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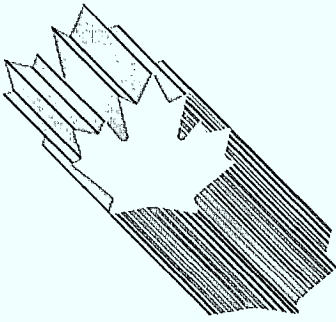


Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada

Fur Apparel

Canada



I N D U S T R Y

P R O F I L E

F U R A P P A R E L

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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

Currently, the fur industry comprises approximately 215 establishments engaged in converting dressed and dyed skins into apparel such as coats, hats, jackets, stoles, etc. It employs an estimated 3000 people and had shipments worth about \$418 million in 1987. It consists largely of small establishments, nearly 70 percent of which have less than \$1 million in annual sales.

The industry is entirely Canadian-controlled and all firms are family-owned. There are few opportunities for mechanization since production operations are characterized by their small scale, labour intensity and high skill requirements. However, production is becoming increasingly concentrated among the larger firms (there were 327 establishments in 1979). Approximately 20 percent of the establishments engaged in the marketing of fur garments now account for about 60 percent of the industry's dollar output.

Historically, Montréal and Toronto have been the major production centres because of their labour supply and geographic proximity to main Canadian and American markets. They account for 71 percent and 22 percent of the industry's total employment respectively.

The production cycle consists of the purchase of furs, dyeing and dressing, matching, cutting, sewing and finishing. Most of the industry's fur skin supplies are bought by producers at auctions. Some companies, however, acquire their raw furs from dealers who, in effect, indirectly finance a firm's purchases. Fur skins originate primarily from the United States, Canada and Europe. An estimated 40 percent of the furs used in apparel is imported.

The dyeing and dressing are performed by specialized companies. The garments are then either assembled by the producer or contracted to other firms who only cut and/or sew and trim. The contracting segment of the industry — which is an integral part of the production process — currently accounts for about half of the establishments and nearly 40 percent of the employment and value of production.

There is extensive manufacturing and retailing integration. An estimated 35 percent of the establishments either have their own retail outlets or sell directly from their own facilities.

The industry's major customers, both at home and abroad, are specialty fur stores and large chain stores, which absorb an estimated 60 percent and 25 percent of the industry's shipments respectively. Since the former tend to be largely small retailers, most manufacturers usually service a broad customer base.

An estimated 60 to 65 percent of production is concentrated in the medium-to-higher end of the fashion market.

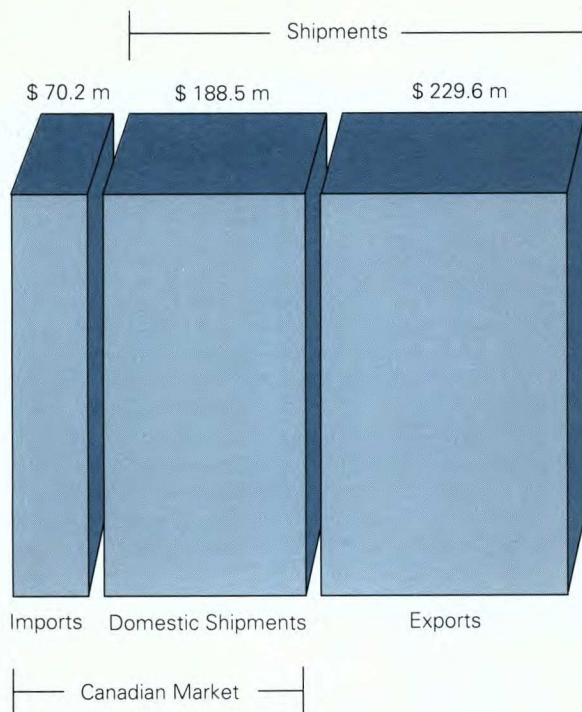
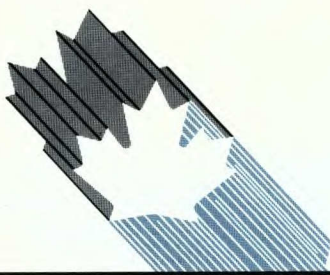
The industry is financially healthy, with relatively high after-tax profits on sales, high return on investment and minimal long-term debt.

Canada



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Imports, Exports and Domestic Shipments 1987

Performance

Since the early 1970s, the industry has been operating in a relatively buoyant and expanding market. Much of the impetus for the industry's growth has been a function of an expanding consumer base both in North America and abroad, due in large part to the greater participation of women in the work force. Also, fur apparel has entered the mainstream of fashion, a development which has also stimulated increased demand.

Between 1973 and 1987 industry shipments (in current dollars) increased by \$316 million, for an annual average growth of nearly 11 percent. The 1984-86 period was one of particularly high growth — shipments rose by 40 percent, accounting for 35 percent of the increase that occurred during the 1973-87 period.

In 1987, however, market growth levelled off, with shipments increasing by an estimated seven percent. As a result, the sales of many companies have increased only marginally. This trend continued in 1988 primarily due to a mild winter and more cautious buying by retailers.

With the exception of 1977, 1980 and 1982, shipments have increased in each successive year, ranging from a high of 23.8 percent in 1978 to a low of 1.5 percent in 1983.

This growth since 1973 was largely attributable to intensified export activity, which accounted for more than 60 percent. The increase in value of shipments was also because manufacturers upgraded the quality and styling of their lines, enabling them to move to higher price points as well as operating at greater capacity.

When downturns occurred, they usually related to short and mild winters, such as the one in 1987-88; recessions, such as that of 1982; and sudden surges in prices, due mainly to price increases of raw skin materials.

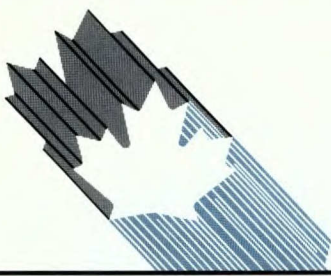
The fur industry is highly export-oriented, with exports accounting for more than 50 percent of total output. The major market is the United States, which accounts for nearly 80 percent of Canadian fur apparel exports and, in 1987, absorbed \$179 million worth of Canadian furs. Other markets are western Europe, where Canada accounted for 3.6 percent of fur apparel imports, and Japan, which imports from Canada 11 percent of the furs that it sources from developed countries.

Until the early 1980s, western Europe had been the domestic industry's major export market. However, between 1981 and 1985 the share of Canadian exports to this region declined steadily, due to the emergence of a vocal "anti-fur" movement; unfavourable exchange rates; increased competitive pressures from Hong Kong and the Republic of Korea; and an increased focus by the Canadian industry on the U.S. market.

Beginning in 1985, exports to western Europe began to climb again, slowly but gradually, increasing by \$12.4 million — or 47 percent — in 1987 (to reach a total of \$39 million). In 1987, growth in exports to Europe exceeded the increase to the United States.

Despite some initial gains, the industry has not been very successful in penetrating the Japanese market — the world's third largest. The major impediments include different sizing, high selling expenses, high tariffs, and the intense competition from other countries, principally the Republic of Korea, Hong Kong, the United States and the Federal Republic of Germany (F.R.G.). The latter two countries are generally the Canadian industry's major competitors in this market.

Since 1982, Canadian imports have been growing rapidly, largely because of a growing fur manufacturing base in several of the low-cost countries — particularly the Republic of Korea and Hong Kong — and the intensified importing activity of a number of large manufacturers to diversify or complement their existing product lines. It is estimated that the manufacturers themselves currently account for 60 to 65 percent of imports.



Although imports have increased their market share from seven percent in 1982 to 27 percent in 1987, imports have not had a significant impact on domestic production. The imports have been concentrated in the lower end of the market, which is being vacated by domestic producers. Nevertheless, imports are becoming a concern as low-cost suppliers gradually upgrade their product quality.

There has been only minimal investment in plant modernization or new equipment in the Canadian industry. Most of the existing facilities and equipment — much of which is aging — still remain serviceable and adequate. Generally, there has not been any incentive for the industry to invest in technology, largely because there have been no significant advances in this field. Although fur apparel production has a high labour content, labour costs represent only 15 percent of production costs. The costs of material inputs, however, are high.

2. Strengths and Weaknesses

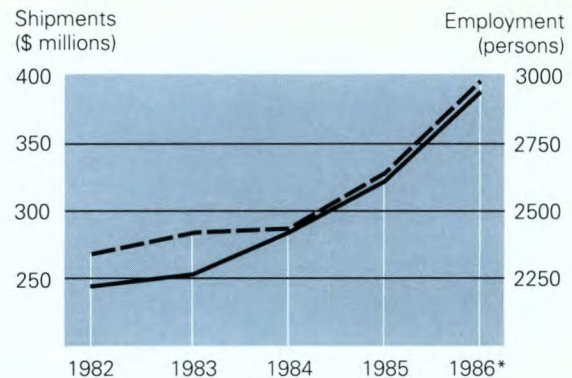
Structural Factors

Over the years, the Canadian industry has earned a reputation for its product variety, quality and styling, management acumen and aggressive marketing. While Canada has historically been noted for its fur garments, fur manufacturers have invested considerable money, effort and time to promote international awareness of their unique styles and high-quality products. Generally, designer names can have an intrinsic value in providing manufacturers with an added competitive edge in the marketplace. Many manufacturers have in-house stylists or designers and actively promote designer names. Today, the industry appears to be well entrenched in the medium-to-upper end of the world's fashion market, which is generally considered to be profitable, stable and less sensitive to price fluctuations.

The industry has excellent export marketing know-how and experience. It also has the advantages of effective marketing strategies and structured organizations, high visibility, and excellent promotional literature in *Canada Fur Industry Guide*. There is also a well-established and world-famous trade show in Canada which has provided the industry with an ideal vehicle to exhibit its products.

Behind the industry's success is its flexibility in responding rapidly to fashion changes and its ability to capitalize on new market opportunities and be price competitive. As well, many companies are considered leaders in fashion innovation.

The industry also has the financial resources and capability to expand its markets. As export initiatives are usually extremely costly, considerable financial resources are required to sustain momentum in the development of global markets.



Shipments —————
Employment - - - - -

Total Shipments and Employment

*ISTC estimate

Although the majority of the companies are financially sound, a growing number are beginning to experience difficulty in maintaining their profit position. A decline in the rate of growth of demand has resulted in intensified competition and led to a price-cost squeeze.

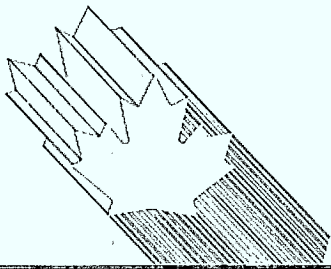
The industry is labour intensive and depends on a ready supply of skilled workers. Historically, companies developed this supply through on-the-job, in-house training. While labour training costs have risen, there has been a recent decrease in labour demand because some manufacturers have downsized their production operations and shifted to importing.

Canadian manufacturers rely largely on domestic dressers and dyers to service most of their needs. However, the lack of Canadian capability in certain processes and specialized techniques requires that these operations be performed in the United States or Europe.

However, Canadian firms have lower labour costs than European or U.S. companies, and thus enjoy some competitive advantage. On the other hand, Canadian furriers' wage costs are considerably higher than in Hong Kong and the Republic of Korea.

To a large extent, successful exporting depends on foreign exchange rates. Until 1988, the weak Canadian dollar was a major impetus for Canadian export to the United States. However, the recent strengthening of the Canadian dollar has contributed to a levelling off of the export growth rate to the United States.

Conversely, the industry's European prospects have been considerably enhanced because of the favourable Canadian exchange rate situation with most of Europe.



Overall, the industry is considered largely competitive with European and American producers in terms of styling, quality and diversity — three of the major determinants of demand — which has helped neutralize any cost disadvantages.

Since fur garment manufacturing worldwide tends to be a small-scale operation (that is, each garment is produced individually and usually in limited quantities), company size is not normally a major factor in providing firms with a competitive edge.

Trade-related Factors

In general, customs tariffs on Canadian fur apparel are not considered to be significant impediments to trade. Canadian furs entering the principal markets of the United States and European Community (E.C.) encounter rates of duty of 5.8 percent and six percent respectively. In Japan, where the rate is set, on average, at 20 percent, half-a-dozen Canadian companies have been able to penetrate this important market successfully. Canada's relatively low tariff rate of 12.3 percent on most fur apparel items is not considered an impediment to entry.

Since all customs tariffs relating to fur products between Canada and the United States are to be lifted on January 1, 1989, under the Canada-U.S. Free Trade Agreement (FTA), there will likely be an incentive for more companies to export and for established exporters to expand their export volume further. Furs are exempt from the special rules of origin for textiles and apparel, so this will not inhibit trade in fur garments with the United States.

The only significant global obstacle limiting trade opportunities is the labelling regulations being proposed by European parliament. This would require that fur products bear labels advising consumers that the animals may have been caught in leg-hold traps. Restrictions also exist on the Canadian export of garments made of skins of certain endangered species.

Technological Factors

Since the production of fur garments in Canada tends to be a small-scale and highly specialized operation with a broad and diversified product mix, there are limited opportunities for mechanization. With the exception of advances being made to simplify sewing, technology continues to be relatively basic and unsophisticated. Most of the technical improvements that have occurred have been largely in-house developments.

3. Evolving Environment

The recent past has witnessed an explosive rate of growth in world demand for fur garments but there is evidence that the markets of major industrial nations peaked in 1986-87 and have since levelled off. Over the medium term, only modest growth is projected. On the other hand, there has been a solid build-up of production capacity in many parts of the world, including several low-cost countries. As these countries are expected to continue increasing their involvement in fur garment production, improving their manufacturing know-how and upgrading their styling capabilities, there will likely be a shift from a sellers' market to a buyers' market in the world fur trade.

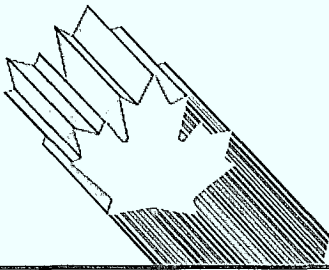
The United States will continue to be Canada's major market, but will likely diminish in importance as more emphasis is directed to European and Japanese markets. The FTA will make it easier to sell to the United States and encourage more Canadian manufacturers to explore the feasibility of penetrating that market. It should also encourage established exporting firms to intensify their efforts. However, as competition from U.S. and other foreign companies increases, Canadian companies will have to devote more of their resources to marketing.

Assuming that the more favourable exchange rate continues, it is anticipated that Canadian manufacturers will re-establish themselves in the European market. It is also projected that there will be greater opportunities in Japan for a few selected manufacturers with the resources, products and appropriate designer identification.

Over the next few years, the companies with the highest growth potential are those that will be active in "global" marketing. The Canadian market is not expected to grow appreciably, so firms which remain domestically oriented will probably experience only relatively modest growth, and be vulnerable to dislocation from both imports and other Canadian competitors.

While technological innovations which will revolutionize the manufacturing process are unlikely, there will probably be some modest advances due to the introduction of computers in production activities such as computer-aided design and matching, and some mechanization in sewing. However, these developments are not expected to increase productivity significantly in the foreseeable future.

If current trends continue, there will be more extensive importing by manufacturers to diversify their product base and increase their profitability.



4. Competitiveness Assessment

Overall, the Canadian industry has the image, resources, capacity, experience and products to maintain its world market position. Over the years, through extensive promotion and marketing, the industry has firmly established itself in the medium-to-higher end of the market. It may be susceptible to greater competitive pressures in the future. However, its demonstrated ability to be innovative and adaptable to world trends in fashion, to be price competitive and to capitalize on emerging market opportunities, will ensure that Canadian producers will remain a major force in the world market.

The industry will also benefit from a more liberalized trading environment with the United States. Prospects in Europe should also improve, due to a favourable exchange rate and the initiatives by the industry to counteract the adverse animal rights publicity. The well-established annual Montréal Fur Fair will continue to promote Canadian fur companies internationally.

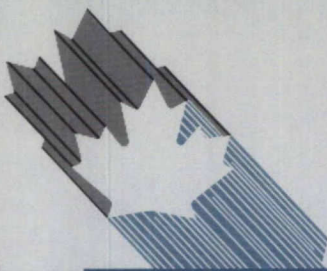
Equally important is the fact that Canadian furriers are prepared to devote more resources to develop unexploited potential markets such as the F.R.G., Sweden, Italy and Japan.

The industry will benefit from the FTA as it will likely enable producers to maintain their market position in the United States where, in 1987 and 1988, the growth rates started to level off. With the agreement, the prospects of sustaining the growth achieved between 1982 and 1986 are considerably enhanced.

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

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PRINCIPAL STATISTICS

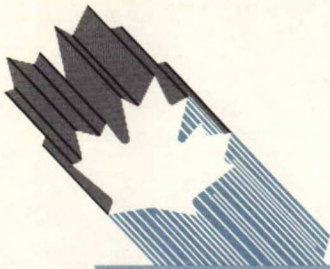
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	1973	1982	1983	1984	1985	1986	1987
Establishments	338	N/A	266	272	243	N/A	215 ^e
Employment	2 525	2 333	2 423	2 437	2 640	2 989 ^e	N/A
Shipments (\$ millions)	101.7	247.2	251.0	280.2	321.7	390.4 ^e	418.1 ^e
Profits after tax (\$ millions)	2.4	6.6	8.7	13.2	N/A	N/A	N/A
(% of sales)	2.4	2.7	3.5	4.7	N/A	N/A	N/A

TRADE STATISTICS

	1973	1982	1983	1984	1985	1986	1987
Exports (\$ millions)	29.7	111.6	99.3	141.0	160.0	207.7	229.6
Domestic shipments (\$ millions)	72.0	135.6	151.7	139.2	161.7	182.7	188.5
Imports (\$ millions)	1.9	9.7	12.2	19.9	26.3	41.6	70.2
Canadian market (\$ millions)	73.9	145.3	163.9	159.1	188.0	224.3	258.7
Exports as % of shipments	29	45	40	50	50	53	54
Imports as % of Canadian market	3	7	7	13	14	18	27
Source of imports (% of total value)			U.S.	Western Europe*	Asia	Others	
		1982	14	18 (14)	63	5	
		1983	20	16 (11)	63	2	
		1984	9	27 (21)	62	2	
		1985	11	32 (28)	56	2	
		1986	6	34 (31)	59	1	
		1987	4	26 (25)	69	1	
Destination of exports (% of total value)			U.S.	Western Europe*	Japan	Others	
		1982	41	48 (27)	9	2	
		1983	59	31 (19)	8	2	
		1984	76	16 (8)	6	2	
		1985	83	11 (5)	3	2	
		1986	82	13 (7)	4	1	
		1987	78	17 (9)	4	1	

(continued)

**REGIONAL DISTRIBUTION — Average over 4 years (1982-85)**

	Atlantic	Quebec	Ontario	Prairies	B.C.
Establishments — % of total	1	67	28	2	2
Employment — % of total	X	70	23	X	X
Shipments — % of total	X	79	18	X	X

MAJOR FIRMS

Name	Ownership	Location of Major Plants
D.H. Grosvenor Inc.	Canadian	Montréal, Quebec
Amsel & Amsel 1962 Inc.	Canadian	Montréal, Quebec
Yarrow Fur Inc.	Canadian	Montréal, Quebec
Natural Furs Canada Inc.	Canadian	Montréal, Quebec
Einhorn W. Furs Limited	Canadian	Toronto, Ontario

e ISTC estimate

X Confidential

* Includes the United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Luxembourg, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

() European Community (E.C.) portion

N/A Not available

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

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