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

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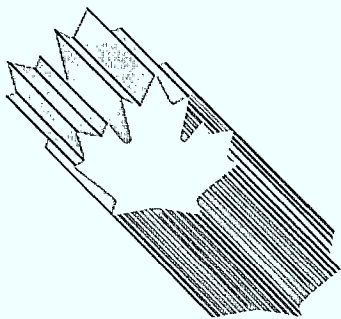


Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada

Wholesale Trade

Canada



INDUSTRY PROFILE WHOLESALE TRADE

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.

Minister

1. Structure and Performance

Structure

The wholesale industry is primarily engaged in buying goods for resale to other businesses in domestic or international markets. Customers fall into two main groups: retailers who in turn resell the goods to consumers; and a wide range of business clients including industrial, commercial, agricultural, institutional or professional businesses which use the goods in their own activities.

Wholesalers are a key link in commercial channels used to distribute goods from producers to the marketplace. They help ensure that other businesses can obtain a large variety of products at the right time and place by buying goods for customers, selling goods for suppliers, assembling and storing shipments, transporting goods, arranging financing and providing advice on various aspects of marketing products in both Canada and abroad. Wholesalers of machinery and equipment may also service, repair, or lease the products they handle.

Wholesalers are classified either as merchants or agent-brokers, with merchants accounting for about 85 percent of total sales. Merchants take ownership of the products they handle, earning income on the difference between the purchase cost and the selling price. Agent-brokers sell goods owned by others on a commission basis. Wholesalers, whether merchants or agent-brokers, usually specialize in a specific group of products such as resource, consumer or industrial.

In 1986, 66 723 wholesale establishments recorded annual sales of \$235 billion and provided employment for 560 000 people, about 4.8 percent of the Canadian labour force. In the same year, the industry's share of real Gross Domestic Product (GDP), in 1981 dollars, was 5.3 percent.

Wholesale businesses are located in all regions of Canada. The distribution of their sales is closely linked to the concentration of population and industry. Ontario is the largest market with about 44 percent of sales¹, followed by Quebec and the Prairies, each with about 21 percent of sales.

Large firms are prominent in many sectors of the wholesale industry. In 1984, almost 60 percent of sales were handled by just over one percent of firms. Eighty-six percent of the firms (annual sales of less than \$2 million) generated only 14 percent of total sales.

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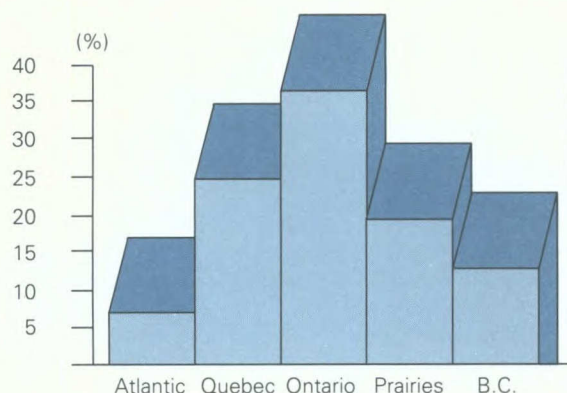
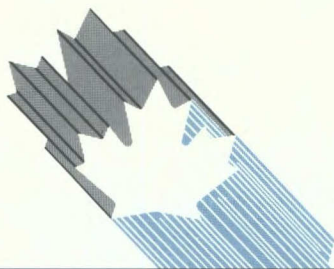
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Employment by Region, 1986

(Total 560 000 persons)

The resource products group is dominated by multi-billion dollar organizations which frequently have direct links to producers. The farm products sector includes producer co-operatives as well as large private companies. Vertically integrated oil companies and some major forest product companies also have extensive wholesale operations. Concentration levels within the lumber sector, however, are significantly lower than those in the other two sectors.

The distribution of sales by major sector (1986) is outlined below:

Sector	1986 Sales (percent)
Resource Products	
Farm Products	12.2
Petroleum Products	11.5
Lumber Products	4.7
Total	28.4
Consumer Products	
Food Products	16.2
Automotive Products	8.1
Hardware & Building Products	5.3
Apparel & Textile Products	3.1
Tobacco & Drug Products	3.0
Furniture & Appliance Products	2.5
Other	2.4
Total	40.6
Industrial Products	
Machinery, Equipment & Supplies	10.8
Electrical, Plumbing & Heating	7.3
Metal Products	4.3
Paper Products	2.0
Other	6.6
Total	31.0

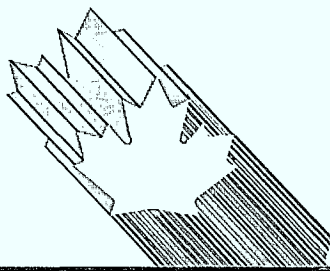
Large organizations are also an important factor in consumer product sectors such as food, drug, automotive, hardware and building products. In general, however, firms in this group have strong links with retailers. For example, it is common for major wholesaling firms to market their products through corporate stores, company-sponsored retail dealerships or franchises, or to be owned by a retail co-operative. Many hardware and building product firms also wholesale to business accounts from these retail outlets. By comparison, in sectors such as apparel, furniture and appliance products, firms are more likely to be involved in handling imports, as sometimes there is little domestic wholesaling of these products.

The main customers of industrial product wholesalers are other businesses. Wholesalers in this sector handle a diverse range of products which must be supported by good product knowledge and service. Consequently, firms generally specialize and concentration levels, for the most part, are relatively low. Large firms do exist, however, in such areas as heavy equipment, farm machinery, electrical, plumbing and heating equipment and paper products. Vertical integration with manufacturing is also evident among some larger firms.

In 1985, foreign-controlled firms accounted for 26 percent of the industry's sales, down from 29 percent in the mid-1970s. This decline is due largely to the acquisition of foreign firms by Canadians, particularly in the petroleum products sector. U.S. firms are significant, generating approximately one-half of foreign sales. In selected sectors the level of foreign ownership is higher, as foreign manufacturers often distribute their products in Canada through subsidiary wholesale operations. Foreign ownership is also more highly concentrated in the merchant segment than in the agent-brokers segment of the industry and is highest in the petroleum, automotive, machinery and equipment, and metal products sectors.

Although wholesale is primarily a domestic industry, international trade is an important factor in a number of sectors. Direct exports by merchants totalled \$19.7 billion in 1985, with farm, petroleum, lumber, paper and metal products being the main exports. In addition, agent-brokers facilitated the movement of an additional \$6.1 billion in exports for other companies, and together this accounted for almost 22 percent of total Canadian exports in that year.

Wholesalers handled 29 percent of Canada's imports in 1985. Direct Canadian imports totalled \$24.2 billion, with an additional \$5.6 billion's worth of goods imported for others on a commission basis. Principal imports consisted of finished goods such as machinery and equipment, motor vehicles, auto accessories and food products.



A significant proportion of the export activity of the wholesale industry is handled by trading houses, which are discussed in a separate industry profile.

Major Canadian wholesalers in sectors such as automotive parts, heavy equipment, food and lumber have established wholesale operations outside Canada. Their principal markets for foreign expansion have been the United States and Great Britain.

Performance

The wholesale industry depends on the health of the economy, international commodity prices, and the rates of growth in employment, income, investment and trade. The industry also exhibits aggregate behaviour that closely follows the cyclical pattern of manufacturing.

Since 1970, the industry has consistently grown more rapidly than the economy as a whole. Annual growth in the wholesale portion of the GDP (in 1981 dollars), averaged 5.1 percent per annum from 1971 to 1980, compared to 3.9 percent for all industries. During the 1981 to 1987 period, growth increased to an annual average of 5.4 percent as opposed to a 3.1 percent average for all of Canadian industry. As a result of this faster growth rate, the wholesale industry's share of the total GDP increased from 4.6 percent in 1982 to 5.6 percent in 1987.

The recession of the early 1980s caused many wholesaling firms to undertake major restructuring programs, shed marginal product lines, close warehouses and reduce staff. Total sales, establishments and employment in 1982 declined by two to three percent from the previous year's levels. The machinery and equipment, metal, electrical, plumbing and heating, and lumber products sectors were most severely affected. The majority of wholesale businesses emerged from the economic downturn with leaner operations. Since 1983, the industry has shown strong growth, with annual sales increases of between eight and 12 percent. These figures exclude farm and petroleum products, however, which, since 1985, have been affected adversely by lower international commodity prices, increased competition, or product supply problems.

As well, total exports have been relatively flat since 1984 because of lower farm and petroleum product exports. Increased exports in other sectors have helped offset these declines. By comparison, imports have increased steadily for consumer and industrial products such as machinery, equipment and metals.

To support its expanded sales, the industry has increased its capital investments significantly after the last recession. Initially, these investments financed machinery and equipment purchases, such as computer information technology, to improve operational efficiency and the quality of customer services. Computerization has improved inventory control and led to higher stock turns. More recently, wholesalers have begun to expand capacity through increased investments in new facilities.

Profitability (profit after tax on equity) in wholesaling is comparable to that of manufacturing. With economic recovery and higher sales volumes, profits had recovered to pre-recession levels by 1985. The industry also made improvements in its financial structure through moderate reductions in its long-term debt. Exceptions again have included the petroleum and farm products sectors.

2. Strengths and Weaknesses

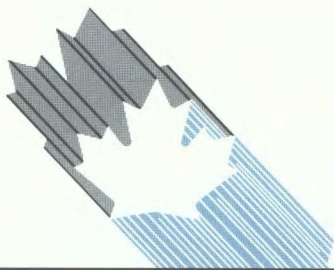
Structural Factors

Key factors that determine the effectiveness of participants in this industry are economies of scale, including the efficiency and effectiveness of operations and distribution networks; links with other industrial sectors; and the ability to meet customer demands regarding price, service, convenience and product.

The operational efficiency of Canadian wholesalers compares favourably with those of other industrialized countries including the United States. A major strength is its large firms, which operate in many sectors, creating the economies of scale and resources necessary to assemble and distribute goods efficiently.

Wholesaling of resource-related products is often a capital-intensive, low-margin business. Economies of scale and integration with producers take on added importance. Without such advantages, grain and petroleum product wholesalers, for example, would face even greater difficulties in dealing with their current problems. Both sectors are rationalizing operations and the number of establishments is declining, particularly in petroleum products. Increased competition is also causing several of the leading grain co-operatives to consider merging to create a stronger structure to compete with multinational grain merchants.

Leading consumer product wholesalers have secured markets and competitive advantages through links with retail dealerships, franchises and co-operatives. To reach such retail markets, suppliers must go through the appropriate wholesaler. This structure appears to have other advantages as well. It combines the entrepreneurial drive of the independent retailer with the economies of scale, buying power and resources of the large wholesaler. Such organizations have been gaining market share, causing a growing number of major retailers to convert corporate stores to franchises, and increase their wholesaling activities. Other wholesalers are extensively involved in importing and use their knowledge of foreign markets and services to compete. Because major retailers have trimmed staff and inventory levels in recent years, they increasingly rely on the expertise of such wholesale companies to handle their import requirements.



Being close to the customer and providing good service are important competitive advantages in industrial goods wholesaling. Frequently, these requirements favour large firms which have the extensive branch networks and buying power to be price-competitive. In less price-sensitive areas, however, many firms compete on their ability to provide good service, their product knowledge and through their distributorship rights. These rights allow them to market a manufacturer's product exclusively in a specified territory.

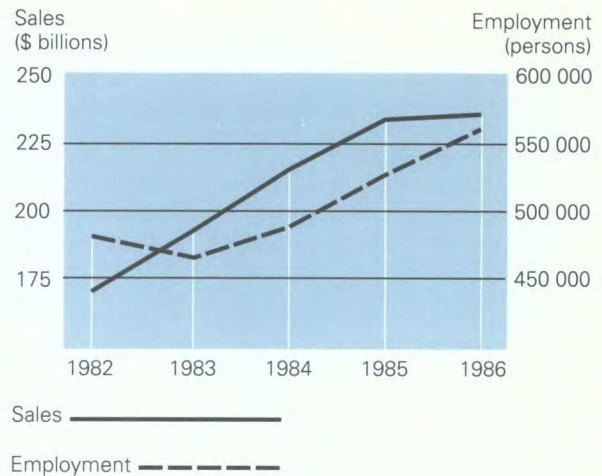
Since the last recession, industrial products wholesalers have expanded their range of goods and services to strengthen their competitive position. Manufacturers of industrial products have also rationalized operations, either by selling their distribution networks or relying more on agents or brokers. As a result, many wholesalers have been able to strengthen their competitive position.

Although many sectors of the wholesale industry are characterized by fairly high entry costs, there are still many areas with relatively low capital requirements. This factor contributes to the large number of small owner-managed businesses. The competitive strength of such firms is their ability to provide specialized services to fill niches in which large firms are not interested. Small wholesalers, however, often experience problems because they lack management expertise and find it difficult to secure financing. These weaknesses make them more vulnerable to economic downturns.

Trade-related Factors

Wholesalers distribute goods between producers and other businesses both domestically and internationally. Therefore, tariffs and non-tariff barriers (NTBs), such as quotas, technical regulations, or government procurement practices can inhibit international trading and expansion. For example, Canadian import restrictions can affect the nature and degree of competition in the domestic wholesale industry by limiting access to foreign sources of supply. Similarly, foreign restrictions on Canadian goods can inhibit exports to other countries, and prevent wholesalers with established foreign facilities from tapping domestic supply sources.

In view of the extensive product range handled by the wholesale industry, the Canada-U.S. Free Trade Agreement (FTA) contains many elements of importance. Of particular significance is the elimination of tariffs over a 10-year period beginning January 1, 1989. This includes tariffs on most agricultural and consumer products handled by wholesalers. Tariffs on many of their industrial products, such as paper, chemicals and most machinery items will be eliminated over the next five years. Indeed, tariffs on some products are to be completely eliminated as of January 1989, and some products, such as farm machinery, are not subject to tariffs at all.

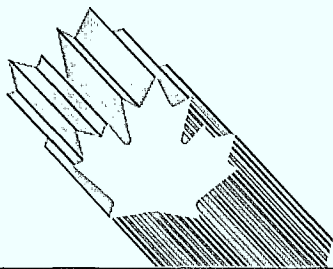


Total Sales and Employment

Other important elements of the FTA include the agreement to accord national treatment to commercial services, including wholesale services, and provisions for easier temporary entry of business persons; enhanced access to the U.S. market for energy products; efforts to make standards-related measures more compatible; and the dispute-settlement mechanism. Secure access to the U.S. market is important for Canadian wholesalers. This is due to the limited size of the Canadian market and recent difficulties that both wholesalers and producers have encountered in exporting products such as lumber, farm products and steel to the United States. In the future, more Canadian wholesalers will look to the United States and other countries for trade and expansion opportunities.

Technological Factors

Wholesaling is an information-intensive business. The amount of data involved — orders, invoices, stock-keeping units, freight bills — is massive. Accordingly, wholesalers have steadily increased their use of computer information technologies to manage their operations better. For example, such technologies have allowed wholesalers to operate with lower inventory and fewer warehouse locations, while improving customer services. The use of these technologies has increased since 1982, as the severity of the 1981 recession emphasized the need for improved efficiency.



A strength of the Canadian wholesale industry has been that large firms in many sectors have the resources necessary to invest in sophisticated computer data processing, communication systems and other innovations. Such systems have helped the industry maintain its competitive position in the market. Declining costs and new technology, however, are making it increasingly practical and economical for smaller wholesale companies to enter the computer age. Nevertheless, there is considerable scope for wholesalers of all sizes to benefit more from existing technologies and to accelerate their use of new applications.

Canadian wholesalers follow U.S. trends in distribution technology closely, and are continuing to mechanize and semi-automate their warehouses. However, there are very few fully automated facilities in Canada, compared to some sectors in the United States and Europe. The high cost, lack of flexibility and requirement for high volumes have deterred their use. However, Canadian warehouse management, inventory control, materials management and communication systems generally compare favourably with those of other countries. Canadian efficiencies in these areas have been stimulated by the need to distribute goods over long distances through multi-facility national or regional distribution systems.

Other Factors

Changes in federal taxation may affect wholesalers. While the initial phase of tax reform lowered corporate tax rates for wholesalers, parallel action to broaden the tax base has neutralized some benefits. Proposed provisions for the more equitable application of the sales tax to imported and domestic goods should help wholesalers of domestic products compete more effectively with wholesalers of imported goods. These provisions are also expected to benefit wholesalers involved in exporting. In addition, Canadian transportation deregulation is expected to provide the industry with opportunities to reduce transportation costs and to improve efficiency.

3. Evolving Environment

As consumer spending and housing construction moderate in the short term, growth in the wholesale industry is expected to slow down. This decline may be partially offset by continued above-average growth in plant and equipment spending, and increased trade activity. In the medium term, growth is expected to be slower and price competition fiercer than in the past five years. However, the wholesale industry will likely continue to outperform overall growth in the economy into the next decade.

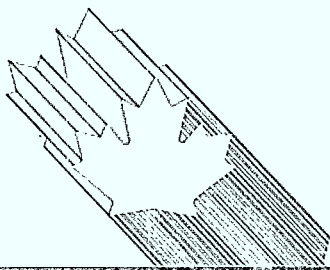
In an environment of slower growth, changing customer requirements and increased competition, wholesalers will develop new channels and services to market their products. In the process, mergers and acquisitions are likely to become more frequent. Increased investment in computer and technology applications will also improve productivity and decision making, as well as provide more and better value-added services. Such investments will require additional capital and thereby favour firms that emphasize productivity to generate higher returns on investment.

Larger companies, therefore, are likely to spend proportionally more on technology which, if applied effectively, could strengthen their competitive position. Mid-sized firms, however, find themselves challenged by small firms on personalized service and flexibility, and by large firms on price, economies of scale and technological resources.

New marketing methods, rapid changes in technology, and more complex financial and organizational issues will require a continual updating of employee skills. Wholesalers successful in developing a well-trained and motivated labour force will gain a competitive advantage.

The elimination of tariffs and other barriers to trade in goods under the FTA will provide both Canadian and American wholesalers with broader North American sourcing opportunities and markets, and may reduce prices somewhat. Different packaging and labelling requirements, product standards and customer needs in both countries will remain — continuing to inhibit prospects for more efficient north-south distribution.

The FTA will likely encourage more Canadian wholesalers to invest in the United States and vice versa. This investment could facilitate the flow of new distribution and marketing techniques and intensify competition. In addition, efficiency improvements in domestic manufacturing may broaden the range of competitive products available to wholesalers for export to the United States and other markets. Some adjustments may be required because of a more competitive environment, but overall, the FTA is expected to increase economic activity in Canada and stimulate sales and employment growth in the wholesale industry.



4. Competitiveness Assessment

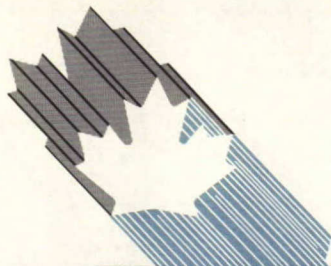
The Canadian wholesale industry is progressive and compares favourably with its counterparts in other countries. Since the 1981 recession it has introduced new technologies and business innovations to improve productivity and customer services. Sectors such as farm and petroleum products are currently experiencing some difficulties, but are rationalizing operations. In general, the industry is financially healthy and able to continue improving its performance.

The FTA will benefit the industry, broadening sources of supply as well as markets, and facilitating the flow of new business innovations and investment. Some adjustments may be required because of a more competitive environment, but overall they will be more than balanced by new growth opportunities.

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

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Attention: Wholesale Trade
235 Queen Street
Ottawa, Ontario
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(613) 954-2987



PRINCIPAL STATISTICS

SIC(s) COVERED: 602 to 629

	1973	1982	1983	1984	1985	1986
Establishments	N/A	54 321	55 320	63 635	64 086	66 723
Employment	356 000	480 000	474 000	489 000	531 000	560 000
Sales (\$ billions)	N/A	172.7	190.1	215.4	231.7	235.2
Gross domestic product (constant 1981 \$ millions)	N/A	14 134.3	15 406.7	16 620.3	18 078.0	19 294.2
(% of total)	N/A	4.6	4.8	4.9	5.1	5.3
Investments (constant 1981 \$ millions)						
Capital	306.8	443.8	543.8	766.9	703.5	696.7
Repair	52.4	98.5	120.8	134.5	119.2	134.5
Profitability (after tax)						
Total income — %	2.2	0.8	1.3	1.7	1.7	N/A
Equity — %	12.0	4.9	7.0	11.5	11.4	N/A
Capital employed — %	10.2	4.1	5.9	9.4	9.5	N/A
Debt						
Long-term debt to equity — %	14.8	18.1	16.6	17.8	16.7	N/A
Productivity						
Sales to inventory (times)	6.7	6.5	6.7	6.8	7.0	N/A

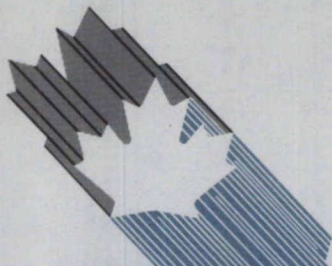
TRADE STATISTICS

	1973	1982	1983	1984	1985	1986
Exports (\$ billions)						
Own account basis	N/A	16.8	18.4	19.8	19.7	N/A
Commission basis	N/A	N/A	3.4	5.2	6.1	N/A
Imports (\$ billions)						
Own account basis	N/A	N/A	15.8	22.6	24.2	N/A
Commission basis	N/A	N/A	2.8	5.2	5.6	N/A

REGIONAL DISTRIBUTION 1986

	Atlantic	Quebec	Ontario	Prairies	B.C.
Establishments — % of total	6.3	24.8	37.7	18.3	12.9
Employment — % of total	7.1	24.8	36.6	19.6	11.9
Sales — % of total	3.9	21.3	43.7	20.7	10.4

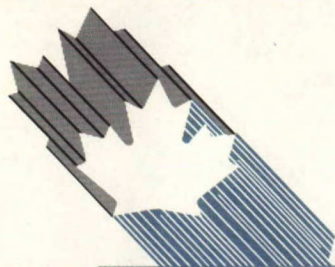
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MAJOR FIRMS¹

The following illustrates largely publicly traded firms engaged in wholesaling in a number of sectors.

Name	Ownership	Location of Major Outlets
RESOURCE PRODUCTS		
<i>Farm products</i>		
Saskatchewan Wheat Pool	Canadian	Saskatchewan
James Richardson & Sons Ltd.	Canadian	Prairies
Co-opérative fédérée de Québec	Canadian	Quebec
Cargill Ltd.	American	Prairies
Alberta Wheat Pool	Canadian	Alberta
<i>Petroleum products</i>		
Imperial Oil Ltd.	American	National
Petro Canada Inc.	Canadian	National
Shell Canada Ltd.	Dutch/British	National
Texaco Canada Ltd.	American	National
<i>Lumber products</i>		
MacMillan Bloedel Limited	Canadian	National
Canfor Corp.	Canadian	National
Weldwood of Canada Limited	American	National
Seaboard Lumber Sales Co.	American/New Zealand	National
Green Forest Lumber Corp.	Canadian	Ontario, Quebec
CONSUMER PRODUCTS		
<i>Food products</i>		
Loblaws Co. Ltd.	Canadian	National
Provigo Inc.	Canadian	National
Oshawa Group Ltd.	Canadian	National
Metro-Richelieu Inc.	Canadian	Quebec
<i>Automotive products</i>		
Canadian Tire Corp.	Canadian	National
Acklands Ltd.	Canadian	National
UAP Inc.	Canadian	National
<i>Hardware & building products</i>		
Beaver Lumber Co. Ltd.	Canadian	National
Groupe Rona Inc.	Canadian	Quebec
Sodisco Inc.	Canadian	National

(continued)



MAJOR FIRMS

Name	Ownership	Location of Major Outlets
CONSUMER PRODUCTS (continued)		
<i>Apparel & textile products</i>		
Monark Import Export Inc.	Canadian	National
Triton Industries Inc.	American	National
Carsilco International Ltd.	Canadian	National
<i>Tobacco & drug products</i>		
Medis Health & Pharmaceutical Services Inc.	Canadian	National
Drug Trading Company Limited	Canadian	National
Davis Distributing Ltd.	Canadian	National
<i>Furniture & appliance products</i>		
Cantrex Groupe Inc.	Canadian	Quebec
Matsushita Electric of Canada Ltd	Japanese	National
Sony of Canada Ltd.	Canadian/Japanese	National
INDUSTRIAL PRODUCTS		
<i>Machinery equipment & supplies</i>		
Finning Ltd.	Canadian	British Columbia, Alberta, Yukon
John Deere Limited	American	National
Wajax Manufacturing Ltd.	Canadian	National
<i>Electrical, plumbing & heating equipment</i>		
United Westburne Inc.	French/Canadian	National
Emco Limited	American/Canadian	National
Guillevin International Inc.	Canadian	Ontario, Quebec, British Columbia, Alberta
<i>Metal products</i>		
Federal Industries Ltd. (Metals Group)	Canadian	National
Premetalco Inc.	British/West German	National
Intermetco Limited	Canadian	National
<i>Paper products</i>		
Barbecon Inc.	Canadian	National
Domtar Inc. — (Distribution Group)	Canadian	National

N/A Not available

1 *Financial Post* 500, Summer 1988.**Note:** Statistics Canada data have been used in preparing this profile.

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