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# I N D U S T R Y P R O F I L E

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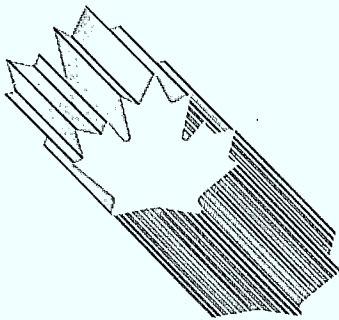


Industry, Science and  
Technology Canada

Industrie, Sciences et  
Technologie Canada

## Sporting Goods

Canada



# I N D U S T R Y

## P R O F I L E

### S P O R T I N G G O O D S

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## FOREWORD

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In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to survival and growth. This Industry Profile is one of a series of papers which assess, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological and other key factors, and changes anticipated under the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the papers.

The series is being published as steps are being taken to create the new Department of Industry, Science and Technology from the consolidation of the Department of Regional Industrial Expansion and the Ministry of State for Science and Technology. It is my intention that the series will be updated on a regular basis and continue to be a product of the new department. I sincerely hope that these profiles will be informative to those interested in Canadian industrial development and serve as a basis for discussion of industrial trends, prospects and strategic directions.

Minister

## 1. Structure and Performance

### Structure

The sporting goods industry is composed of establishments primarily engaged in manufacturing a broad range of consumer goods for individual and group recreational and fitness activities.

Production in Canada can be roughly divided according to the seasonal activity for which the products are produced: summer, winter and all season. Summer sports equipment (baseball, football, golf, fishing, bicycles, swimming pools) represents about 51 percent of domestic manufacturers' shipments, winter sports equipment (skates, hockey equipment, snowshoes, skis) about 28 percent, and all-season equipment (fitness, gym, play structures, table sports) about 11 percent. Miscellaneous products make up the remaining 10 percent. Bicycles, swimming pools and golf products account for almost 90 percent of summer sports shipments. Ice skates and hockey equipment account for 85 percent of winter sports shipments. Gymnasium, exercise and playground equipment represent about 83 percent of all-season sports shipments. In the other product lines, the industry lacks depth or is quite small. Excluded from this industry profile are such items as camping equipment, sporting firearms and ammunition, sport tape, skate sharpeners, athletic footwear and jerseys.

The Canadian sporting goods industry, like the industry worldwide, is labour intensive. In 1986, it consisted of an estimated 210 establishments, employing 7300 people, with shipments worth \$620 million. Firms employing more than 100 people represent eight percent of establishments, 55 percent of employment and 52 percent of shipments, whereas firms employing less than 20 people account for 67 percent of establishments, 14 percent of employment and about 10 percent of shipments, and generally specialize in a narrow product range. The industry is largely Canadian controlled and has a high degree of private ownership. The six largest manufacturers, accounting for almost 40 percent of employment and shipments, are located in Ontario and Quebec. Two of these concentrate on bicycle production, while the other four are primarily involved in various segments of the skating and ice-hockey sector.

Worldwide sporting goods production is characterized by a high degree of country product identification and manufacturing specialization. For example, Finland is noted for cross-country ski manufacturing, Austria and France for alpine skis, the United States for golf, and Canada for skating and ice-hockey equipment. In some areas there continues to be strong brand identification associated with a country, although actual production has shifted to low-cost countries.

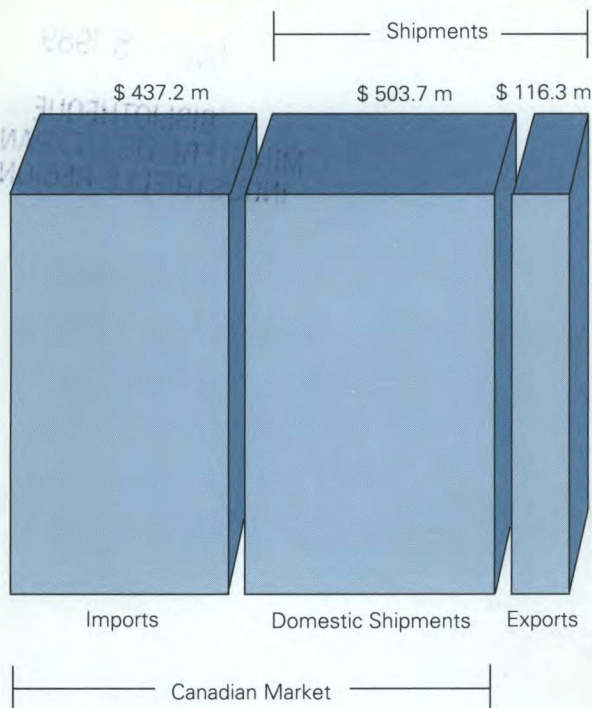
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**Imports, Exports and Domestic Shipments  
1986\***

\* Estimate.

Imports of sporting goods equipment and parts represent about 46 percent of the domestic market, with parts representing approximately one-third of these imports. However, most of the parts imports are destined for final assembly into products manufactured in Canada. Manufacturers of bicycles and exercise equipment are especially dependent on parts from Taiwan and Japan, while golf and fishing equipment manufacturers source most of their required parts from the United States. Snow ski equipment, golf equipment and parts, and bicycles and parts represent over one-half of total imports.

About a fifth of the industry's shipments are exported. The major products exported include skating and ice-hockey equipment, swimming pools and gymnasium and exercise equipment. The United States absorbed 78 percent of Canada's exports in 1986, followed by the European Community (E.C.) with nine percent.

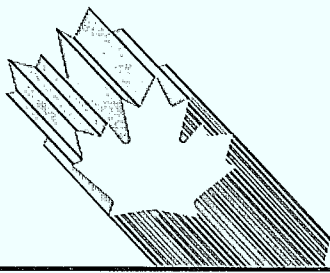
Skating and ice-hockey products, accounting for 34 percent of total exports, are most closely associated internationally with the Canadian industry. The major market for skating and ice-hockey products is the United States, followed by western Europe. Gymnasium, exercise and playground products, representing 15 to 20 percent of exports, are sold worldwide. Swimming pools and accessories, accounting for roughly \$15 million in exports, are shipped almost exclusively to the northern United States.

### Performance

As a consumer product sector, sporting goods is extremely sensitive to economic conditions, interest rates, personal disposable incomes and lifestyles. During the 1970s, led by the skating and ice-hockey sector, the industry enjoyed a period of steady growth in both the domestic and export markets. However, in the 1980s there has been a significant slowdown. This slower growth rate in shipments and exports can be attributed primarily to the after-effects of the 1981 recession, saturation of the Canadian market for several key products such as ice-sports equipment, lifestyle changes and increased competition in the European market. The emergence of Taiwan as a major factor in world trade has strongly affected Canada and other developed countries. Import penetration has also increased due to the growing popularity of such activities as skiing, soccer, golf, exercising and fitness, where the Canadian supply capability is either limited or highly dependent on imported parts and components. Thus, while the import share of the Canadian market declined in the late 1970s, it has gradually risen since 1980. The major change in the sourcing of imports in recent years has been the shift from the United States to the Far East (primarily Taiwan).

Most exports (about 78 percent) go to the United States, and its share of Canadian exports has been increasing. The export share of shipments overall has fallen significantly since the 1970s, but now appears to have stabilized in the 18 to 20 percent range. This decline in exports has been most notable in skates and hockey equipment. During the last five years, although exports of products such as exercise equipment and swimming pools have increased, products such as skates and hockey equipment have been hurt by maturing markets, competitive pressures from Taiwan, Czechoslovakia and Finland, and, at times, by a high exchange rate for the Canadian dollar. The E.C. market represents the bulk of exports to western Europe.

To maintain their market position in the face of aggressive competition from European companies in areas such as skates and hockey equipment, some firms have initiated joint ventures, licensing arrangements and the establishment of overseas subsidiaries. Other tactics the Canadian industry has implemented include the final assembly-packaging of Canadian products by European distributors and direct shipments of Canadian branded products from Far East contractors to Europe to compete with Czechoslovakian and Far East brands.



## 2. Strengths and Weaknesses

### Structural Factors

The structural factors on which the competitiveness of this industry turns include scale of operations, access to financial resources, brand recognition and wage costs. The industry includes six large, vertically integrated companies which are internationally competitive in the manufacturing and distribution of sports equipment, and suffer no serious disadvantages because of economies of scale. In addition, there are a number of medium-size and smaller companies which have established international reputations by specializing in one product area and/or serving a particular market niche in an effective manner. For the most part, the sector consists of privately owned and family operated establishments, usually constrained by limited financial resources. They are also vulnerable to seasonal and market trends. In addition, as in most small business sectors, many of them have limited management, administration and marketing resources.

An important factor affecting the ability of the industry to compete is consumer demand for brand-name products. In some sectors, Canadian brands such as Bauer, Cooper and CCM are well known and recognized internationally. However, in other sectors, Canadian companies have difficulty in establishing a widely known name. This lack of brand recognition is a serious impediment in the small and medium-sized portion of the industry.

Despite substantial efforts to reduce labour content, Canadian sporting goods manufacturing remains labour intensive. This makes it vulnerable to competition from the newly industrialized countries (NICs) and less developed countries (LDCs). To alleviate some of this pressure, Canadian firms have moved the production and sourcing of many labour-intensive, low-cost items to offshore suppliers. Nevertheless, the Canadian industry still remains at a cost disadvantage with respect to manufacturing operations in low-cost countries.

Premium costs for product liability insurance are increasing rapidly in the sporting goods industry. This affects Canadian firms more than offshore producers because much of Canada's manufacturing activity is in the more costly insurance premium categories of fitness, gymnastic and hockey protective equipment.

### Trade-related Factors

Canadian tariff rates on finished sporting goods range between four percent and 23 percent and, in general, are significantly higher than comparable U.S. and E.C. tariffs. An estimated one-third of product and parts imports enter duty free under the Most Favoured Nation (MFN) or General Preferential Tariff (GPT) rates, with parts and accessories representing the major portion of these imports.

### COMPARISON OF 1988 MFN TARIFF RATES

	Canada %	U.S. %	E.C. %	Tariff Reductions
				Under Canada- U.S. FTA
Bicycles	14.7	11.0	17.0	10 years
Parts	10.2- 11.3*	4.9- 10.0	8.0	10 years
Golf clubs	12.1	4.9	6.0	10 years
Parts	4.0- 11.3*	4.9	6.0	10 years
Exercise equipment	10.0	4.6	6.0	10 years
Hockey sticks	4.0	0.0	6.0	10 years
Ice skates	22.5	5.8	6.0	Immediate
Skis				
— cross country	11.4	3.5	6.0	Immediate
— alpine	11.4	5.1	6.0	Immediate

\* Includes substantial portion of products allowed duty-free entry under Canadian Custom Duties Regulations.

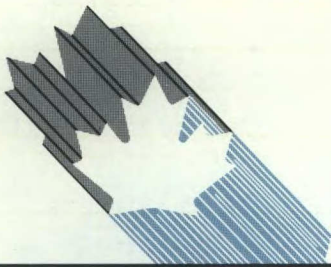
With some exceptions, the Canada-U.S. Free Trade Agreement (FTA) will remove tariffs over a 10-year period and introduce new rules of origin. Under the provisions of the FTA, skis, ski bindings and skates are the major products scheduled for immediate tariff reduction. Sailboard tariffs are to be phased out over five years.

Many of the imported parts and components not dutiable by Canada are dutiable by the United States. The importation of duty-free parts and components has had a significant, positive effect on the Canadian bicycle, golf equipment and fishing tackle manufacturers, many of whom are heavily engaged in assembly operations.

The rules of origin under the FTA relating to sporting goods will allow goods incorporating offshore raw materials or components to qualify for duty reductions as long as they have been sufficiently transformed in Canada or the United States to warrant a different tariff classification. Also, the final product must include 50-percent Canadian and/or U.S. manufacturing cost. For example, a bicycle using Canadian steel for its frame and assembled in Canada using imported wheels and gears would qualify as a Canadian product if 50 percent of its manufacturing cost is accounted for in Canada and/or the United States.

There are no significant non-tariff measures affecting Canada's trade in sporting goods.





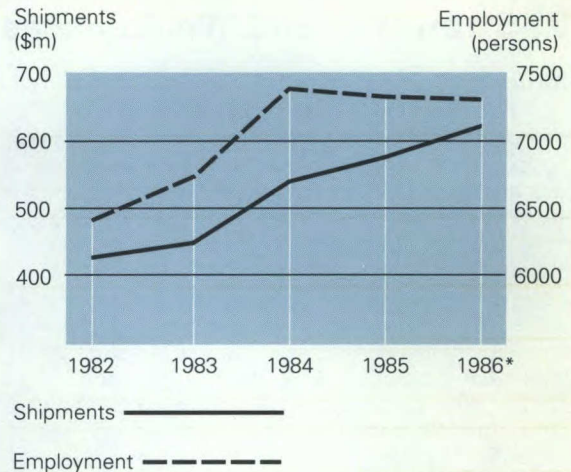
### Technological Factors

The technologies and processes used by sporting goods manufacturers cover a wide spectrum. The major processes include steel fabricating (playground and exercise equipment), plastic and fibreglass moulding (skis, sticks, skates), woodworking (sticks, bats) and cut-and-sew operations (protective equipment). In consumer goods such as bicycles and golf products, production in Canada consists mainly of assembly operations. Noteworthy technical advances have occurred during the last decade, and now the increased use of laminates, resins and improved textile materials is producing better and more durable sports equipment. Graphite, boron, ceramics and various composites are being introduced in a wide range of products.

The Canadian industry is a major user of new technology and has been quite advanced and innovative in skating and hockey equipment, swimming pools and fitness equipment. The larger firms producing this equipment have kept pace with their counterparts elsewhere in the world in modernizing their facilities and upgrading their products.

During the 1973-86 period, most major innovative features introduced in skating and hockey equipment, except for the Finnish multi-ply hockey stick, originated with the Canadian industry. The industry has also been in the forefront of product innovation and technological improvement with the introduction of the hockey helmet, moulded skates, stainless steel and titanium-plated skate blades and improved protective equipment.

In addition, investment has been made to improve current products by developing new technology and adapting existing technology from the chemical and resource processing industries. Several companies have instituted sophisticated inventory and cost-control systems to improve plant efficiency. However, in the small to medium-sized part of the industry, which is not characterized by brand recognition, companies tend to lag behind in the use of new technologies and materials and tend to duplicate their competitors' technology.



### Total Shipments and Employment

\* Estimate.

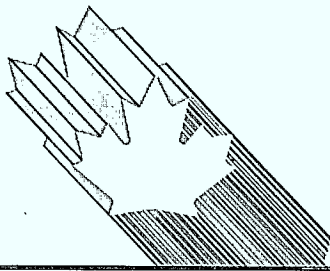
## 3. Evolving Environment

There are several major forces which will influence the future direction of the Canadian industry.

The recent emphasis on personal fitness and family recreational activities is expected to sustain growth and popularity in these activities at the expense of individual and team sports growth. Also, there has been a virtual disappearance of the differences in time spent on physical activities during leisure hours between males and females. More female participation has helped to increase overall participation in many recreational and sporting activities, and to popularize newer activities, resulting in an increased demand for existing and new equipment.

As the "baby boomers" age, this group is showing a preference for individual and team recreational activities geared less towards competitive team sports and more towards individual fitness and recreational activities. This group has also brought about an increased awareness of improved protection for themselves and their families, leading to a more acute concern about the purchasing of better-quality, more durable equipment. The rapid market growth of sports-medicine/performance-aids products is one result of this trend.

Since product liability insurance premiums have been rising in the face of a proliferation of sports-related lawsuits in North America, there has been pressure toward higher consumer prices for sporting goods. A continuation of the trend may negatively affect demand for these products in the future.



In all its major international markets, the industry can expect greater competition in skating and hockey equipment from Finland, Czechoslovakia and the Far East. In addition, this sector is selling primarily into mature markets which tend to be restricted by climatic conditions and the availability of rink facilities.

Under the FTA, the United States will continue to be the dominant export market for Canadian sporting goods. However, there may be some rationalization of production that will alter the trade flows of sporting goods between the two countries. The large, export-oriented skating and hockey sector could benefit the most from the FTA. The benefits of immediately eliminating tariffs on skis and ski bindings is more difficult to assess. The North American alpine skis and bindings import market is almost \$200 million and is supplied primarily from European sources. This market would appear to represent an opportunity for import replacement. In other sectors, the companies whose products are scheduled for phased tariff removals over five-year and 10-year periods will be required to undertake varying degrees of adjustment. For instance, it is expected that major adjustments may be required for several of the assembly and summer-product-oriented sub-sectors which are characterized by a high degree of foreign ownership and have relied heavily on the protection afforded by the Canadian tariffs.

#### **4. Competitiveness Assessment**

The industry is not cost competitive with the low-cost countries to which some sporting goods production has shifted, and it is not likely to become so in the foreseeable future. This is especially the case with goods for which no brand-name recognition has been established. However, for winter sports equipment the industry is competitive in terms of price and quality and has the advantage of brand-name recognition in many product lines. In addition, a number of smaller companies have established market niches in specialized items such as sports-medicine products, skate blades, ski locks, stick shafts, and others.

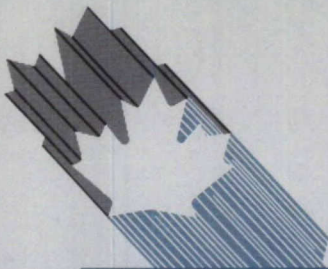
Under more liberalized trade, a number of companies, for which brand recognition and market niches are important, will be competitive in the U.S. market. This is true for the skating and ice hockey, swimming pool, bicycle, gymnasium, fitness and playground equipment sectors. However, the smaller summer and assembly oriented sporting goods sub-sectors such as golf and fishing tackle are not likely to be as competitive in the U.S. market, for reasons discussed above.

For further information concerning the subject matter contained in this profile, contact:

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**PRINCIPAL STATISTICS**

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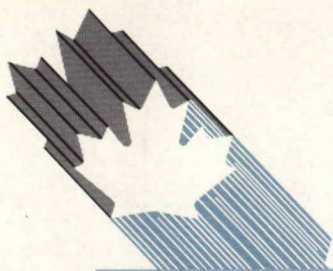
	1973	1982	1983	1984	1985	1986 <sup>e</sup>
Establishments	146	185	177	202	207	210
Employment	7 486	6 450	6 734	7 341	7 308	7 300
Shipments (\$ millions)	139.2	424.4	452.5	534.3	582.9	620.0

**TRADE STATISTICS**

	1973	1982	1983	1984	1985	1986 <sup>e</sup>
Exports (\$ millions)	36.2	94.4	82.0	101.3	101.2	116.3
Domestic shipments (\$ millions)	103.0	330.0	370.5	433.0	481.7	503.7
Imports (\$ millions)	129.3	226.1	298.4	344.5	373.8	437.2
Canadian market (\$ millions)	232.3	556.1	668.9	777.5	855.5	940.9
Exports as % of shipments	26.0	22.2	18.1	19.0	17.4	18.8
Imports as % of domestic market	55.6	40.6	44.6	44.3	43.7	46.4
Source of imports (% of total value)			U.S.	E.C.	Asia	Others
		1981	41	13	37	9
		1982	42	13	34	11
		1983	36	13	40	11
		1984	31	15	42	12
		1985	32	17	39	12
		1986	27	17	45	11
Destination of exports (% of total value)			U.S.	E.C.	Asia	Others
		1981	57	15	7	21
		1982	66	12	7	15
		1983	71	12	5	12
		1984	77	8	5	10
		1985	78	9	5	8
		1986	78	9	5	8

**(continued)**



**REGIONAL DISTRIBUTION — Average over the last 3 years**

	Atlantic	Quebec	Ontario	Prairies	B.C.
Establishments – % of total	1	32	43	8	16
Employment – % of total	1	44	49	2	4
Shipments – % of total	1	47	48	1	3

**MAJOR FIRMS**

Name	Ownership	Location of Major Plants
Canstar Sports Group Inc.	Canadian	St-Jérôme, Quebec; Kitchener, Ontario; Italy
Cooper Canada Limited	Canadian	Toronto, Ontario; Cambridge, Ontario
Procycle Inc.	Canadian	St-Georges-de-Beauce, Quebec
Karhu Canada Inc.	Finnish	St-Jean-sur-Richelieu, Quebec; Cowansville, Quebec
Raleigh Industries of Canada	British	Waterloo, Quebec
Sport Maska Inc.	Canadian	St-Hyacinthe, Quebec; St-Jean-sur-Richelieu, Quebec

e Estimate

**Note:** Statistics Canada data have been used in the preparation of this profile.



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