue of concern for our member companies.

Questions on vertical integration

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.

Response: We do not believe this is an issue for our membership. Those of our members that provide vertical integration for installation of roofing, do so to ensure high quality installation of those roofs and to offer a more complete service to builders or to homeowners who maybe reroofing an existing home. Those same members however will supply just the roof to an independent roofing company should that be required.

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

Response: For some product types such as pressed metal tiles it is important for quality installation however it is not essential to be competitive in the roofing sector.

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

Response: The primary benefit is the quality of the installed roof and the assurance that the consumer gets that should anything fail they can have that remedies without any risk of finger pointing on whose fault it maybe. This also fits with our members back to back warranties to provide greater assurance on the work from the coil quality through to the roof supplied.

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

Response: We are not aware of any other factors that should be considered.

Questions on vertical arrangements

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

Response: This is not typical in our sector due to the fact that our members are not supplying a bulk commodity but mostly a specifically manufactured roof on an order by order basis and generally not to wholesale or retail sellers of building products.
Rebates for prompt payment do occur in some instances such as when products are supplied to at least 1 large merchant or building groups.

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?

Response: For the same points in Q39, this would be exceptionally unusual but it is possible across multiple products due to it being to achieve prompt payment.

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?

Response: For the reasons outlined in Q39 no and therefore not an issue for metal roofing as quality and reliability are more likely to affect decisions.

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

Response: Our industry provides a published Code of Practice that any can use for installation, a specific coil standard and quality expectations for all associated products. This is public domain and therefore all can access this best practice material aimed to ensuring compliance with the building code.

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

Response: For metal roofing these are not prevalent and would be the exception to the norm.

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

Response: This is not applicable to our sector due to the nature of supply as set out in Q39 and we have no visibility of whether this might occur when rebates are made.

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

Response: We are not aware of any other factors.

Questions on accommodating behaviour

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

Response: This is not an issue in our part of the building industry due to the combination of a mix of long standing independent and corporate manufacturers making such behaviour extremely difficult to even consider.

Q47: How transparent is pricing for key building supplies?

Response: Our members price on a job by job basis and quotes must be competitive in order to gain the roofing supply. This is particularly so for re-roofing work where the homeowners can be directly engaged in the purchase.

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

Response: We are not aware of any other factors around accommodating behaviour relating to our membership or sector.

Questions on regulatory and standards systems

Q49: Do the regulatory and standards systems (e.g. 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.

Response: The building code does provide some challenges due to the frequent lack of clarity and definitive answers around compliance, however this does not prevent new suppliers entering the New Zealand market should they wish to.
A greater issue for our members is consents and the interpretation by some Councils of the NZ Building Code which can be at odds with our Code of Practice and given that our Code provides those definitive answers lacking in the Building Code. The Building Code should recognise more fully industry best practice where it has been published and is freely available. We also believe that Councils should be looking to this best practice where they have a lack of clarity for consenting purposes.

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

Response: Products must meet New Zealand performance standards before the consideration of green building supplies however our sector has been working closely with the NZ Green Building Council and the Sustainable Steel Council to achieve better recognition of how green our members' products actually are. There would be no point in having a product that achieved a high Green Star rating but was entirely unsuited to the environment it was going to be placed in and therefore fail early in its lifespan.
The NZMRM is fully committed to having members' products being able to meet performance standards and provide the highest level of "green performance" possible.

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

Response: We do not believe this is the case as our sector. The regulatory environment should be aimed to ensuring building products are suitable for New Zealand and will not fail early. It is important that we do not repeat the lessons that leaky buildings should have taught us around appropriate regulation for building products.

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.

Response: In house product compliance should be integral in any business supplying building products. Vertical integration for our members is around the installation of the roof supplied however it is unlikely that the current regulatory regime either encourages or discourages this.
Upcoming legislation around increased product information by suppliers is supported by our membership as most will be fully compliant in this regard already. Additionally our Code of Practice provides significant additional information for the product compliance when installing it.

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

Response: While it does not currently do so our organisation has been working to provide an accredited supplier recognition which means that the materials that support the installation of the roof can be offered as a complete package of approved materials. There is no obligation however and an independent roofing company can still choose to use other materials that are not on our approved list, or source those materials directly, but the liability then falls on them should any of the other materials prove to not be suitable or not up to the building code.

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

Response: We are not aware of any other factors around regulatory and standards systems for building supplies.

Questions on behavioural impediments

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

Response: This is not possible answer as it depends on who the purchaser is, who the supplier is and what the supply is. For our sector we have the painted steel coil suppliers but equally decisions may be made by corporate manufacturers or the customer.

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

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

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

Response: The choice of appropriate building materials varies. This maybe driven by the architect but may be driven by a customer who wants a particular look or in some cases by council rules around colour in some zones.
In addition to these drivers the type of material that can be used in extreme or coastal marine environments is limited and that is an environmental factor that must be considered.
Warranties are offered by our members which provide both the builder and end consumer assurance around the performance of the product. In the case of back to back warranties where the coil is also being given a warranty then the correct material for zone applies for those warranties to apply.

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

Response: We do not believe this is the case for our sector or membership.

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

Response: We are not aware of any other factors that should be considered around decision maker behaviours.

Questions on other issues and prioritisation

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

Response: No

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

Response: No