1 Summary

In 2013, the construction sector had a total turnover of about DKK 200 billion.[1]
The value added by the sector annually contributes with 5-8 percent of GDP,[2] underlining the importance of whether competition in the sector is effective.

The Danish Competition and Consumer Authority have identified the market for distribution of building materials as one without effective competition. One of the reasons for this may be that direct trade between the building contractors and the manufacturer/supplier is limited.

This analysis aims to investigate the potential for direct trade between the building contractor's party and manufacturers of materials. The analysis is designed as an in-depth survey with departure in data stemming from interviews, aiming to identify the benefits and drawbacks of direct trade and to identify barriers to direct trade. The analysis also includes a case study in which the costs of building without direct trade are compared to the costs of a counterfactual scenario, where direct trade is used to the greatest extent possible.

The analysis has identified several factors which explain why indirect trade is the common form of trade in the Danish construction sector. The single largest reason of indirect trade is the building contractors need for day-to-day deliveries of construction materials. The assessment is that this need could be reduced in favour of more planned procurement through general construction site optimisation. Among other things, this would ensure a better flow of materials. From the perspective of the manufacturers of material, however, the most important factor is that they do not have the logistic capabilities to handle small and day-to-day deliveries. Such tasks are building contractors carried out by wholesalers on behalf of the manufacturers of material.

Wholesalers play a significant role in the current market in terms of handling overall logistics and delivery to the building contractors companies. Due to their size, wholesalers can use their purchasing power against manufacturers of material as well as to offer material competence, providing alternative product solutions compared to those that an independent manufacturer of material might be able to offer. Despite this, it seems the wholesalers are being put under pressure by market competition. This is partly due to the desire of manufacturers' of material to affect end-users to position their own products/brands, along the building contractors companies' striving for lower prices seems intensified in a construction sector characterized by general pressure of market competition.

The analysed cases indicates potential savings for the building contractors companies by the means of direct trade of 3-11 percent relative to the overall material purchases which contractors handle themselves. The extra costs associated with carrying out a greater proportion of the procurement function in-house must accordingly be deducted from this, rather than leaving these tasks to the wholesaler.

[1] Statistikbanken, Statistics Denmark.

[2] Deloitte on behalf of the Danish Energy Agency (2013) "Background report for analysis of the Danish construction sector

This part of the cost has not been quantified in this analysis, but it is estimated that the operating companies have an interest in and desire to expand direct trade in order to thereby potentially reduce purchase prices. This interest seems most noticeable among larger companies, which possess greater volume, organisation and purchasing power.

However, a number of barriers to the proliferation of direct trade have been identified.
It is COWI's overall assessment that direct trade and increased competition with more options of materials might be able to arise if

> "As" descriptions in tender documents are limited, allowing other products and materials to be offered and applied, leading to enhanced competition.

> Voluntary labelling is not made a pre-requisite, whereby, similarly to the "as" descriptions, alternative products and materials may be provided and applied, resulting in increased competition.

> Access to foreign materials is made easier by the means of developers, consultants and building contractors critically assessing the need for special material requirements, which is only met by established actors in the market.

The report is structured as follows:

Chapter 2 summarises the use of methodology, including the specific methods and demarcations implemented throughout the study.

Chapter 3 accounts more generally for the flows of trade between various actors in the construction sector in order to provide a basic understanding of the industry conditions affecting direct/indirect trade between building contractors companies, wholesalers and manufacturers of material.

Chapter 4 provides a discussion of the building contractors companies' procurement parameters and experiences with regard to direct trade.

Chapter 5 accounts for considerations and experiences of sales and distribution by the manufacturers' of material.

Chapter 6 provides a discussion of the three construction cases and the estimated savings potential, based on input from the interviewed companies.

Chapter 7 contains the conclusions of the analysis and relates to the prospects of future growth in direct trade and increasing competition in the construction sector.