

## NZ Commerce Commission – Building Supplies Market Study 2022

### Responses to the Preliminary Issues Paper

#### Questions on the importance of building supplies to New Zealanders

Question No.	Question	Response
Q2	How important is it for us to consider building supplies for renovations separately from building supplies used for new builds?	While there are different products used in some instances in renovations compared to new builds (and vice versa), we consider the general nature of building supplies used for new builds and renovations to be relatively similar when considering the overall building supplies market. Accordingly, we wouldn't recommend separating or distinguishing them.

#### Questions to the supply chain for residential building supplies in New Zealand

Question No.	Question	Response
Q4	<p>How does our high-level summary of the supply chain fit with your understanding?</p> <p>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.</p> <p>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?</p>	<p>We agree with the Commission's understanding.</p> <p>We are not aware of any other material steps in the building supplies supply chain not already identified by the Commission.</p> <p>We are not aware of any building supplies that are subject to materially different supply chain structures.</p>
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?	We agree with the Commission's understanding (subject to the comment below).

Question No.	Question	Response
	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.	Certain smaller or specialist merchants are key participants and stakeholders at the distribution level. Who these merchants are, and how many would be considered key stakeholders, will depend on the relevant building product(s). These specialist merchants would supply product to various trades for use in new builds and are seen as effective and vigorous competitors within their relevant markets.

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

Question No.	Question	Response
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.	We agree with the Commission’s initial views as to what constitutes “Key Building Supplies”, in particular, the major components identified by the Commission as the products associated with these components make up a significant portion of building material costs for any new build or large renovation.
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?	We broadly agree with the criteria set out by the Commission and would expect that the Commission would have regard to all criteria, on a case by case basis, when assessing a key building supply. The relevance and weighting of a particular criteria may vary depending on each product.
Q10	How will key building supplies evolve in the future? Will different materials become more important?	With the potential existence of high barriers to entry for any new products, it is difficult to predict any significant changes to the key building supplies market in the near future. If such barriers to entry were reduced, there is scope for new/innovative products to be introduced to the market.  Whether certain materials will become more important than others may depend on a number of factors, including cost of certain products and the regulatory and specification landscape at the relevant time.

### Questions on the unique characteristics of building in New Zealand

Question No.	Question	Response
Q11	Are the characteristics set out above an accurate reflection of residential building in New Zealand? Please explain your reasoning.	<p>We believe the characteristics identified by the Commission do reflect residential building in New Zealand.</p> <p>However, we suggest some of these “unique characteristics” may have been over-exaggerated and the resulting responses to such characteristics are now entrenched in NZ specification guidelines to a greater extent than may be strictly necessary to address these characteristics. This has resulted in increased barriers to entry for new functionally equivalent alternative products, and a perceived reduction in competition/alternatives for certain products at the importation, manufacture and/or wholesale phases of the NZ building supplies supply chain.</p> <p>For example, wind should not be a consideration that is uniquely specific to NZ as it is arguable whether the wind levels experienced in NZ are extreme/unusual compared to other countries. Coastal sea spray, strong sun UV and high wind zone areas are also prevalent in other areas of the world.</p>
Q12	Are there any other characteristics of residential building in New Zealand which are important for us to understand?	We are not aware of any.

### Questions on the demand and supply chain pressures on residential construction

Question No.	Question	Response
Q13	Does our summary of the external pressures facing the residential construction industry accurately reflect the current situation? Please explain why/why not.	We agree with the Commission’s summary. We note that the current shortages are due to a combination of demand increasing as well as the Commission’s noted issues with domestic and global supply chains. We expect that the increased demand has been contributed to by a focus on addressing housing supply, low interest rates and the ongoing cessation of international travel.
Q15	Would an increased use of technology, such as	While we agree increased use of technology or prefabricated houses may assist with alleviating

Question No.	Question	Response
	prefabricated housing, help to address some of the longer-term pressures facing the industry? Please explain why/why not.	<p>long-term pressures to some extent, there are a number of others factors to consider/address in order for such uses to be effective in the market. These include:</p> <ul style="list-style-type: none"> <li>- Changing the mindset amongst builders and architects who focus on bespoke outcomes along with a lack of flexibility towards system rather than brand solutions.</li> <li>- Having Government encourage the use of prefabricated housing through its own projects or apprentice programmes.</li> <li>- Considering how to achieve scale for prefabricated houses – for example, potential grants could be given to companies who can demonstrate commitment to prefabricated housing and lower cost solutions.</li> </ul>

#### Questions on the evolving regulatory framework around residential construction

Question No.	Question	Response
Q19	Please describe any other major recent or ongoing regulatory changes that might affect demand for certain types of residential building supplies.	Residential insulation requirement changes will have the effect of increasing demand for insulation. However, such change is supported due to the benefits provided to the homes of owners/tenants.

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

Question No.	Question	Response
Q23	Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 83 to 87 above?	The proposed high-level approach outlined in paragraphs 83-86 accords with relevant competition assessments and the Terms of Reference. However, paragraph 87 appears to suggest that regulatory intervention may be recommended where profits and/or prices may not be “high”. This approach is inconsistent with the principles regarding the assessment of “competition”, as described by the High Court in Wellington International Airport Limited v

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		<p>Commerce Commission [2013] NZHC 3289. The Court opined (at [18]) that:</p> <p>“In our view, what matters is that workably competitive markets have a tendency towards generating certain outcomes. These outcomes include the earning by firms of normal rates of return, and the existence of prices that reflect such normal rates of return, after covering the firms’ efficient costs.”</p> <p>It would be contrary to the scheme of the Commerce Act to recommend regulatory intervention where profits and/or prices are “normal”. Markets that exhibit these characteristics are “workably competitive”. As outlined in the Commission’s Market Study Guidelines (19 November 2020, at paras 18-19), the focus of market studies should be upon markets that are not working well for consumers, and how they could be made to work better.</p>
Q24	Would international comparisons of key building supplies prices provide insights into the level of competition in the industry? Why/Why not?	<p>We believe international comparisons of key building supplies may provide insights to the Commission, as there are overseas markets with comparable products with strong competition that will provide a benchmark (subject to any differences in local conditions).</p> <p>To the extent the Commission identifies variances in currency-adjusted prices for equivalent/identical building supplies products between countries, we would encourage the Commission to identify the drivers for such variances (having regard to shipping and domestic freight costs associated with importation of building supplies into New Zealand).</p>
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?	While margin may provide some indicative insights into the level of competition it would not be conclusive and would need to be considered on a case by case basis having regard to other market factors (for example, demand, supply and market participant costs).

## Questions on concentration

Question No.	Question	Response
Q28	On what geographic basis (e.g. local, regional, national) should we assess the concentration of key building supplies. Please explain your view.	The geographic basis would need to be considered on a case by case basis and likely to be dependent on the product, customer and particular transaction(s). We can respond further on this once the Commission has identified the building supplies which will be the subject to this market study.
Q30	What are the barriers to importers of key building supplies competing effectively with domestic manufacturers?	<p>A key barrier to importers of key building supplies is the time, cost and complexity required to get a product approved for the New Zealand market (i.e. BRANZ and CodeMark).</p> <p>In addition, importers also need to get the required exposure with key stakeholders and build trust in the product, while at the same time having to compete with existing suppliers who may hold the competitive advantage associated with the incumbent position with existing key stakeholders.</p>
Q32	How do economies of scale in the supply chain for key building supplies impact the number of suppliers?	Size of market or economies of scale will to a certain extent impact the number of suppliers in a particular market. Without volume and economies of scale, long term commercial viability may be impacted.
Q33	What are the main barriers to new providers of key building supplies establishing domestic manufacturing in New Zealand?	As noted previously, a key barrier is the product approval process. This is in addition to other factors like size of the market, distribution costs, site selection, building/resource consent costs, and labour requirements/availability. We would expect a new provider to assess this against the backdrop of competition from existing manufacturers or supplier(s), who may hold the competitive advantage associated with the incumbent position with existing key stakeholders.
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?	Generally, and is the case in any competitive market for products, a purchaser may have the ability to negotiate a better commercial deal if there are significant volumes or long-term benefits to a supplier. Ultimately, whether a merchant or builder can do this in respect of building supplies will depend on the particular product(s) and circumstances at the time.

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		However, it is also noted that wholesalers and manufacturers are typically large operating businesses with a diversity of channels to market and a significant degree of brand equity in their relevant product range. These wholesalers and manufacturers could hold a significant degree of countervailing negotiating power with respect to their own merchant customers. This countervailing power is amplified in circumstances where such manufacturers or wholesalers have the ability to sell direct to end users of the relevant product/s.

#### Questions on vertical integration

Question No.	Question	Response
Q36	Is being vertically integrated necessary to compete effectively in this sector? Please explain your view.	Vertical integration may confer some competitive advantages, but we believe vertical integration is not necessary to compete effectively in this sector.
Q37	What are the benefits in this industry to being vertically integrated? Do consumers benefit from this?	There are the obvious benefits that exist for vertically integrated businesses. The benefits of vertical integration to consumers will depend upon the extent which there is pass through of these benefits. This may vary throughout the industry, and Bunnings is not in a position to comment further.

#### Questions on vertical arrangements

Question No.	Question	Response
Q44	Do the benefits of rebates and pricing pass through to end-consumers? Why/Why not?	We have no visibility of this, and this is likely a question for builders/trade professionals.

### Questions on accommodating behaviours

Question No.	Question	Response
Q47	How transparent is pricing for key building supplies?	<p>For builders (or other customers purchasing building supplies from merchants), pricing is very transparent. Customers are able to check prices through merchant websites or by obtaining job-specific customer quotes (that are issued to builders and other commercial customers upon request).</p> <p>At the wholesale level (being sales from manufacturers, importers or wholesalers to merchants), as expected, transparency of pricing is more limited and most often subject to confidentiality.</p>

### Questions on regulatory and standards systems

Question No.	Question	Response
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.	<p>Amongst other things, the regulatory and standards systems may be seen as presenting difficulties for new products to enter the NZ market. The time and cost involved in getting the required testing, compliance and approvals (as well as market recognition) means there is “big risk for small reward” for those suppliers looking to enter the market.</p> <p>Benefits that may be achieved by making entry into the NZ market easier would be more product choice leading to increased competition.</p>
Q50	What impact does the current regulatory environment have in encouraging or discouraging a move to ‘green’ building supplies?	As noted previously, the current regime can be perceived as imposing additional ‘hurdles’ for suppliers of new products to satisfy. These requirements extend to “green” building supplies.



## Questions on behavioural impediments

Question No.	Question	Response
Q55	Who are the key decision-makers for key building supplies?	<p>Key decision makers include:</p> <ul style="list-style-type: none"> <li>- Architect</li> <li>- Owner</li> <li>- Engineer</li> <li>- Quantity Surveyor</li> <li>- Builder – depending on structure of business this could be actual builder, project manager, business owner or employed procurement professional</li> <li>- Subcontractors/relevant or specialist trades</li> </ul>
Q56	<p>How do decision-makers choose the most appropriate building supplies to use?</p> <p>a. Do decision makers default to choosing building supplies which have been used in the past? If so, please explain why</p> <p>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?</p> <p>c. What role do warranties or other guarantees have in the decision to choose the key building supplies?</p>	<p>Unless otherwise requested by a homeowner, key decision makers are likely to choose the product that is convenient, well-known, trusted, available, or otherwise provides the best outcome for that decision maker. That will change depending on the decision maker.</p> <p>a. Our experience would suggest ‘yes’ – as they are familiar with the product, know how to use it and use it knowing it will be accepted by the BCA.</p> <p>b. Information is generally available. However, it is not always easy to understand specification/installation guidelines, resulting in a preference to remain with a known product. This is particularly an issue for new or “unfamiliar” products.</p> <p>c. Supplier warranties would most likely have a limited role in product selection, as opposed to BRANZ/CodeMark approval which would be front of mind in most decisions of key decision makers.</p>
Q57	Do the incentives of the decision-makers on key	This will depend on the decision maker and the particular circumstance. There are obvious

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	building supplies align with the interests of consumers?	instances where interests will not be aligned – for example, using a familiar product in order to obtain BCA approval as soon as possible may not be the most cost-effective option for the consumer at that time.