

AGGREGATES, CEMENT AND READY-MIX CONCRETE MARKET INVESTIGATION

Summary of response hearing with the Independent Buying Consortium held on 12 July 2013

Background

1. The Independent Buying Consortium (IBC) was a buying group for independent builders' merchants. Its membership currently consisted of 157 independent builders' merchants. Currently, there was no membership fee.
2. There were other buying groups (CBA, H&B Group, National Buying Group etc). IBC said that it was different from these other buying groups as:
 - (a) it was not a buying society or a cooperative;
 - (b) it was centrally run rather than run by a committee of merchant members;
 - (c) procurement decisions were made centrally rather than by its members; and
 - (d) there was no mandatory opt-in to the approved supplier route.
3. IBC's understanding was that members of other buying groups were not permitted to purchase from suppliers other than those approved by their group although the commercial reality was that some did purchase products from non-approved suppliers.
4. When approaching prospective members (ie builders' merchants) about joining its buying group, IBC would ask them for information about their suppliers; their frequency of purchasing; and their products. Based on this information IBC would try to demonstrate to the prospective member how joining IBC could reduce its purchasing costs. IBC had a range of approved suppliers which supplied its members. Members could opt out of an approved supplier deal for geographical or product reasons. IBC's average turnover per member was £4 million a year.
5. IBC dealt with its approved suppliers (which included some cement manufacturers) as follows: IBC would offer approved supplier status for a fee. The fee was typically calculated using increases based upon volume rather than a flat fee. IBC worked with its approved suppliers to increase their sales and range of products they offered to its builders' merchant members. IBC proactively marketed the benefits of its approved suppliers to its members.
6. In relation to cement, IBC's current approved supplier penetration was just over 51 per cent, which meant that 51 per cent of its 157 merchant members' potential cement purchases were from IBC's approved suppliers. There were two distinct IBC-approved cement manufacturers: (a) Lafarge Tarmac (LT); and (b) Tarmac Building Products Limited (TBPL).
7. IBC had a national presence although it was strongest in the South-East where it had first started. IBC had 80 approved supplier contracts which covered the majority of the 'heavy side products' such as cement, bagged cement, concrete blocks, aerated lightweight blocks, steel, concrete lintels, landscaping products, hard landscaping products, concrete block paving, Indian sandstone, natural paving etc.

8. IBC estimated that in 2013 its members had purchased around 45,000 tonnes of bagged cement from TBPL and LT. This equated to between 8 and 10 per cent of IBC's overall turnover.
9. IBC assisted its builder's merchant members by providing them with sales leads and marketing with the aim of growing their businesses which, in turn, would encourage them to use more approved supplier products. IBC also worked with the Builders' Merchants Federation and introduced its members to it with the aim of making them feel part of a larger industry.
10. LT and TBPL were currently IBC's sole cement suppliers. In 2012, IBC purchased cement and some other products from Hanson. It had not and did not buy cement from importers. IBC listened to its members about their requirements, and it did not rule out buying from cement importers in future if this was necessary to meet its members' requirements.
11. There had been an increase in demand for building products which had been driven primarily by house building. It had a dialogue with some large house builders and understood that lots of houses had recently been bought off-plan. IBC analysed the volumes of products procured through it and noted that purchasing trends over the last three months showed a 25 to 30 per cent increase across all products. IBC had initially identified the trend in bricks and blocks, and it anticipated that cement would follow in a couple of months. Aside from the feedback it received from managing directors and commercial directors of housing companies, IBC reviewed its sales figures and purchasing volumes on a monthly basis.
12. IBC was not aware if any recent developments in the cement market were due to the entry of Hope Construction Materials.
13. IBC noted that some independent ready-mix concrete (RMX) producers gained a competitive advantage from individually negotiating cement prices.

The creation of a cement buying group or groups

14. The effectiveness of this remedy would depend to some extent on at what level of the supply chain the cement buying group (CBG) would sit.
15. IBC considered that the construction products market in Great Britain behaved differently to others elsewhere in the EU. In Great Britain manufacturers negotiated with and sold products directly to the end users, for example large construction companies would deal directly with bulk cement manufacturers.
16. IBC said that whilst construction was 'very set in its ways', it wanted to listen to builders' merchants. In essence, it was all about choice. It considered itself a 'communication tool' where IBC actively sold and promoted its preferred suppliers' products to its members. The majority of communication happened face to face which reflected the make-up of its members.
17. IBC was aware that cement producers were vertically integrated downstream into RMX production. IBC said that there had been some changes this year with certain other buying groups collaborating, presumably to obtain a keener buying price based on increased volumes. However, it seemed to depend on the availability of the tonnage of cement in the UK market.
18. IBC had not encountered any difficulties dealing with cement producers.

19. IBC's members did not only purchase domestically produced cement. There were a number of members who, due to the voluntary nature of the IBC membership, purchased cement from EU producers. This was driven by geographical location and by requirements for specific types of cement (eg colour or consistency of finish).
20. IBC's members, due to their size, were not involved in supplying bulk cement. Accordingly, it was not part of IBC's strategy. IBC presumed that the smaller concrete block producers and the smaller RMX producers bought cement directly from cement manufacturers.
21. IBC's experience was that the voluntary nature of its model was an important part of its success. If membership of CBGs was mandatory, this could lead to group members becoming resentful.