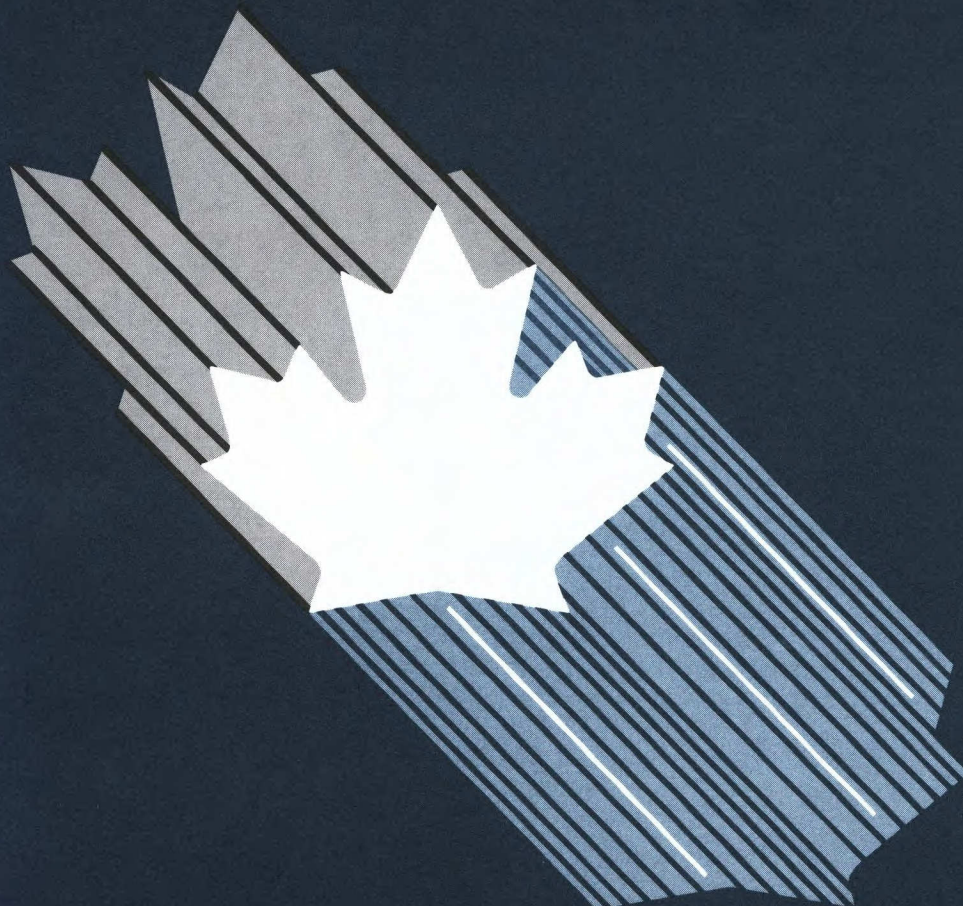


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I N D U S T R Y  
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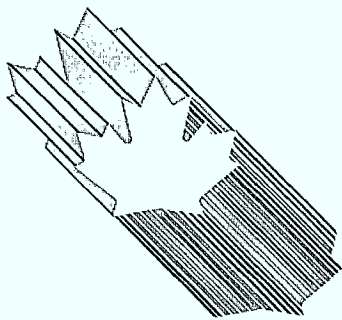


Industry, Science and  
Technology Canada

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Technologie Canada

**Toilet Preparations**

Canada



# I N D U S T R Y

## P R O F I L E

### T O I L E T P R E P A R A T I O N S

1988

#### 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.

## 1. Structure and Performance

### Structure

Toilet preparations include a wide range of products such as powders, liquids, lotions, creams and other preparations used on the human body to clean, beautify and promote attractiveness. Products can be categorized broadly into cosmetics, toiletries and fragrances. Cosmetics include face make-up preparations such as foundation, powder, blush, lipstick, eyeshadow and mascara. Toiletries include skin preparations (cleansers, moisturizers, acne preparations, soap, bath oils, talcum powder, suntan preparations), hair preparations (shampoo, conditioners, hair spray, styling gels and mousse, home permanents, bleach, colouring), personal hygiene preparations (antiperspirants, deodorants, toothpaste, shaving creams and lotions, footcare preparations) and miscellaneous products (gift sets and consumer promotional packs). Fragrances include perfumes, colognes and toilet waters.

Domestic sales can be broken down as follows: cosmetics 15 percent, toiletries 74 percent (skin preparations 17 percent, hair preparations 25 percent, personal hygiene preparations 27 percent, miscellaneous products five percent) and fragrances 11 percent.

In 1986, the Canadian industry employed some 9000 persons (4700 persons in production-related activities) and generated shipments in excess of \$1.1 billion. Exports were \$31 million, three percent of shipments, and imports of \$163 million accounted for 13 percent of domestic consumption. Canada accounted for 2.5 percent of world production in 1986. The Canadian toilet preparations industry is heavily oriented to domestic manufacturing — evidenced by the fact that some 97 percent of total production is consumed in Canada. Domestic shipments accounted for 87 percent of the Canadian market valued at \$1.3 billion.

Manufacturing of toilet preparations in Canada consists largely of batch-type operations, involving blending of raw materials, filling into retail-size containers, packaging for shipment to retailers and testing for quality. In Canada, production and packaging equipment tends to be semi-automated, flexible to operate and relatively low in capital cost. Typical U.S. operations are much larger and employ more sophisticated, highly automated computer-controlled equipment designed for large production runs. Typically, Canadian plants of the multinational companies are more versatile and less capital intensive because they have been designed primarily to serve the domestic market.

Major materials and supplies which are used in the production of toilet preparations include: essential oils and fragrances, surfactants, alcohols, glycerine, fluorinated halogen hydrocarbons, fatty acids, petroleum jelly, organic acids and their derivatives, organic and inorganic chemicals, refined mineral oils, tallow, containers and other packaging materials. Most of these are readily available in Canada but not necessarily from Canadian production. The more specialized, unique and higher value fragrances, essential oils and fancy containers are imported.

Minister

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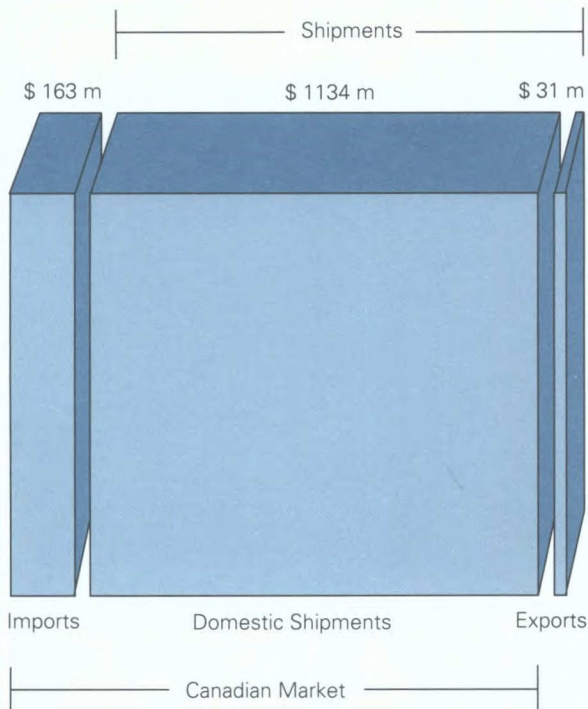
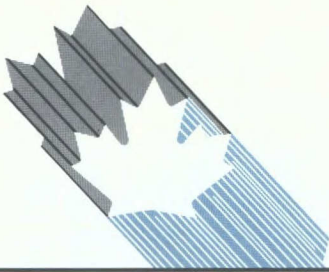
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Technologie Canada





*Imports, Exports and Domestic Shipments  
1986*

Essentially, the Canadian industry consists of two major segments which are distinguished by ownership and nature of activity. The larger segment consists of Canadian subsidiaries of foreign-owned multinationals. These companies produce and market a wide range of products and directly account for more than 75 percent of Canadian shipments. Thirteen of the 14 largest firms operating in Canada are foreign-owned, 11 by American and two by European companies. Avon Canada Inc. is the largest toilet preparations company in Canada (and part of the largest such enterprise in the world). Other manufacturers and brand names such as Revlon Canada Inc., Gillette Canada Inc., Clairol Canada (Bristol-Myers Canada Inc.), Fabergé of Canada Ltd. and Cosmair Canada Inc. are widely known. These Canadian subsidiaries were essentially established to service the Canadian market and, as such, foreign-based affiliates do not compete domestically with the same products.

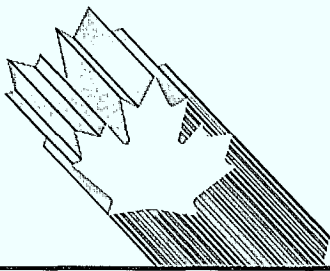
The domestically owned segment of the industry generally consists of relatively small manufacturers, with typical sales of less than \$10 million. These include: firms which produce and market for themselves; firms licensed to manufacture and distribute on behalf of foreign-owned companies; and firms which manufacture on a custom basis, principally for major multinationals. It also includes, to a lesser extent, small Canadian companies that market, but do not manufacture toilet preparations. CCL Industries Inc., a diversified Canadian custom manufacturer which produces a complete range of toilet preparations is an exception, in terms of its large size. Flexible and versatile, domestic manufacturers specialize in smaller production runs primarily because of their relatively wide product range and the lack of high volume, brand-name products.

Industry concentration ratios are 28 percent market share for the top three firms and 76 percent for the top 16 firms. Vertical integration is not significant. Horizontal integration is more prevalent since many toilet preparations companies produce products which are more appropriately classified as pharmaceutical or soap and cleaning products. Likewise, pharmaceutical, soap and cleaning products companies also, in many cases, produce toilet preparations.

By way of comparison, the American toilet preparations industry, with shipments of US\$13.6 billion (1986) is approximately 16 times larger than the Canadian industry. The U.S. industry is highly concentrated — four large firms account for 40 percent of industry shipments.

### Performance

The real average annual growth rate of Canadian shipments has been consistent at 2.3 percent from 1976 to 1981 and two percent from 1981 to 1986. Exports, which accounted for \$5 million or 1.1 percent of shipments in 1976, increased to \$31 million or 2.7 percent of shipments in 1986. Imports, which were \$32 million or seven percent of the Canadian market in 1976, increased to \$163 million or 12.6 percent in 1986. There has been a significant shift in source of imports since 1982. The share of U.S. imports has dropped from 72 percent in 1982 to 52 percent in 1986, while the share of imports from the European Community (E.C.) has increased to 44 percent from 26 percent during the same period. Employment by companies predominantly in the toilet preparations industry increased from 6575 in 1976 to approximately 9000 in 1986. Investment in this sector has been relatively low, ranging from \$25 million to \$35 million per year in the past two years.



The industry's overall financial health is good. After-tax profits as a percentage of sales has averaged about four percent over the five-year period ending 1986. The industry is responding to low growth in unit sales by introducing fewer major new products with high marketing costs. Instead, it is extending existing lines or offering complementary products to build new sales. Brand loyalty is not significant in the toilet preparations industry. Consumers readily change brands if another competitive product is perceived to be of better quality or value.

## 2. Strengths and Weaknesses

### Structural Factors

Key factors influencing the competitiveness of the Canadian toilet preparations industry include scale of production, availability of raw materials, plus transportation, marketing and advertising costs.

The Canadian industry is essentially a branch plant sector oriented to serve the domestic market. Canadian companies typically operate one shift at a single manufacturing facility, regardless of its size.

By contrast, the largest U.S. plants are fully automated in both manufacturing and packaging, using the latest high-speed production and packaging equipment. Some large U.S. firms have a few massive rationalized facilities and up to six distribution centres strategically located across the country. One very large firm has three U.S. facilities, each producing 300 products, compared with 850 produced at its subsidiary's plant in Canada.

The Canadian industry currently has a disadvantage in some input costs. Almost all fragrance ingredients are imported through Canadian subsidiaries of specialty fragrance houses, some of which develop formulations for Canadian clients. For toilet preparations in general, about half of the raw materials are also imported, often in the form of bulk concentrates from the parent organization. Raw materials, on average, represent some 15 to 20 percent of the value of Canadian shipments, and tend to be more expensive due to smaller quantity purchases as well as applicable import tariffs. Packaging materials account for 15 percent of the value of Canadian shipments on average, and are primarily obtained in Canada. Packaging costs to Canadian manufacturers are comparable to those of U.S. manufacturers in terms of percentage of the total production cost.

Transportation costs account for four to five percent of the value of the finished product. This can be important in favouring local production for many low-value, relatively bulky products such as shampoos, conditioners, creams, toothpaste and toilet water. This is not important for high-value products such as perfumes.

For this highly consumer-oriented industry, production, including raw materials and packaging costs, represents some 40 percent of the value of domestic shipments. For recognized brand names, advertising and marketing costs are equal to, if not more important than production and packaging costs in contributing to commercial success. In this context, the small independent Canadian toiletry manufacturer has a disadvantage compared to Canadian subsidiaries of U.S. multinationals. Canadian subsidiaries benefit from the financial strength of the parent company and the spillover effect of advertising promotion in the North American media.

At the same time, there are several major Canadian custom manufacturers which efficiently produce a wide range of products. In fact, some are internationally competitive with U.S. custom manufacturers in aerosol filling and certain specializations. For custom manufacturers, flexibility, versatility and the ability to respond quickly to special orders is more important than the lower costs associated with economies of scale. Custom manufacturers are often asked to manufacture new products until they gain sufficiently wide market acceptance for the multinational companies to start manufacturing. The major market for Canadian custom manufacturers is Canadian subsidiaries of U.S. multinationals.

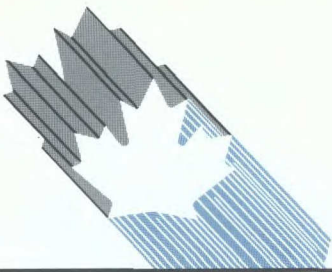
For shampoos, conditioners, creams, toothpaste and toilet water, which are fairly bulky and relatively inexpensive items, transportation costs are an important factor favouring local suppliers. For this reason, some Canadian markets, located closer to U.S. manufacturing plants, would be served better from those plants. Likewise, some Canadian manufacturing plants could benefit by being closer to certain U.S. markets. These opportunities may not be fully realized, however, since Canadian plants tend to be smaller and less cost competitive.

Changes in Canadian consumer demand or the introduction of new competing products require quick reactions and close inventory control. Since Canadian consumers often have different preferences than their American counterparts, foreign companies are encouraged to maintain more than a simple warehousing presence in Canada.

### Trade-related Factors

The existing Canadian tariff is 10 to 12 percent. Tariffs were important in the development of a domestic industry in Canada, and continue to protect the established manufacturing base. Corresponding U.S. tariff rates are currently five percent while corresponding E.C. and Japanese tariffs are six to seven percent and four to eight percent respectively. Competition from less developed countries (LDCs) and newly industrialized countries (NICs) in finished toiletry products is almost non-existent, although many are the source of naturally occurring fragrance essences.





Tariff elimination is the main element of the Canada-U.S. Free Trade Agreement (FTA) affecting toilet preparations. Tariffs on all toilet preparations will be phased out in 10 equal annual reductions, starting January 1, 1989.

The following can be considered impediments or non-tariff barriers (NTBs) to trade, since they could hamper the free movement of goods across the border:

- ingredients approved, restricted or banned in one country, but not in others;
- different manufacturing standards (particularly relevant for medicated toilet preparations);
- labelling requirements (full disclosure);
- language requirements;
- metric statement of net contents;
- transportation restrictions;
- standard package sizes;
- health and safety data requirements for ingredients or medicated products.

### Technological Factors

The technology required for Canadian production, packaging and warehousing needs is freely available from the present equipment manufacturers and does not impede potential entrants to this industry. Generally, Canadian producers cannot justify fully automated, high-volume production equipment because of their limited market and the need to be more versatile, particularly with short runs.

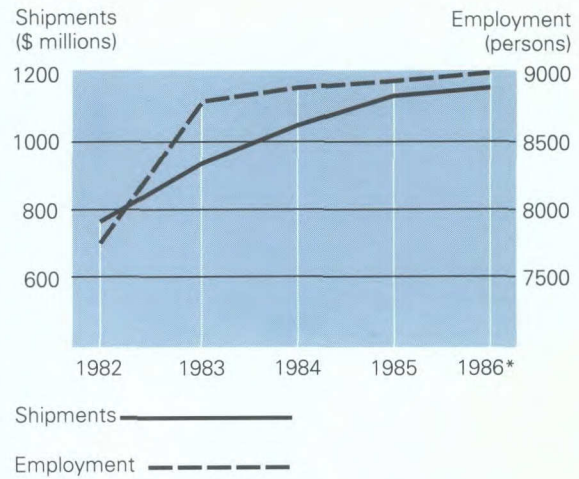
Product formulations are usually developed in research centres of multinational corporations, specialty fragrance houses and in Canada by custom manufacturers to customer specifications. Since subsidiaries can gain access to the formulations of their parents and do not carry out R&D activities in Canada, few, if any unique products or fragrances have been developed in Canada.

Canadian R&D is minimal and not oriented to new fragrance chemistry or compound discovery. Development usually means blending various proportions of standard raw ingredients, modifying a formula to produce a slightly different product, or using different supply sources.

### Other Factors

The *Food and Drugs Act*, administered by Health and Welfare Canada, is one of the most important federal policies to have an impact on the toilet preparations industry.

This act controls the manufacturing, advertising and sale of cosmetics to safeguard the health of the user and to ensure good manufacturing practices. There are also specific requirements regarding the labelling of food, drugs and cosmetics in pressurized (aerosol) containers. Cosmetic regulations of the act specify cautionary labelling, packaging and notification requirements, and prohibit certain materials and advertising claims for cosmetics.



Total Shipments and Employment

\* ISTC estimate

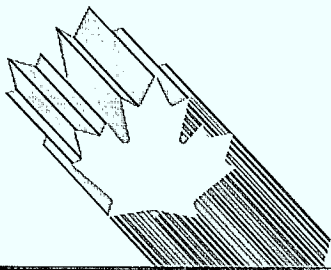
The Workplace Hazardous Materials Information System (WHMIS) of 1988, is a nation-wide system to protect Canadian workers from the adverse effects of hazardous materials. The WHMIS provides relevant information, while minimizing any negative economic impact on industry and the disruption of trade. The system provides cautionary labelling of containers holding hazardous materials, material safety data sheets and worker education programs.

In Canada, manufacturers and formulators of toiletries, cosmetics and fragrances are subject to WHMIS requirements. Industry associations feel that Canadian-based companies, particularly smaller companies, could be adversely affected in their cost competitiveness with imported finished products.

## 3. Evolving Environment

Over the next five years, domestic per capita real growth for toilet preparations is expected to remain modest — two to three percent annually.

This industry is primarily consumer driven. Changing consumer demands, whether influenced by advertising expenditures or not, dictate the success or failure of products. Changing demographics, the increasing number of singles and the growing focus on physical attractiveness will increase demand for new products to meet the needs of mature consumers, who likely have more disposable income than current younger customers. Products expected to enjoy particularly high growth are those which are health oriented or are intended for the mature consumers — skin care products, wrinkle removers and sun protection and tanning products.



The FTA is expected to have different impacts upon the Canadian-owned and U.S.-owned segments of the toilet preparations industry. For Canadian-owned companies which are export-oriented, elimination of U.S. tariffs will mean increased export opportunities.

Increased competition, resulting from the elimination of Canadian tariffs, is likely to hasten the shutdown of older, less cost-efficient plants of Canadian subsidiaries of U.S.-based companies. Some rationalization would also probably occur, as part of the multinational's review of worldwide operations, which could result in termination or scaling down of Canadian operations in favour of U.S. plants. This situation could provide growth opportunities for cost-efficient Canadian-based contract manufacturers to fill the void left by the scaling down of U.S.-owned Canadian-based plants.

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

Many Canadian toilet preparations companies are subsidiaries of U.S. parent organizations or domestic firms manufacturing under licence or holding the distribution rights in Canada for foreign products. These foreign firms generally control the worldwide distribution of their products and are unlikely to give Canadian subsidiaries or agents the right to compete for sales in other markets.

Duty rates for toilet preparations coming into Canada are significantly higher than for products entering the United States. Tariff elimination would therefore offer greater incentive and benefit to U.S. companies to enter the Canadian market, than for Canadian companies to compete in the U.S. market.

Under the FTA, it would be more likely that a U.S. operation, currently geared to supply 250 million persons, would increase production by the extra 10 percent that the Canadian market would represent, than for the Canadian industry to expand to serve the U.S. market. In order for Canadian plants to compete effectively with U.S. plants, large capital investments would be required to increase efficiency and production levels. Some U.S. parent companies may see the elimination of tariffs as a cost-reduction opportunity and Canadian manufacturing operations could either be shut down or reduced. Existing NTBs (such as different labelling requirements) may deter the closing of Canadian manufacturing plants. However, a small number of multinationals could rationalize operations in Canada and the United States so that its Canadian manufacturing operations would supply the eastern Canadian and northeastern U.S. markets, with other Canadian locations being served by U.S. operations.

Currently, many multinationals have found it advantageous to maintain a major presence in Canada, despite the poor production economics for existing plants. This is because of the importance of quick response to changing consumer needs and other marketing, distribution and competition considerations. However, elimination of tariff protection would no doubt cause the multinationals to review their operations, not only in Canada, but also in other markets which might be affected. To remain internationally competitive, some rationalization would no doubt occur.

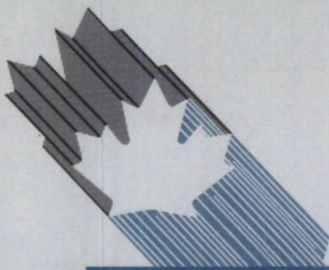
Cost-efficient Canadian-based contract manufacturers could benefit from increased sales due to the scaling down of U.S.-owned Canadian-based plants. However, the Canadian-owned industry would face new challenges since the elimination of tariffs would invite increased exports into Canada from the United States.

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

Resource Processing Industries Branch  
Industry, Science and Technology Canada  
Attention: Toilet Preparations  
235 Queen Street  
Ottawa, Ontario  
K1A 0H5

(613) 954-3077





PRINCIPAL STATISTICS

SIC(s) COVERED: 3771\*

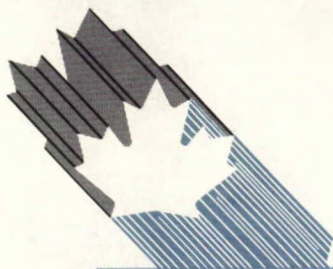
	1973	1982	1983	1984	1985	1986
Establishments (SIC 3771)	62	74	84	88	86	86 <sup>e</sup>
Employment (SIC 3771)	5 744	7 769	8 785	8 900	8 950	9 000 <sup>e</sup>
Shipments (\$ millions)						
SIC 3771 — Toilet preparations	201	652	697	751	878	900 <sup>e</sup>
SIC 3761 — Producing toilet preparations	67	110	225	268	229	240 <sup>e</sup>
SIC 3741 — Producing toilet preparations	30	24	20	25	25	25 <sup>e</sup>
Total	298	786	942	1 044	1 132	1 165 <sup>e</sup>
Gross domestic product (constant 1981 \$ millions)	179	253	310	277	286	289
Investment (\$ millions)	5	14	13	16	25	35
Profits after tax (\$ millions)	13	31	38	31	36	N/A
(% of income)	6	4	4	3	5	N/A

TRADE STATISTICS

	1973	1982	1983	1984	1985	1986
Exports (\$ millions)	2	21	30	31	30	31
Domestic shipments (\$ millions)	296	765	912	1 013	1 102	1 134
Imports (\$ millions)	17	81	99	116	132	163
Canadian market (\$ millions)	313	846	1 011	1 129	1 234	1 297
Exports as % of shipments	1	3	3	3	3	3
Imports as % of domestic market	5	10	10	10	11	13
Source of imports (% of total value)			U.S.	E.C.	Asia	Others
		1982	72	26	1	1
		1983	67	30	1	2
		1984	61	36	1	2
		1985	54	44	1	1
		1986	52	44	2	1
Destination of exports (% of total value)			U.S.	E.C.	Asia	Others
		1982	74	5	3	18
		1983	80	3	2	15
		1984	84	2	3	11
		1985	81	3	2	14
		1986	81	4	2	13

(continued)





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

	Atlantic	Quebec	Ontario	Prairies	B.C.
Establishments — % of total	—	41	52	1	6
Employment — % of total	—	47	52	—	1
Shipments — % of total	—	44	56	—	—

**MAJOR FIRMS**

Name	Ownership	Location of Major Plants
Avon Canada Inc.	American	Montréal, Quebec
Gillette Canada Inc.	American	Montréal, Quebec
CKR Inc. (Colgate-Palmolive)	American	Toronto, Ontario
Warner-Lambert Canada Inc.	American	Toronto, Ontario
CCL Industries Inc.	Canadian	Toronto, Ontario
Cosmair Canada Inc. (L'Oreal)	French	Montréal, Quebec
Revlon Canada Inc.	American	Toronto, Ontario
Kolmar of Canada Limited	American	Barrie, Ontario
Fabergé of Canada Limited	American	Toronto, Ontario
Chesebrough-Ponds Canada Inc.	American	Toronto, Ontario
Beecham Canada Inc. (Yardley)	British	Toronto, Ontario
Bristol-Myers Canada Inc. (Clairol)	American	Knowlton, Ontario
Estée Lauder Cosmetics Limited	American	Toronto, Ontario
Procter & Gamble Inc. (Richardson-Vicks)	American	Toronto, Ontario
Noxell (Canada) Corp.	American	Toronto, Ontario
Johnson & Johnson Inc. (Baby Products)	American	Guelph, Ontario

\* The industry is well-defined statistically, falling primarily within SIC 3771 — Manufacturers of Toilet Preparations, which accounted for 77 percent of manufacturers' shipments. The remaining shipments originate from establishments classified to SIC 3761 — Manufacturers of Soap and Cleaning Compounds (21 percent) and SIC 3741 — Manufacturers of Pharmaceuticals and Medicines (two percent).

<sup>e</sup> ISTC estimate

N/A Not available

**Note:** Statistics Canada data have been used in preparing this profile.



# Regional Offices

## Newfoundland

Parsons Building  
90 O'Leary Avenue  
P.O. Box 8950  
ST. JOHN'S, Newfoundland  
A1B 3R9  
Tel: (709) 772-4053

## Prince Edward Island

Confederation Court Mall  
Suite 400  
134 Kent Street  
P.O. Box 1115  
CHARLOTTETOWN  
Prince Edward Island  
C1A 7M8  
Tel: (902) 566-7400

## Nova Scotia

1496 Lower Water Street  
P.O. Box 940, Station M  
HALIFAX, Nova Scotia  
B3J 2V9  
Tel: (902) 426-2018

## New Brunswick

770 Main Street  
P.O. Box 1210  
MONCTON  
New Brunswick  
E1C 8P9  
Tel: (506) 857-6400

## Quebec

Tour de la Bourse  
P.O. Box 247  
800, place Victoria  
Suite 3800  
MONTRÉAL, Quebec  
H4Z 1E8  
Tel: (514) 283-8185

## Ontario

Dominion Public Building  
4th Floor  
1 Front Street West  
TORONTO, Ontario  
M5J 1A4  
Tel: (416) 973-5000

## Manitoba

330 Portage Avenue  
Room 608  
P.O. Box 981  
WINNIPEG, Manitoba  
R3C 2V2  
Tel: (204) 983-4090

## Saskatchewan

105 - 21st Street East  
6th Floor  
SASKATOON, Saskatchewan  
S7K 0B3  
Tel: (306) 975-4400

## Alberta

Cornerpoint Building  
Suite 505  
10179 - 105th Street  
EDMONTON, Alberta  
T5J 3S3  
Tel: (403) 495-4782

## British Columbia

Scotiã Tower  
9th Floor, Suite 900  
P.O. Box 11610  
650 West Georgia St.  
VANCOUVER, British Columbia  
V6B 5H8  
Tel: (604) 666-0434

## Yukon

108 Lambert Street  
Suite 301  
WHITEHORSE, Yukon  
Y1A 1Z2  
Tel: (403) 668-4655

## Northwest Territories

Precambrian Building  
P.O. Bag 6100  
YELLOWKNIFE  
Northwest Territories  
X1A 1C0  
Tel: (403) 920-8568

*For additional copies of this  
profile contact:*

*Business Centre  
Communications Branch  
Industry, Science and  
Technology Canada  
235 Queen Street  
Ottawa, Ontario  
K1A 0H5*

*Tel: (613) 995-5771*