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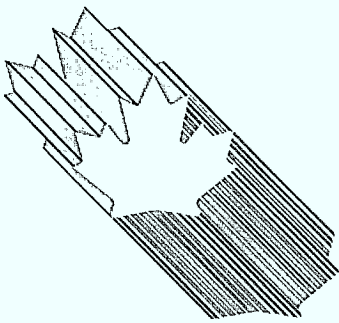


Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada

Small Portable Electrical Appliances

Canada



INDUSTRY PROFILE

SMALL PORTABLE ELECTRICAL APPLIANCES

1988

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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

Products manufactured in Canada by the small portable electrical appliances sector include electric kettles, fry pans, can openers, mixers, kitchen centres/food processors, popcorn poppers, skillets, toaster ovens, griddles, toasters, blenders, dehydrators, espresso/cappuccino makers, carpet stain removers, waffle makers, woks, deep fryers, crock pots, coffee makers, stick brooms and vacuum cleaners. In all of these products, the use of plastics, in a variety of colours, has become very prominent.

The sector consists of 10 manufacturers, most of which employ around 150 persons. Six of the 10 (Iona Appliances Inc., Creative Appliances Corporation Ltd., Wesston Appliances Inc., Toastess Inc., T.R.E. Incorporated and Filter Queen Ltd.) are Canadian-owned, while the remaining four (Black & Decker Canada Inc., Sunbeam Corporation Canada Ltd., Euroclean Canada Inc. and Hoover Canada Inc.) are foreign-owned. Toastess Inc. is the only Quebec-based manufacturer; the others are in Ontario.

The sales of the 10 manufacturers account for 68 percent of the total domestic market, but this figure is deceptive since a portion of these sales are imports complementing products manufactured in Canada. Such imports include juice extractors, food grinders, food slicers, coffee grinders, egg cookers, irons, hair dryers and curlers. All of the above products are imported in varying quantities by the 10 companies. Forty-four percent of the \$975 million Canadian market in 1986 was supplied by domestic shipments worth \$425 million, with the remaining 56 percent supplied by imports from the United States and Asia. Of total shipments of \$490 million, 13 percent was exported. Some export penetration has been achieved in the United Kingdom, and a substantial breakthrough has been made in Japan. The Caribbean has always been a modest market for Canadian small appliances. The major export market, however, continues to be the United States.

The North American small portable electrical appliances market is supplied from two different sources, each concentrating on a specific type of appliance. Kettles, fry pans, etc., are supplied primarily by Canadian and American manufacturers and account for approximately 30 percent of the market, while personal care products, which change constantly, come mostly from the United States and Asia.

Performance

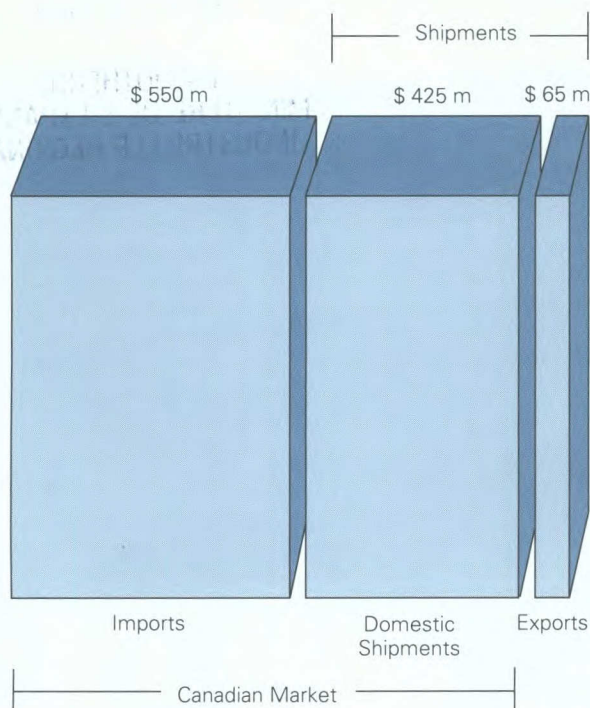
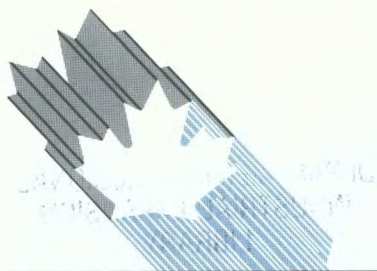
This is a highly competitive, mature industry. Quality and price are the determining factors of success in the marketplace, although there is a high degree of loyalty to national brand names. Greater competition has increased emphasis on quality, with the result of longer life cycles and a slower replacement market for many products.

Canada



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Imports, Exports and Domestic Shipments*
1986

*These statistics are not completely representative of the small electrical appliances sector as defined in this profile. See note (1) on page 2 of the data sheet.

This industry sector is generally performing well despite severe competition from imports. After-tax profit as a percentage of sales ranges from two percent to eight percent. Stiff competition keeps prices low. Improved production techniques and efficiencies, and the decision of the Canadian industry to specialize in mainline products and to leave the cosmetically designed products, which change constantly, to Asian and United States producers should improve this picture. A concerted drive has been made to terminate unprofitable lines, with make-or-buy decisions a priority. Ten years ago, the ratio of manufactured to imported goods was approximately 70:30. Today, the figures have just about reversed, the exception being some small, private manufacturers who have a 95:5 ratio of manufactured to imported goods. Generally, though, the industry has consolidated and is now restructuring. The average research and development (R&D) expenditure is 1.3 percent of sales and relates mostly to mainline products. Almost all R&D is performed in Canada.

To be competitive, manufacturers require skillful plant loading and precise inventory control. Excellent management has turned Canadian manufacturing facilities into competitive operations, and a moderate increase in sales is forecast for 1988, continuing the trend of the past three years. Canada and the United States have somewhat similar appliances and electrical standards, so that most of the trade in this product area has been on a bilateral basis. Efforts are now being made to penetrate the European market and some satisfactory results have already been experienced.

Major retail chains play a dominant role in the Canadian market, accounting for 65 percent of domestic sales. However, unlike other products where this strength is used to give pre-eminence to their own brand names, one finds that the chains sell a variety of national brand names. This policy strengthens the base for national brand manufacturers, although they are always vulnerable to the decisions of the chain stores which can decide at any moment to switch to offshore sources whenever a better price is available. Canadian manufacturers must also contend with the sporadic flooding of the market by cheap, imported, non-CSA-approved products from Asia which are frequently distributed and sold before being detected.

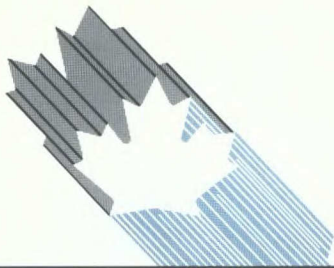
The financial status of most firms in this sector is generally sound. The average debt/equity ratio for the sector is 2:5; profit after taxes on sales was 2.1 percent in 1986 and profit on assets was 3.4 percent.

2. Strengths and Weaknesses

Structural Factors

The 10 firms in this sector owe their success to concentrating their efforts on the manufacture of mainline products. Quality is high and brand loyalty strong. Good management and aggressive export policies are helping the industry to maintain a competitive edge, thus the existing market share commanded by Canadian manufacturers should remain firm or even increase.

The industry has become more capital intensive, with emphasis on plastic moulding equipment. Modern production equipment has decreased the labour content; where labour is intensive, efficient assembly-line techniques are employed. Plants are becoming more and more vertically integrated in the interest of quality control and assured component delivery. Canadian product content is approximately 85 percent. All of these efficiencies are augmented by a concerted product rationalization program. Labour-management relations have historically been good.



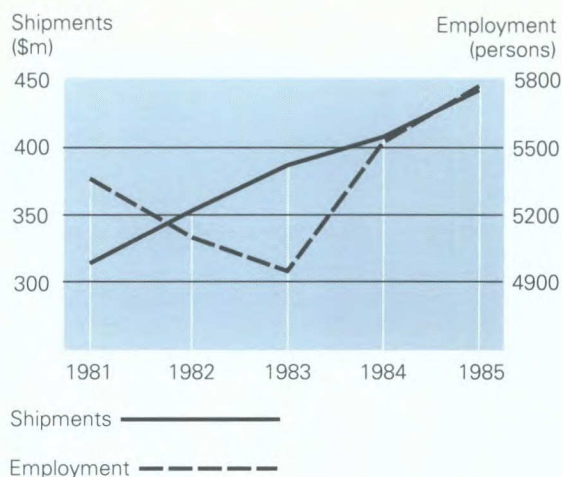
Imports held about 56 percent of the \$975-million domestic market in 1986. By far the largest proportion of imports originate in the United States, followed by Hong Kong, Japan and the Republic of Korea. In recent years, large retailers like Sears and the Bay have begun to buy some of their brand-name lines from Asia. Since these large merchandisers purchase 65 percent of Canadian production, the industry is in a vulnerable position. Retailers have begun to practise tight inventory control, which challenges manufacturers to manage their inventories and production processes better.

Exports, as a proportion of shipments, have risen to 13 percent in 1986. Generally low tariffs worldwide do not unduly restrict exports and there are no real non-tariff barriers (NTBs), although sometimes efforts are made to use electrical standards as such. Transportation costs do not inhibit trade because of the small size and light weight of portable appliances.

A very successful approach to exporting has been a kitting program for completely knocked down products (CKDs), under which components and sub-assemblies are shipped, usually to a developing country, where the final assembly, packing and shipping are completed. There is also some evidence of interest in the cross-certification of electrical standards. Cross-certification has already been achieved for some products with Japan. The harmonization of U.S. and Canadian electrical standards has been under discussion for several years and would facilitate bilateral trade.

The cosmetic, fashion-influenced products are supplied by the United States and offshore manufacturers. New cordless appliances are now appearing, and receiving good market acceptance. In spite of its maturity, moderate profits and slow growth, the personal care sub-sector has always been a target for foreign manufacturers. Because of the products' size and weight, freight is a negligible consideration, and since imports generally are inferior in quality to Canadian-made products, market access is achieved through price.

Canadian subsidiaries of foreign parents concentrate their activities on the production and sale of mainline products and on new products that act as sales leaders. R&D activity undertaken in Canada is directed entirely towards the development of these types of products. Complementing these activities are products developed by the parent firm that are sometimes given to the subsidiary at the lower-volume, lower-profit stage of their life cycle. On occasion, there is also a north/south product rationalization within a firm and, in these circumstances, it is frequently a low-volume product that is assigned to the Canadian branch plant. When a similar product is made by the branch plant and the parent firm, the branch plant sometimes finds itself constrained in its export activities.



Total Shipments and Employment*

* These statistics are not completely representative of the small electrical appliance sector as defined in this profile. See note (1) on page 2 of the data sheet.

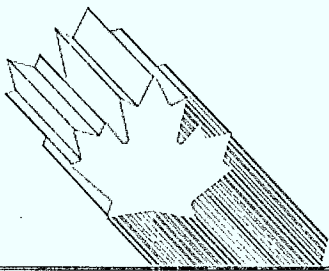
This industry is making reasonable investments in capital equipment in an effort to improve its competitive position. However, American manufacturers, because of their larger volume and low-cost, single-product lines and more-sophisticated, flexible production equipment, always pose a threat to this industry, as do manufacturers from Asia where labour rates are lower. In marketing, there appears to be a tendency in the Canadian industry towards selling to fewer but larger accounts in order to reduce distribution costs.

Trade-related Factors

The Canadian tariff on small appliances is approximately 12.5 percent, while the corresponding American tariff is 5.3 percent. Those tariffs will be phased out over 10 years under the Canada-U.S. Free Trade Agreement (FTA). The tariffs levied by the European Community (E.C.) and Japan are between four and five percent. Australia levies a tariff of 35 percent.

U.S. and Canadian standards are similar and present no major impediment to trade between the two countries. European standards differ substantially from those in Canada and the problem is compounded by the lack of uniform European standards. Canadian manufacturers have also experienced difficulties in the United Kingdom because of its complicated certification process.

Tariffs, NTBs, subsidies and countervail should not be a serious problem under the FTA. Rules of origin and dispute-settlement mechanisms will be particularly relevant for this sector. The 10-year phase-in of the FTA is crucial to this industry and will give the more aggressive manufacturers time to adjust and defend their present market share.



Technological Factors

This is not a high-tech industry. Thus technology is not a dominant factor in product design, although one company is using computer-aided design and manufacturing systems very effectively. The latest technology in motor manufacture is being employed and process technology is receiving more attention.

Other Factors

This sector is particularly sensitive to changes in exchange rates. A significant strengthening of the Canadian dollar would have a negative impact on exports. Canadian manufacturers are also disadvantaged by the application of the Canadian sales tax; imports are taxed on the duty-paid value while Canadian manufacturers are taxed on their selling price, which is normally higher, since it includes marketing and distribution costs.

3. Evolving Environment

The consolidation of Canadian manufacturers has largely been accomplished. The industry is mature and well entrenched and it enjoys a great deal of brand-name loyalty. Progressive management is challenging imports by continuing to concentrate on mainline products. Exports are gradually increasing, especially to the United States.

Middle-aged and older customers are the largest purchasers of small, portable electrical appliances. Since this is a growing segment of the population, the demographics augur well for this industry.

4. Competitiveness Assessment

In general, the FTA will have a positive impact on this sector. In the case of subsidiaries, the effect will depend upon the degree of product rationalization. While some companies may decide to act essentially as warehouse and sales outlets, aggressive market penetration in a North American arena should result in improved performance.

In the case of Canadian-owned companies, most have made capital investments, concentrated on mainline products such as kettles, fry pans, griddles, etc., established quality images, and have actively sought out export markets. Consequently, this group is operating from a position of strength and should prosper.

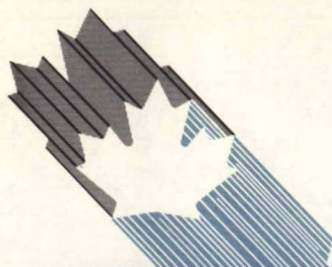
The Canadian portable electrical appliances component industry competes in the manufacture of certain specialized components, such as probes and controls for fry pans, etc., where it is highly competitive and is expected to remain so in the future.

On balance, this industry is well entrenched, aggressive, well managed, and should retain its present share of the domestic market, while increasing penetration in the United States and Europe.

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

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PRINCIPAL STATISTICS

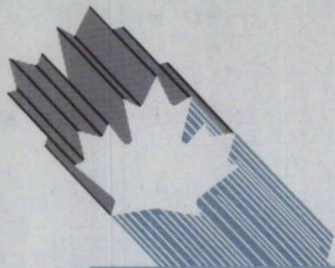
SIC(s) COVERED: 3311

	1971	1980	1981	1982	1983	1984	1985	1986
Establishments	55	62	63	62	62	58	57	N/A
Employment	5 594	5 167	5 368	5 137	4 939	5 513	5 786	N/A
Shipments (\$ millions)	144	307	322	352	378	418	445	490
Gross domestic product (constant 1981 \$ millions)	124.0	185.9	202.0	203.1	221.3	230.6	241.8	259.8
Investment (\$ millions)	3.9	12.0	3.6	11.7	11.6	10.2	9.7	18.8
Profits after tax: (\$ millions)	3.0	29.4	13.9	19.5	15.0	10.2	12.1	N/A
(% of shipments)	2.1	9.6	4.3	5.5	4.0	2.4	2.7	

TRADE STATISTICS

	1971	1980	1981	1982	1983	1984	1985	1986
Exports (\$ millions)	4	20	27	25	29	36	43	65
Re-exports (\$ millions)	1	3	5	4	4	5	5	6
Domestic shipments (\$ millions)	140	287	295	327	349	382	402	425
Imports (\$ millions)	63	315	380	334	388	472	518	550
Canadian market (\$ millions)	203	602	675	661	737	854	920	975
Exports as % of shipments	3	7	8	7	8	9	10	13
Imports as % of domestic market	31	52	56	51	53	55	56	56
Source of imports (% of total value)			U.S.	Hong Kong	Japan	S. Korea	Others	
	1982	69		11	4	3	13	
	1983	66		10	5	4	15	
	1984	62		9	6	5	18	
	1985	60		8	6	4	21	
	1986	59		8	5	5	23	
Destination of exports (% of total value)			U.S.	U.K.	Japan	Australia	Others	
	1982	72	10	—		3	15	
	1983	76	9	—		3	12	
	1984	83	5	—		2	10	
	1985	85	4	2		2	7	
	1986	84	3	4		1	8	

(continued)

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

	Quebec	Ontario	Prairies & B.C.
Establishments — % of total	10	90	—
Employment — % of total	22	78	—
Shipments — % of total	14	86	—

MAJOR FIRMS

Name	Ownership	Location of Major Plants
Black & Decker Canada Inc.	American	Brockville, Ontario
Sunbeam Corporation Canada Ltd.	American	Toronto, Ontario
Iona Appliances Inc.	Canadian	Welland, Ontario
Creative Appliances Corporation Ltd.	Canadian	Downsview, Ontario
Wesston Appliances Inc.	Canadian	Markham, Ontario
Toastess Inc.	Canadian	Pointe-Claire, Quebec
Hoover Canada Inc.	American	Burlington, Ontario
Euroclean Canada Inc.	Swedish	Cambridge, Ontario
T.R.E. Incorporated	Canadian	Welland, Ontario
Filter Queen Ltd.	Canadian	Rexdale, Ontario

Notes: (1) Since SIC 3311 includes portable electric heaters, water tank heaters, humidifiers, dehumidifiers, heating elements, floor polishers and sanders, circulating fans and other miscellaneous items not considered as portable electrical appliances, the statistics presented here are not completely representative of the small electrical appliance sector as defined for the purposes of this profile.

(2) Countries for which trade data are presented represent major points of destination (exports) and origin (imports).

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