KONKURRENSVERKET
Swedish Competition Authority

Pristransparens på byggmaterial

Kartläggning av hur transparensen påverkar prisbildning och effektiv konkurrens inom byggsektorn

English summary

RAPPORT 2025:6

Report: Price transparency for building materials – mapping how transparency affects pricing and effective competition in the construction sector

Summary assessment and proposed measures

In autumn 2024, the Swedish Competition Authority (SCA) was assigned by the Government to survey price transparency at various stages of the building materials supply chain and to investigate how this affects pricing, competition, and costs in the construction sector, as well as how a lack of price transparency—through its impact on price formation and market conditions—in turn affects housing construction. The SCA was also tasked to submit proposals for concrete measures to improve price transparency in the building materials supply chain with the aim of creating better conditions for efficient price formation and price competition and a better functioning construction materials market.

Lack of price transparency in the construction materials sector has been described as a problem in a number of reports and investigations over the years. The issue has been highlighted in both government inquiries and reports written by authorities such as the National Board of Housing, Building and Planning, the Swedish Agency for Public Management and the SCA. Several studies and reports have also described the lack of price transparency as an obstacle to effective competition. The construction materials sector has previously been urged by the SCA to improve price transparency through, among other things, clearer terms and conditions for rebates. Furthermore, developers (purchasers), have been recommended to demand that all rebates are reported and accrue to them.

As part of this assignment, the SCA has conducted an in-depth analysis of price and discount conditions in the installation industry (Electrical, Plumbing and HVAC solutions) in Sweden, as it is within these segments of the construction sector that price transparency was initially considered to be most deficient. The in-depth investigation, among other things, involved an extensive collection of sales data and wholesalers' discount and rebate agreements with installer customers. In addition, the SCA conducted several surveys and met with a significant number of market actors at different stages of the market. The SCA has also asked actors in the construction industry to submit proposals that could improve the price transparency and has garnered opinions on preliminary proposals for measures from different industry organisations.

The construction value chain consists of several different stages, with market actors operating in one or more of these. The company or person ultimately responsible for a construction project is **the developer**, who may or may not also be **the purchaser**. The developer assigns tasks to contractors**.** Contractors can be **main contractors** or **subcontractors**. A main contractor can also take on the role of a purchaser, assigning tasks to subcontractors. Examples of contractors in the construction sector are large

construction companies, earthworks and civil engineering companies, electrical, plumbing and HVAC installation companies, sheet metal workers, painters and carpenters. Contractors use materials for their work that are purchased from **material suppliers**. Some materials are purchased directly from **material manufacturers**, others through **builders' merchants** or **wholesalers**.

Retroactive rebates result in a lack of price transparency and inefficient pricing in cost-plus contract

The SCA's investigation shows that among wholesalers in the installation industry, discounts and retroactive rebates amount to an average of 65-70 percent in relation to gross price lists during the period 2021-2023. The discounts are therefore significant.

Retroactive rebates, i.e. rebates paid by wholesalers to installation companies in retrospect, are common in the installation industry and amount to significant sums annually. In 2023, retroactive rebates paid by wholesalers totalled approximately SEK 4.4 billion. At the wholesale level, retroactive rebates amounted to just over 8 per cent of the net invoice value during the period 2021–2023, but individual installation customers of wholesalers received significantly higher retroactive rebates than this. For the large installer customers (the 15 largest customers of each wholesaler), retroactive rebates amounted to an average of just over 19 percent of the amounts invoiced by wholesalers to installer companies during the period 2021–2023.

The SCA takes note that there are many indications that considerable savings that are generated through retroactive rebates are not passed on to the downstream market actors i.e. the purchasers. This gives rise to particular problems in cases where the parties have agreed on a form of remuneration based on cost-plus contracts based on the full cost principle.

The SCA has found that it is sometimes possible for installation companies to choose between different agreements from one and the same wholesaler, with varying mixes of discounts and retroactive rebates, but where the net purchase price is the same for the installer. The SCA has also seen examples of agreements between wholesalers and installers where the net purchasing prices are increased, with the increase being repaid as a retroactive bonus at a later date. In several cases, upon signing an agreement, the installer has the option of choosing whether a certain rebate will be stated directly on the invoice or repaid retroactively at a later stage.

The SCA's review of agreements in the installation industry also shows that retroactive rebates often lack clear volume requirements or defined procedures for determining compensation and are paid out as a so-called straight deduction from the purchase price. The repayment or crediting of bonuses takes place retrospectively and is often centralised within the corporate group. Normally, retroactive rebates are justified by the fact that there is a link to the size of the volumes purchased, so that the rebates encourage more concentrated purchases

from a particular material supplier, such as a wholesaler or manufacturer of building materials.

The SCA considers that the examples illustrate that it is often arbitrary whether an installer receives a discount or retroactive rebate and that retroactive rebates can be used to conceal the actually agreed prices. Retroactive rebates thus lead to a lack of price transparency.

Discounts, which are deducted immediately at the time of purchase, are often very large. Among wholesalers in the installation industry, they averaged 63–65 percent of the listed gross prices during the period 2021–2023. The high rates of the discounts reflect the fact that gross prices are at levels far above what customers actually pay for the products. The purpose of the gross price lists is stated to be that wholesalers need something to base their discounts, rebates and net prices on. However, as discounts – or the net price resulting from the discounts – are normally visible on invoices and in cost documentation, the SCA considers that discounts are not problematic from a transparency point of view, even if they to some extent do contribute to make pricing less transparent for installation materials. In the absence of retroactive rebates, the SCA has not assessed that discounts constitute a problem from a transparency perspective.

The SCA considers that *how the lack of price transparency in turn affects efficient price formation* depends mainly on the form of remuneration agreed between the purchaser and the contractor.

The need for price transparency is particularly important when the purchaser uses the form of remuneration known as cost-plus contracts, whereby the contractor's full costs, for example for building materials, are to be reimbursed by the purchaser, typically with a markup in the form of a percentage contractor's fee to cover the contractor's profit and costs for administration and logistics, among other things.

When the cost of construction materials that the purchaser is required to reimburse the contractor for is the amount invoiced by the material suppliers, there is an incentive for the contractor to make this invoice amount as high as possible. Full cost compensation thus creates an incentive for a pricing structure between the material supplier and the contractor that corresponds to what the SCA has found in the installation industry: that a significant portion of the purchase cost is repaid at a later date in the form of retroactive rebates. This way, invoices and receipts that a contractor presents to a purchaser may contain a relatively high reported amount, while the contractor receives money back from the wholesaler without the purchaser’s knowledge.

The incentive to drive up the reported cost of building materials is also reinforced by the inherent incentives of cost-plus contract, where the contractor is compensated for their work through a percentage markup on reported costs, including the cost of materials. The higher the costs the contractor can report for the building materials, the greater the markup for the contractor. The contractor thus receives both

retroactive rebates from the wholesaler, which in absolute terms become higher as the invoiced amount for the purchased materials increases, and a percentage-based markup from the purchaser, which in absolute terms is also higher when the invoiced amount increases.

Actors in the construction value chain have explained to the SCA that the need for retroactive rebates for materials arises because the price of labour is pushed down to low levels in construction projects based on cost-plus contracts. The markup charged through the material cost therefore needs to increase in order for companies to maintain their profitability. Normally, labour costs and/or the markup are evaluated during the procurement process, while the actual material cost can account for 40-50 percent of the total cost of the project. When the price of labour is set low in relation to the production cost, while the price of materials is overvalued, margins are distorted, which risks creating incentives for an incorrect allocation between the amount of work and materials in a project. The SCA therefore considers that retroactive rebates lead to inefficient price formation in the market for building materials.

The SCA has investigated whether there are international examples of similar contractual relationships between purchasers and contractors and has found that this appears to be unusual. However, it should be noted that in US federal procurement, remuneration with a percentage markup on the cost is prohibited, precisely because of the low incentives for cost control.

When contractors compete for fixed-price contracts, however, the SCA considers that the terms of rebate or the distribution between discounts and retroactive rebates on building materials are unlikely to have any significant impact on price transparency from the purchaser's point of view. From a price transparency perspective, in fixed-price contracts, the key issue is instead the total price that the contractor, in competition with others, can offer to perform the assignment. In this case, the SCA considers that there is no need for further transparency regarding the contractor's purchasing terms for building materials in order to ensure that the purchaser can evaluate bidders efficiently.

Furthermore, the SCA considers that when cost-plus contracts is used but the construction materials are already priced at the time of the tendering[1], for example by allowing tenderers to submit prices for predefined baskets of products, there are good conditions for competition to ensure efficient price formation, regardless of the contractors' price and rebate terms for the construction materials.

Cost-plus contracts are used to a lesser extent in housing construction

The government's assignment to the SCA also includes analysing how a lack of price transparency affects housing construction. There are no complete statistics on

[1] Unless otherwise specified, the Competition Authority uses the terms "tendering and procurement to refer to both public and private sector".

the forms of remuneration that exist in the construction market, but the SCA's investigation indicates that it is unusual to utilize cost-plus contracts in new housing construction. However, even in fixed-price contracts, it is common for changes and additional work (so called ÄTA work) to be compensated with cost-plus contracts, and these works can sometimes add up to significant amounts. In this way, the issues due to price transparency for construction materials are also relevant to some extent in fixed-price projects in construction of new houses. In addition, in the renovation and maintenance of residential buildings, it appears to be more common for contractors to be renumerated on a cost-plus basis than in new housing construction. The SCA considers that this indirectly affects housing construction, as such measures are part of the life cycle cost of a residential building.

Public bodies are a large group within those parts of the construction sector that often use cost-plus contracts

The SCA assesses that the problems with cost-plus contracts are likely to be greatest in types of construction and civil engineering projects other than residential construction. Examples of such types of construction are complex projects such as hospitals, infrastructure and other premises procured by public bodies.

The problem due to a lack of incentives to push down material prices in cost-plus contract based on the full cost principle is greater when the purchaser is a public body. The application of the Public Procurement Act (LOU) requires equal treatment and transparency, which means that a supplier's previous experience and relationships are often difficult to take into account.[2] For this reason, suppliers often lack clear incentives to build long-term relationships with public bodies, unlike when working with private companies, who can pressure their suppliers to keep costs down and increase quality by referring to the supplier's reputation and brand.[3] Of the legal disputes concerning compensation for construction materials in general courts noted by the SCA, all have been initiated by public bodies. Although disputes certainly also occur in the private sector, private purchasers generally have greater opportunities to resolve conflicts with suppliers during the contract period, for example through renegotiation, without taking into account the requirements of the Public Procurement Act regarding changes to contracts.[4]

A lack of price transparency means that many purchasers pay too much for construction materials

The current standard contracts (AB 04 and ABT 06) state that all discounts and rebates must be compensated to the purchaser in cost-plus arrangements, but that so-called annual purchase rebates (rebates based the customer’s total purchase volume over an entire year) should instead be taken into account in the contractor's

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[2] Eriksson, *Procurement and management of construction projects – a comparison between public and private developers in the housing sector,* Swedish Competition Authority commissioned research report 2023:5.

[3] Bergman, *Economic aspects of public procurement of quality,* Swedish Procurement Authority commissioned research report 2021:2, p. 11.

[4] See, for example, Swedish Competition Authority, *LOU requirements for amendment or option clauses in relation to the ÄTA provisions in AB 04*, Analysis in brief 2024:6.

markup. The SCA has noted that it is not clear what actually constitutes an annual purchase rebate. However, the SCA's review of discounts and rebates in the installation industry shows that there are many types of retroactive rebates, most of which likely cannot be considered annual purchase rebates. In the SCA's opinion, this suggests that there are flows of retroactive rebates that should accrue to the purchasers under the current standard contracts in use.

In cases where retroactive rebates covered by the terms of standard contracts are to accrue directly to the purchaser – either because it is a retroactive rebate that is not an annual purchase rebate or because the parties have specifically agreed on this – the SCA believes that price transparency is still problematic. This is due to the fact that retroactive rebates appear to be easy to conceal from the purchaser.

The SCA's investigation has shown that customers largely lack insight into the retroactive rebates paid by material suppliers. Purchasers often describe retroactive rebates as "hidden" from them. Furthermore, according to the SCA's investigation, purchasers only receive a small portion of the retroactive rebates paid by material suppliers to contractors. However, the SCA's investigation has found that if it has been agreed between the purchaser and the contractor that retroactive rebates should accrue to the purchaser, this seems to increase the likelihood that retroactive rebates also will be passed on to the purchaser.

There is also a degree of mistrust among purchasers that contractors report truthful costs when renumeration is done according to the full cost principle. Purchasers with whom the SCA has been in contact feel that it is difficult to get access to supporting documents, especially from subcontractors, and that the supporting documents are sometimes substandard. Insight into accounting systems is also not always sufficient to control payment flows, partly because it is unclear which accounts within a company's accounting system retroactive rebates are paid into. In addition, these payments are sometimes made centrally within a corporate group, rather than, for example, to the subsidiary that has a contractual relationship with the purchaser.

Furthermore, there are examples of confidentiality clauses in agreements between wholesalers and installers that limit the installer's ability to share contractual terms regarding prices and retroactive rebates with the purchaser.

Among public purchasers in particular with whom the SCA has been in contact, many also consider audits to be very labour-intensive and they state that they often lack the resources to check invoice documentation and supporting documents.

The SCA has calculated cost estimates based on a real example where an installer had the opportunity to purchase construction materials with alternative distributions between discounts and retroactive rebates from the same wholesaler. By choosing a distribution with low discounts and high retroactive rebates, the installer's compensation for construction materials in this particular case increased by an estimated SEK 800,000 over four years, inflating the installer's compensation

for the construction materials by 20 percent. This example illustrates how retroactive rebates, which do not accrue to a purchaser, can affect the purchaser's costs for construction materials.

In this context, the SCA would like to emphasise that the issue of overall construction costs is more complex than just construction material prices. Increased profitability on construction materials on a cost-plus contract based on the full cost principle can, for example, be used by installers to offer lower prices in other respects, such as hourly rates for labour.

Based on data from the installation sector, the SCA assesses that when the cost-plus model based on the full cost principle is used, there is a significant risk that purchasers will pay a higher price for construction materials than they would have done if a significant part of the material costs had not been hidden in retroactive rebates. This conclusion applies to those segments of the construction materials sector where the SCA has conducted a more in-depth investigation, i.e. the installation market. In principle, the conclusion is also valid for other segments of the construction materials market, in proportion to the size of the retroactive rebates that occur there. The SCA's investigation indicates that retroactive rebates for materials also occur in other segments of the construction market, but that they are of a lesser magnitude than in the installation segment.

Lack of price transparency can lead to less competition in the construction market

The SCA assesses that the lack of price transparency in the market may lead to an outcome where the contractor who wins a tendering process is not necessarily the most cost-efficient contractor, but rather the contractor who is most successful in negotiating supply agreements with a large element of retroactive rebates. Contractors and installers who have managed to negotiate large retroactive rebates can set a lower tender price for labour or markup and recoup on higher material prices with subsequent retroactive rebates, without providing the overall most cost-efficient solution for the purchaser.

The SCA considers it important that the competition on the market is based on efficiency, rather than on the contractor's ability to negotiate agreements that often do not seem to benefit the purchasers. In the long term, efficiency-based competitive dynamics should presumably lead to a more efficient construction supply chain and a more efficient construction materials markets.

The SCA further assesses that there is a risk that the lack of price transparency distorts competition, giving larger contractors an advantage over smaller ones. This distortive dynamic is evident when reviewing the wholesale level in the installation industry, where large installation customers receive significantly higher retroactive rebates than average customers, often without any clear link to the attainment of certain volume requirements.

There is no surprise that a customer who purchases larger volumes has the opportunity to negotiate lower prices. Such a customer should be able to generate economies of scale for the supplier and have more bargaining power, resulting in lower prices. However, regardless of the net cost for purchased materials, contractors who receive larger retroactive rebates are able to offer lower markups in tendering processes than those who receive smaller retroactive rebates. This is because, for the same invoiced amount reimbursed by the purchaser, the contractor who receives larger retroactive rebates simply gets more back from their supplier in retrospect, which is exactly why that contractor can offer a lower markup in the first place. When a tender is evaluated based on the level of the markup rather than the prices of construction material themselves, those contractors who receives the largest retroactive rebates thus gain an advantage, which, at least within the installation sector, are primarily the largest installers.

Overall, the SCA assesses that the conditions for effective competition in the construction market in Sweden are inhibited due to the lack of price transparency.

The SCA's proposed measures

Based on the conclusions presented by the SCA, a number of proposals are put forward to improve both price transparency and competition in the construction materials market.

The SCA notes that market actors in the construction industry have been trying to address the problems created by retroactive rebates for a long time. The fact that the problems have persisted for a long time without being resolved suggests that more intrusive measures are needed than those previously proposed.

The SCA's proposals are primarily aimed at public purchasers. Public purchasers can collectively constitute an important counterparty whose requirements can influence market conditions in general. By clarifying the requirements that public purchasers apply in tendering processes and contracts, the ability for private purchasers to act in the same manner is also improved.

The measures proposed by the SCA are that public purchasers should

- primarily, use fixed-price contracts in procurements, to the extent possible
- secondarily, subject material costs to competition at the tendering stage in situations where cost-plus contracts are used
- as a third-hand choice, stipulate clear contractual terms for how retroactive rebates should be handled in situations when the prime cost principle is applied and cost-plus contracts are used.
    - With regard to contractual terms concerning the reporting and crediting of retroactive rebates, the SCA proposes an investigation into the possibility of establishing a statutory obligation for suppliers to report and pass on to

the purchaser all discounts and retroactive rebates attained. A possible arrangement for how such a regulation could be designed is presented in the proposal chapter of the report.

- The SCA also sees a need for improved guidance and support for public purchasers and new tools for contract monitoring, and thus further proposes that the government assigns relevant agencies and other appropriate organisations to develop additional support in these areas.

In addition, the SCA proposes that public purchasers, when it comes to the use of markup in tenders, should use a fixed remuneration model rather than a percentage model when determining the size of the markup in situations when cost-plus contracts are used to reimburse contractors for material costs.