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

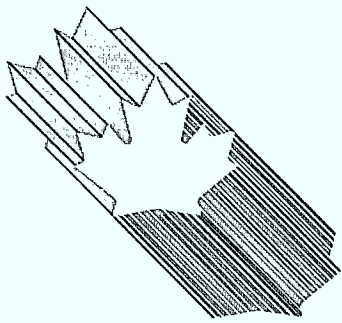
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 Industry, Science and  
Technology Canada    Industrie, Sciences et  
Technologie Canada

**Office Furniture**

Canada



I N D U S T R Y DEPARTMENT OF REGIONAL  
INDUSTRIAL EXPANSION  
**P R O F I L E**

**OFFICE FURNITURE** OCT 04 1988

1988

BIBLIOTHEQUE  
MINISTERE DE L'EXPANSION  
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**FOREWORD**



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

Canadian furniture manufacturing comprises three industries: household, office and other furniture. The household furniture industry accounts for 42 percent of total furniture shipments; office for 26 percent; and "other" for 32 percent. The latter includes manufacturers of bed springs and mattresses, hotel, restaurant and institutional furniture, picture and mirror frames and furniture frames and components. A separate Industry Profile has been prepared on the household furniture industry.

**1. Structure and Performance**

**Structure**

The Canadian office furniture manufacturing industry includes establishments engaged in the production of metal, wood and other office furniture. In total, the industry ships products worth approximately one billion dollars annually, and employs 10 500 persons.

Metal office furniture products consisting mainly of desks, chairs and filing equipment currently account for 55 percent of the industry's shipments; screens and panel systems for about 25 percent; and wood and other office furniture for 20 percent. Purchasers of these products are mainly corporations, institutions and governments. Demand depends upon new commercial construction, retrofitting and large-scale replacements.

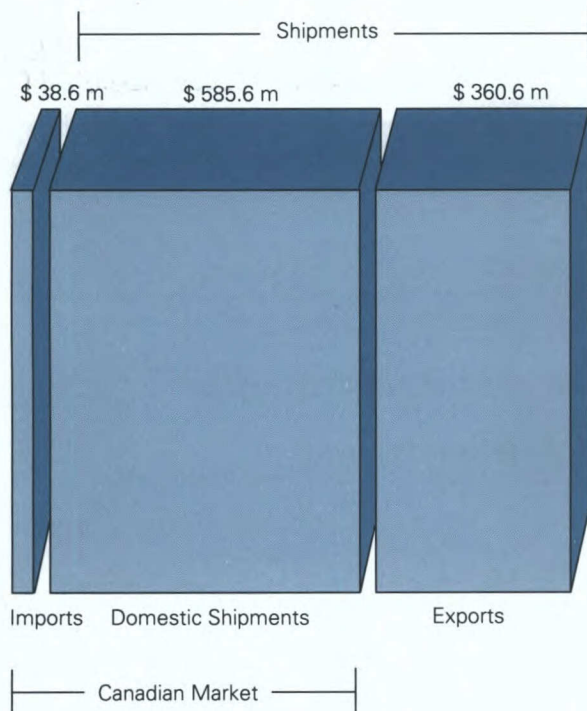
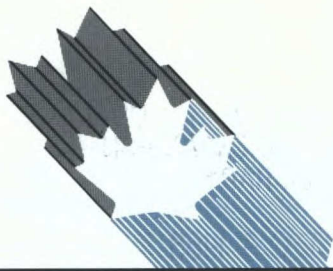
Exports play a significant role and in 1986 amounted to \$361 million or 38 percent of factory shipments. The United States is the main export market, absorbing 95 percent of Canadian office furniture exports.

Imports of \$39 million satisfy about six percent of the domestic market and are mainly from the United States (68 percent) and Europe (27 percent). The balance of trade with the United States in office furniture products is \$318 million in Canada's favour.

The bulk of office furniture manufacturers can be classified in the small-to medium-sized category. In 1986, of an estimated 170 establishments, about 44 percent employed less than 20 workers and accounted for about five percent of shipments. Thirty-eight percent had from 20 to 100 employees and accounted for 25 percent of shipments. The remaining 18 percent employed more than 100 and accounted for 70 percent of shipments. Of the latter, about 15 establishments employed more than 200.

An estimated 90 percent of the establishments are Canadian-owned, accounting for approximately 70 percent of total shipments. A number of the large U.S. office furniture manufacturers operate subsidiaries in Canada which produce for both the domestic and export markets. Some of the more successful Canadian-owned companies have established plants in the United States.

The provinces of Quebec and Ontario have traditionally supplied the bulk of office furniture, with 75 percent of production from Ontario and 20 percent from Quebec. The remaining five percent is mainly from Alberta. Most of the industry is located in metropolitan areas.



*Imports, Exports and Domestic Shipments  
1986*

The preponderance of small- to medium-sized companies that make up the Canadian industry is also a characteristic of the industry of other developed countries. The American metal and wood office furniture industries have annual shipments of about six billion dollars (U.S.) generated at more than 500 establishments. These industries, nevertheless, have a greater number of large plants than the Canadian industries, and the largest plants are much larger than any in Canada. In wood office furniture, each of the five largest U.S. manufacturing plants employs more than 500 persons; together, they account for 20 percent of shipments. In metal office furniture, each of the largest six plants employs more than 1000; they account for 39 percent of shipments.

Most office furniture is sold by tender and contract to furnish new office space or to upgrade existing office areas of corporations, institutions, professionals and governments. Architects and interior designers, acting on behalf of the ultimate purchaser, play a key role in the selection of products. A close working relationship between purchasers or their representatives and manufacturers is thus very important in the marketing of office furniture. Products and manufacturers' capabilities are given exposure through permanent showrooms in recognized market or design centres, annual design shows and visits to plant showrooms and production facilities.

Office furniture is also marketed through retail outlets. In these cases, price is a more significant factor; selection might be either from floor samples or catalogues.

### Performance

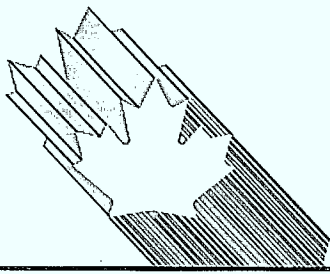
Between 1973 and 1981, demand for office furniture products was strong in both the United States and Canada. In real terms, this growth averaged between five and six percent in both countries. To a large extent, it was due to a high level of commercial construction, a trend to new office systems and space planning to replace traditional desks, chairs and fixed partitions, and an increase in the proportion of white-collar jobs in the economies of both countries.

The strong growth was interrupted during the recession of 1982 as the rate of new commercial construction was reduced. However, recovery was rapid and in spite of the recession, real growth in Canadian demand averaged 5.9 percent per year from 1980 to 1986. The U.S. market experienced similar increases.

Shipments of office furniture by Canadian manufacturers totalled \$124 million in 1973 and increased to \$497 million in 1981, for a real average annual growth of 8.5 percent. This growth rate continued to 1986 when shipments reached \$946 million. Canadian exports of furniture, which stood at only \$18 million in 1973, also increased substantially during the period and by 1986 stood at \$361 million. This represents an increase from 15 percent of shipments to 38 percent.

The growth in exports of office furniture has been due almost entirely to increased sales of Canadian products in the United States. The portion of exports destined for U.S. markets has held firm at between 93 and 95 percent during the past 15 years.

Imports of office furniture have been consistently less than 10 percent of the market. Products from the United States have regularly accounted for the major portion of imports although this share has steadily decreased from 87 percent in 1983 to 68 percent in 1986. Despite the reduction in the import share, the presence of U.S. manufacturing subsidiaries in Canada ensures that products of U.S. design or with recognizable American trade names are well represented in Canada. Imports from Europe have increased from 12 percent of the total in 1983 to 27 percent in 1986. Imports from Asia, although increasing by four percentage points of total imports between 1983 and 1986, represent less than five percent of the total and are therefore not a significant factor to date. The growth in the portion of imports from Europe and the decrease in the portion of shipments from the United States occurred as changes in European and North American currency exchange rates between 1982 and 1985 made the prices of European goods more attractive.



In spite of increases in activity in the sector since 1971, the structure of the industry has not changed appreciably. For example, the portion of shipments produced by firms employing less than 20 persons has remained the same, while the share of those employing more than 100 has decreased minimally. The average shipment per establishment expressed in 1981 dollars was \$3.4 million in 1971 and \$4.1 million in 1985.

The industry is normally profitable but it suffered a loss equal to one-half of one percent of income in 1983. Profits after tax in 1982 were equal to three percent of income and in 1985, 4.5 percent. This is comparable to the industry in the United States where Dun & Bradstreet reports median after-tax profits for the 12-month period ending July 1987 of three percent for metal office furniture and 4.6 percent for wood. During the past five-year period ending in 1986, capital expenditures averaged about three percent of shipments, as compared to about six percent for all of Canadian manufacturing.

## 2. Strengths and Weaknesses

### Structural Factors

Office furniture products tend to serve a contract market where new designs, quality and the ability to meet customer specifications are a more important consideration than in the consumer market where price can be the major factor. Thus, a close relationship between the buyer or the buyer's representative and the potential seller is important to the process of selecting suitable office furniture products. Price can be a more important factor in the retail market segment, or with products for general use where design considerations are less important.

The past 10 to 15 years have seen a pronounced transition from the use of traditional desks and work areas in offices to office systems consisting of acoustical screens, panels, panel components and associated work surfaces. Canadian manufacturers were quick to concentrate their capabilities in this direction. By stressing design, quality and customer service and exhibiting their products to specifiers and potential users, they have not only continued to be the dominant force in the domestic market, but have also achieved considerable success throughout the U.S. market. A number of Canadian-made office systems enjoy a continent-wide reputation for design and performance. Office furniture products made in the United States, by contrast, tend to be more competitive in market segments where products are more standardized and price is a major consideration.

In both the United States and Canada, material and labour are the major inputs in the manufacturing process, representing from 65 to 70 percent of the value of shipments. Wages and salaries alone represent about 25 percent of shipments in both countries. When the Canadian dollar is equal in value to 75 to 80 cents in terms of the U.S. dollar, labour rates and material prices in Canada are generally about equal to those in the United States. However, the larger plants that make up the U.S. industry and the larger domestic market they serve have enabled American firms to exploit economies of scale with longer production runs and more automated equipment. These plants are, for the most part, more technologically advanced than Canadian plants.

### Trade-related Factors

Office furniture imported into Canada is classified according to the chief component material. The Most Favoured Nation (MFN) tariff for metal furniture (that is, metal is its major value-contributing component) is 12.5 percent; for other furniture, including wood, it is 15 percent. The corresponding General Preferential rates are eight percent and ten percent.

The rates of duty imposed on Canadian furniture entering the United States range between two and seven percent. For example, the rate for wood furniture (other than chairs, of wood) is 2.5 percent; for furniture of textile materials, it is seven percent.

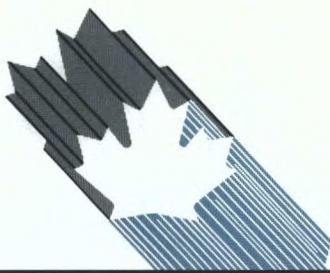
The European Community (E.C.) MFN tariff rate for furniture and parts is 5.7 percent, while the Japanese rate is 3.8 percent.

Tariffs on raw materials imported into Canada are dutiable at varying rates: wood and lumber (not further-manufactured) are generally free; the MFN rate for particleboard is six percent; the levy on furniture parts is at the same rate as the product; the rate for most hardware is 10.2 percent, while for upholstery fabrics, the rate most generally applicable is 25 percent.

Non-tariff barriers are not a significant factor in the international furniture products trade.

Under the Canada-U.S. Free Trade Agreement (FTA) all tariffs on finished furniture and parts are to be phased out in five equal annual steps, with the first taking place on January 1, 1989. The tariffs on most of the input materials used by the industry, including textile materials and hardware, will be phased out over a ten-year period.

There could be a further delay in the tariff concessions on particleboard used in furniture manufacturing. This could result from a condition of the FTA pertaining to the approval of the use of U.S.-manufactured C-D grade plywood in Canadian housing financed through the Canada Mortgage and Housing Corporation. Although particleboard is available from Canadian sources, its price is normally equal to that of U.S. particleboard landed duty-paid in Canada.



Furniture will qualify under the rules-of-origin chapter of the FTA if offshore raw materials or components have been sufficiently transformed to be classified as furniture, and if 50 percent or more of the manufacturing costs are incurred in either or both countries.

Finally, the FTA lowers the threshold above which government purchases are to be open to competition from the other country's suppliers to US\$25 000 from US\$171 000. This applies to all the types of government purchases that are currently subject to the *GATT Code on Government Procurement*.

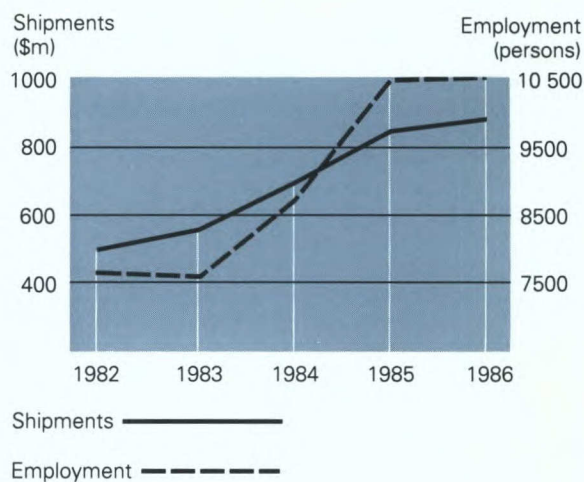
### Technological Factors

Manufacturing technology has been traditional; advances have been mainly in the speed and precision of new machines.

Modern machinery and equipment are available to the industry from anywhere in the world. Only larger factories, however, have a level of production high enough to benefit from the large investment required for most high-capacity automated machinery. The labour productivity of the sector has improved during the past three years, but it remains one of the more labour-intensive sectors, particularly in the fitting and finishing stages of wood office furniture manufacturing.

While a number of firms in Canada tend to retain traditional equipment, others have acquired more advanced and sophisticated technologies, such as computerized panel cutout saws and routers, etc. Over the past few years, several newly constructed factories have been equipped with the latest in machinery. Metal desk and filing equipment manufacturers use standardized shearing and stamping machinery. Baked-on electrostatic powder finishes, while not universal, are being employed on a more extensive scale and are replacing traditional spray methods. Systems furniture manufacturers tend to employ the most recent equipment innovations.

Canadian manufacturers are recognizing that modern manufacturing systems or processes incorporating new technologies and equipment offer a means of increasing productivity and efficiency without the prerequisite of long production runs and a narrow product range. These systems include computer-aided design/computer-aided manufacturing (CAD/CAM) as well as computer-integrated manufacturing (CIM) and are available in various degrees of refinement to Canadian manufacturers. The wider use of these systems by the industry would require a considerable increase in capital investment and could be difficult for some firms to undertake.



### Total Shipments and Employment\*

\* Employment data for 1986 are estimated

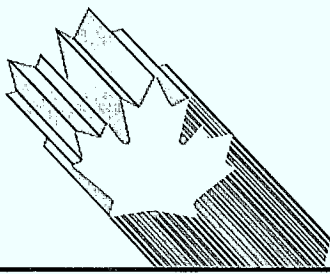
### Other Factors

World currency exchange rates have a significant bearing on foreign trade in office furniture. Import pressures experienced by Canadian manufacturers from the United States were greatest during the mid-seventies when the value of the Canadian dollar was high. Imports from Europe also increased their share of total Canadian imports during the 1982 to 1985 period as North American currencies strengthened against European currencies.

## 3. Evolving Environment

A general expansion of business and a forecast increase in the number of white-collar workers are expected to result in continuing growth in the demand for office furniture. In addition, the trend towards the use of systems furniture is expected to continue and will increase industry sales as installed conventional furniture and first-generation systems are replaced or upgraded. However, overall the market growth rate in real terms is expected to be somewhat lower than that experienced in the 1970s and early 1980s, when the trend towards systems furniture was at a peak. The trends in the U.S. office furniture market are expected to be similar to those in the Canadian market.

The growth of single-purpose or conventional office furniture sales will probably slow down. With most systems furniture now being made of metal, that sector will capture an increasing share of the growing market. Wood furniture will likely lose ground for general office purposes, partly because it is less durable and scratch-resistant than metal. On the other hand, wood has a warm, attractive appearance and will continue to be preferred for executive office suites.



The development of office furniture to accommodate the use of computers and other electronic equipment with relatively short life spans requires a manufacturer to have the flexibility to adapt to the new generations of equipment. A close working relationship with the makers of office automation equipment as well as with furniture users, will keep office furniture manufacturers abreast of needs and new developments and provide them with crucial input for the design and marketing of their furniture. The Canadian industry's competitiveness at home and in export markets will, in large part, continue to depend on such relationships.

With the phasing out of tariffs under the FTA, there will be increased opportunities for Canadian products in the United States, as well as for U.S. products in the Canadian market. These opportunities for Canadian firms will likely continue mainly for products in which design, quality and service are important considerations. For U.S. firms, the opportunities will be more widespread in all product categories as a result of the elimination of Canadian tariffs in the range of 12.5 to 15 percent.

Although Canadian manufacturers already have reasonable access to the U.S. market, the freer trading conditions under the FTA may be an additional incentive for them to make stronger commitments to that market. In addition, there may be opportunities for sales to the U.S. public sector because a greater number of American government purchases will be open to competition under the FTA.

American manufacturers will require little adjustment to take advantage of new opportunities in the Canadian private and public sector markets. They will also have an added advantage: Canadian office furniture manufacturers will be subjected to tariffs on most input materials from the United States for ten years while U.S. producers will be able to export their finished products duty-free after five years. This will be most evident in the case of textile fabrics. It is not expected that the rules-of-origin of the FTA will constrain Canadian or U.S. manufacturers from taking advantage of the new trading opportunities.

The need to improve productivity to meet increased competition from the United States will encourage Canadian manufacturers to accelerate the adoption of new technologies and advanced manufacturing systems that permit a degree of automation, but do not limit the production flexibility required to meet their customers' design specifications and quantity requirements. In turn, this should improve the ability of the Canadian industry to further exploit opportunities in the U.S. market.

While imports from the United States may increase, with some potential gain in market share, there will also be increases in Canadian exports to the United States. In the medium term, there are not expected to be significant changes in the structure of production in Canada. In the longer term, with continuing gains in productivity, Canadian firms may become more competitive in a wider range of product categories.

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

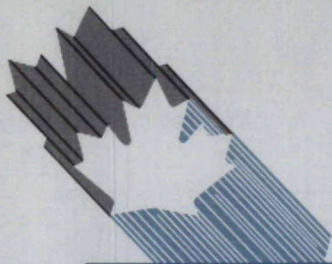
With existing tariff protection, Canadian office furniture manufacturers dominate the domestic market. At the same time, several companies have been very successful in developing significant sales for a wide variety of well-designed, high-quality products in the U.S. market, particularly where price is not the major consideration. Their continent-wide reputation for design, quality and service and well-executed marketing strategies have been the principal reasons for their export success. Canadian manufacturers are generally less competitive than U.S. producers in market segments where price considerations are relatively more important.

Overall, the FTA will have a mixed impact, including increased competition in a wide range of products in the Canadian market and, at the same time, increased exports to the United States in particular market niches. In the longer term, productivity improvement resulting from accelerated adjustment will result in an industry that is more competitive in some product categories where, at present, Canadian firms are less competitive than U.S. firms.

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

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Attention: Office Furniture  
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Ottawa, Ontario  
K1A 0H5

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**PRINCIPAL STATISTICS**

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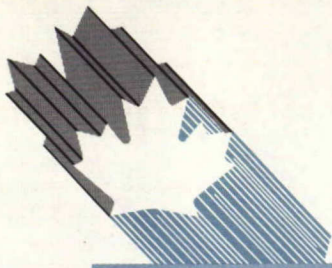
	1973	1982	1983	1984	1985	1986
Establishments	72	145	172	168	168	170 E
Employment	5 030	7 640	7 583	8 795	10 498	10 500 E
Shipments (\$ millions)	123.8	517.1	550.3	700.6	845.6	946.1
Shipments (constant 1981 \$ millions)	257.9	469.0	489.2	592.2	679.2	717.3
Investment (\$ millions)		14.9	8.0	14.5	37.4	31.0
Profits after tax (% of income)		3.0	-0.5	4.2	4.5	N.A.

E denotes estimate

**TRADE STATISTICS**

	1973	1982	1983	1984	1985	1986
Exports (\$ millions)	18.3	166.3	203.9	270.9	300.4	360.6
Domestic shipments (\$ millions)	105.5	350.8	346.4	429.7	545.2	585.6
Imports (\$ millions)	7.7	24.4	25.4	33.7	37.4	38.6
Canadian market (\$ millions)	113.2	375.2	371.8	463.4	582.6	624.1
Exports as % of shipments	14.8	32.2	37.1	38.7	35.5	38.1
Imports as % of domestic market	6.8	6.5	6.8	7.3	6.4	6.2
Source of imports (% of total value)			U.S.	Europe	Asia	Others
		1983	87	12	1	—
		1984	82	15	2	1
		1985	73	24	2	1
		1986	68	27	5	—
Destination of exports (% of total value)			U.S.	Europe	Asia	Others
		1983	95	1	—	4
		1984	93	—	1	6
		1985	95	—	1	4
		1986	95	3	—	2

(continued)

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

	Atlantic	Quebec	Ontario	Western Canada
Establishments - % of total	—	24	61	15
Employment - % of total	—	24	70	6
Shipments - % of total	—	20	75	5

**MAJOR FIRMS**

Name	Ownership	Location of Major Plants
Artopex Inc.	Canadian	Quebec
Bilrite Nightingale Inc.	Canadian	Quebec, Ontario
Croydon Furniture Systems Inc.	Canadian	Quebec, Ontario
Steelcase Canada Limited	American	Ontario
SunarHauserman Ltd.	American	Quebec, Ontario



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