Fur Apparel

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Canada

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

1990–1991

FUR APPAREL

FOREWORD

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.

Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990–1991 series represents an updating and revision of the series published in 1988–1989. The Government will continue to update the series on a regular basis.

Michael Wilson

Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade

Structure and Performance

Structure

The fur apparel industry is made up of firms engaged in converting dressed and dyed skins into apparel such as coats, hats, jackets and stoles. Mink, beaver and sheared beaver products represent an estimated two-thirds of the value of Canadian production. Muskrat, fox, raccoon, coyote and a number of other fur types make up the balance.

In 1989, the Canadian fur apparel industry employed 2 039 people in some 242 establishments. Shipments were worth about $277 million (Figure 1). Exports of fur garments exceeded $121 million, while imports were worth about $87 million.

The industry is entirely Canadian-controlled and all firms are family-owned. Most firms are small: 87 percent of firms employ fewer than 20 people and 97 percent employ under 50. The average annual value of shipments for firms employing fewer than 50 people is about $1 million. However, production is highly concentrated among a few large firms; in 1988, the most recent year for which Statistics Canada data are available at the time of writing, some 12 percent of establishments accounted for about 43 percent of the industry's dollar output.

Montreal and Toronto are the major production centres because of their labour supply and geographic proximity to main Canadian and American markets. According to recent estimates, these cities account for approximately 75 percent and 20 percent, respectively, of the industry's total employment.

The production cycle consists of the purchase of furs, dyeing and dressing, designing, matching, cutting, sewing and finishing. Most of the industry's fur skin supplies are

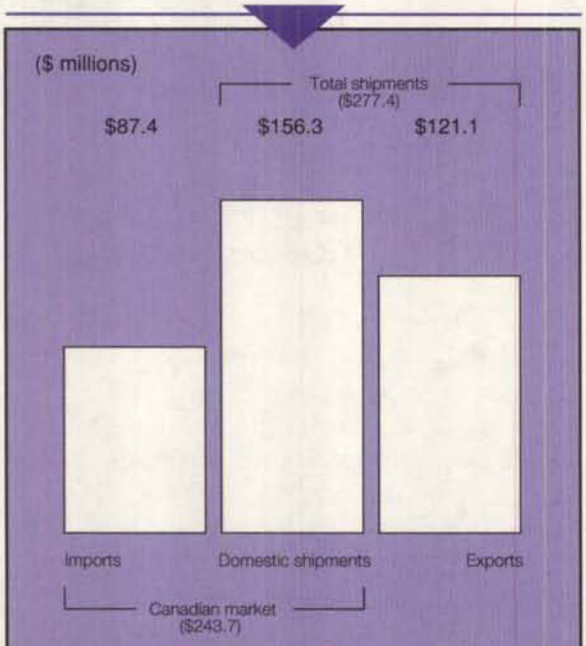

Figure 1 — Imports, Exports and Domestic Shipments, 1989

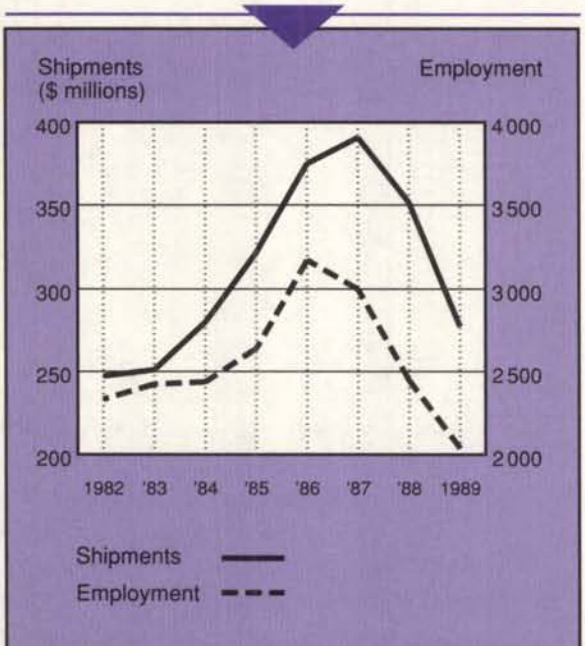

Figure 2 — Total Shipments and Employment

bought by producers at auctions. Some companies, however, acquire their raw furs from dealers who may finance a firm's purchases by offering credit terms of up to a year. An estimated 40 percent of the furs used in apparel in Canada are imported, primarily from the United States and Europe.

The dyeing and dressing are carried out 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 is estimated to account for two-thirds of the establishments. An estimated 60 to 65 percent of production is concentrated in the medium to higher end of the fur-fashion market.

The industry's major customers, both in Canada and in the United States, are independent fur stores and chain stores. In Canada, these retailers absorb an estimated 37 percent and 28 percent, respectively, of the industry's domestic shipments. Sales of fur apparel in department stores have decreased in recent years. Given the preponderance of small retailers, most manufacturers serve a broad customer base. In addition, a number of producers operate their own retail outlets or sell directly from their own manufacturing facilities.

Performance

From the early 1970s until 1987, the industry operated in a relatively buoyant and expanding market. Between 1983 and 1987, industry shipments increased by $139.8 million, for an annual average growth rate (in current dollars) of nearly 12 percent (Figure 2). Much of the stimulus for the market's growth was the expanding consumer base, both in Canada and abroad. This expansion was due largely to increased demand brought about by the greater participation of women in the work force, along with their achievement of greater financial independence at a younger age. Fur apparel also entered the mainstream of fashion. More casual fur garment styles were offered to the consumer. Fur was also used in other applications, such as lining cloth coats or in combination with leather or fabric.

This period of growth was followed by declines in total industry shipments in both 1988 and 1989. In constant 1981 dollars, total industry shipments in 1989 were $216.2 million, the lowest level of the decade.

Domestic shipments, however, experienced relatively little change during this period (Figure 3). In constant 1981 dollars, the value of domestic shipments did not rise significantly above the 1983 post-recession level during the buoyant years of the mid-1980s. Nor did it decline greatly towards the close of the decade, despite the reduction in the number of establishments in the Canadian fur industry between 1986 and 1989 (from 291 to 242).

The Canadian fur apparel industry is highly export-oriented. Intensified export activity accounted for about 70 percent of the growth in industry shipments from the

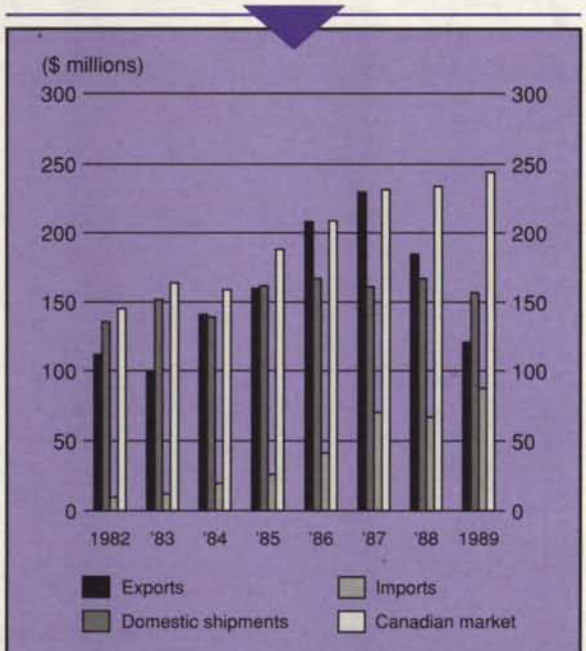

Figure 3 — Fur Apparel Market

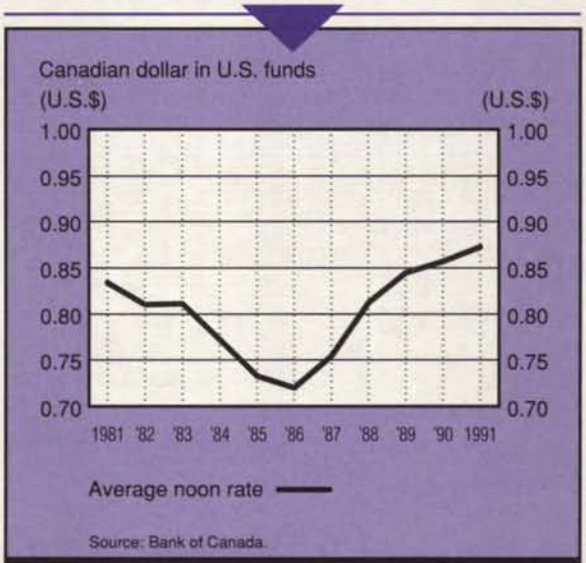

Figure 4 — Canadian–U.S. Exchange Rates

mid-1970s to the mid-1980s. Between 1984 and 1987, exports accounted for 50 to 59 percent of total industry output. The increase in the value of shipments in those years was also attributable to manufacturers' efforts to upgrade the quality and styling of their lines. Major export markets were the United States, Western Europe and Japan.

Decreases in the value of exports were the principal reason for the decline in total industry shipments in 1988 and 1989. In 1989, exports almost returned to their 1983 level of 40 percent of total industry shipments. In constant 1981 dollars, exports in 1989 represented the second lowest level of the 1980s.

The primary reason for the downturn was the worldwide overproduction of fur pelts following the optimistic market conditions of the mid-1980s. Consequently, pelt prices, which can represent over 65 percent of manufacturing costs, fell dramatically, especially for mink. For example, the average value paid to ranchers of mink in Canada fell from $47.67 a pelt in the 1986–1987 fur season to $24.58 in 1988–1989, a drop of 48 percent. Lower mink pelt prices resulted in lower-priced apparel products for that fur, bringing substantial financial losses for manufacturers who held inventories of higher-priced mink pelts when they were forced to reduce prices and thus slash margins.

Consumer demand has also been affected by a series of milder winters in the late 1980s, particularly in Europe. Active animal rights movements, which have sought to discourage fur apparel purchases, have had an impact on markets in the United Kingdom and the Netherlands. At the same time, the increased array of outerwear products available to consumers has had an impact upon the sale of fur products by increasing the potential for product substitution. Consumers now can choose from alternative products such as synthetic furs, fashionable down-filled coats and coats lined with new lightweight synthetic fibres.

General economic instability also contributed to fluctuations in export shipments. Because fur apparel has been widely perceived to be a luxury good, overall consumer demand for fur products, especially in the higher price range, fell dramatically after the October 1987 crash of world stock markets. The weak economic conditions that prevailed in Canada in 1990 and 1991 also affected the United States, thus extending the downturn in export performance.

The industry has expressed concern about the relatively higher value of the Canadian dollar in recent periods vis-à-vis the American dollar (Figure 4). On the other hand, under certain economic conditions, it is widely recognized that a significantly lower value is likely to be inflationary. The resulting higher domestic costs and prices can erode, over time, the short-term competitive gains of such a lower-valued dollar.

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 as a result of 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, reaching a total of $39 million in 1987. However, by 1989, they had declined to $17.9 million (15 percent of total exports) because of the lower price of pelts, milder winters and the actions of animal rights movements in some Western European countries.

The United States was the major market for Canadian exports of fur apparel during the 1980s. In 1989, it accounted for $93.4 million, or 77 percent of Canadian fur apparel exports. The 1989 value was a significant reduction from the 1987 level, when exports to the United States peaked at more than $179 million. During this period, Canadian exports to the United States were subjected to increasing pressure from competitors active in the shrinking European market who were now looking for alternative market outlets.

The Canadian industry has had some moderate success in exporting to Japan. Canadian exports to Japan were 6 percent of total exports in 1989, up from 4 percent in each of the previous three years. Some major impediments in the Japanese market included different sizing, high selling expenses, high tariffs and intense competition from other countries, principally the Republic of Korea, Hong Kong, the United States and Germany.

Imports into Canada have been growing rapidly, increasing their market share from about 7 percent in 1983 to nearly 36 percent in 1989. This increase coincided with the upgrading of fur apparel manufacturing in several newly industrialized countries (NICs), notably the Republic of Korea, Hong Kong and Greece. The increase in fur apparel imports has contributed to an increasing negative balance of trade for Canada in apparel.

A large number of Canadian manufacturers have intensified their importing activity in order to diversify or complement their existing product lines. In some cases, production has been moved to low-cost sources. The manufacturers themselves currently account for at least 70 percent of imports. Most of the balance of importers were once manufacturers.

Imports have been concentrated in the lower end of the market, which has largely been vacated by domestic producers. Nevertheless, imports are becoming a growing concern to the industry as low-cost suppliers gradually upgrade their product quality and styling.

Until 1987, the industry was financially healthy, with relatively high after-tax profits on sales, high return on investment and minimal long-term debt. Since then, the number of establishments in the industry has declined. Although most of the remaining companies are still financially sound, growing numbers are beginning to experience difficulty in maintaining their profit position and may be undercapitalized.

Strengths and Weaknesses

Structural Factors

Over the years, the Canadian industry has earned an excellent reputation for its product variety and quality, management acumen and aggressive marketing. While historically Canada has been noted for its fur garments, fur manufacturers still invest considerable money, effort and time in promoting international awareness of their high-quality products.

Generally, designer names have an intrinsic value in providing manufacturers with an added competitive edge in the marketplace. Most manufacturers have in-house stylists or designers and actively promote designer names. Others enter into licensing agreements with Canadian or international designers with established labels in the non-fur apparel market.

The industry has been able to entrench itself in the medium to upper end of the world's fashion market, which is generally considered to be profitable and somewhat less sensitive to price fluctuations than the lower end of the market. However, increased competitive pressures, primarily in the U.S. market, have made it necessary for the industry to increase the design content and uniqueness of its products.

The Canadian fur industry has excellent export marketing know-how and experience. It has developed high visibility, excellent promotional literature and effective marketing strategies based on quality and product diversity.

The industry's relatively small size and increased concentration allow it to rally together successfully as a cohesive group, primarily under the auspices of the Fur Council of Canada (FCC). The Council is an umbrella organization active in market promotion. It serves as an information centre for the industry and is active in consumer education, market research and government lobbying on behalf of its members. It also provides important business services, including a credit bureau.

The FCC, through the Canadian Fur Trade Development Institute, sponsors a major annual event, a well-established and renowned international trade show in Montreal. This show has provided the industry with an ideal vehicle for exhibiting its products. Beginning in 1991, the Canadian and American industries agreed to hold a combined fur fair under the name "North American Fur Fashion Exposition." The fair was held in Montreal in 1991 and will be held there again in 1992. It is the one major fur trade event in North America and attracts a broad range of Canadian and American retailers.

Other efforts of the FCC include educating the public about the historical importance of the fur industry. It co-ordinates "Fur Month in Canada," which is in its 14th year, and sponsors the "Canada Fur Fashion Awards" aimed at fashion design students. It also organizes and undertakes major national media events

primarily aimed at promoting fur fashion and educating consumers about the environmental role of the fur industry.

The industry owes part of its success to its flexibility in responding rapidly to fashion changes and to its ability to fill orders quickly. These strengths should become even more valuable as American and Canadian buyers change their buying patterns to limit inventory buildup with just-in-time ordering using electronic data interchange (EDI). Buyers are attempting to place orders closer to the actual selling season in order to reduce the risks of overbuying or buying unpopular styles. The industry's flexibility allows it to respond successfully to these retail buyer demands and to capitalize on new market opportunities as they arise.

The industry also has the capability and experience required to expand its markets. However, because export initiatives are usually extremely costly, considerable financial resources are required at both the firm and the industry levels to sustain momentum in the development of global markets.

Since fur garment manufacturing worldwide tends to be a relatively 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.

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 those in Hong Kong and the Republic of Korea.

The industry is relatively labour-intensive, with labour costs ranging from 20 to 50 percent of production costs, depending on the type of fur. Historically, companies developed a supply of skilled workers 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 reduced the size of their production operations and have shifted to importing. Shortages of skilled labour may occur when the current generation of employees reaches retirement age.

Canadian manufacturers rely largely on domestic dressers and dyers to serve most of their needs. The downturn in the industry since 1988 has had a major impact on the dressing and dyeing subsector. Mergers and closures have reduced the number of major firms from seven to three. One new firm has recently been established. Canadian dressers still process an estimated 90 percent of the pelts used in the Canadian industry. They are struggling to overcome the effects of the market downturn and the increased importing activity of domestic manufacturers.

Trade-Related Factors

On 1 January 1989, all tariffs relating to fur products traded between Canada and the United States were removed under the terms of the Canada-U.S. Free Trade Agreement (FTA). This was expected to provide an incentive for more companies to export and for established exporters to expand their export volume. Under the FTA, furs are exempt from the special rules of origin for textiles and apparel, and trade in fur garments with the United States flows freely. Prior to the introduction of the FTA, the Canadian tariff rate was 12.3 percent, while the U.S. rate ranged from 3.5 to 7.5 percent.

With the removal of tariffs, Canadian fur imports originating in the United States increased from $3.3 million, or 5 percent of total Canadian imports, in 1988 to $10.5 million, or 12 percent, in 1989. However, the tariff removal did not counter the decline in exports to the United States attributed to fluctuations in exchange rates, the decline in consumer demand and the increased competitive pressures from NICs during this period.

Canada assesses a General Preferential Tariff of 8 percent on fur apparel items imported from developing countries, while the tariff on furs from countries having Most Favoured Nation (MFN) status is 12.3 percent. Neither of these rates is considered a barrier to entry.

The small number of Canadian companies that have been able to penetrate the Japanese market are faced with a tariff rate set on average at 20 percent.

Canadian furs entering the European Community (EC) encounter a rate of duty of 6 percent, which is not considered to be a significant barrier. However, a ban on imports of certain furs was recently passed by the European parliament. The legislation, which takes effect on 1 January 1995, bans the import into the EC of furs or fur products from 13 wild species (beaver, otter, coyote, wolf, lynx, bobcat, sable, raccoon, muskrat, fisher, badger, marten and ermine) originating from any country that has not banned the leghold trap or does not trap according to internationally agreed humane standards. The legislation will be an obstacle to Canadian wild fur exports only if EC requirements are not met. Canada, which is considered to be a world leader in humane trap research, now chairs a technical committee of the International Organization for Standardization, whose mandate is to develop standards for humane trapping. The Fur Institute of Canada is completing a five-year, federally supported project through which a communications program has been developed to address the concerns of the animal rights movement.

Technological Factors

Opportunities for mechanization are limited, since production operations are characterized by their small scale,

labour intensity and high skill requirements. The technology continues to be relatively basic and unsophisticated. As a result, investment in plant modernization or new equipment in the Canadian industry has been minimal.

The technical improvements that have occurred have been largely in-house developments. The introduction of computer-aided design and skin matching and some mechanization in sewing are likely to occur in the foreseeable future but are not expected to have a significant impact on productivity.

Evolving Environment

The decade prior to 1986 witnessed an explosive rate of growth in world demand for fur garments. However, the markets in major industrial nations appear to have peaked in 1986 and 1987 and have since levelled off.

At the time of writing, the Canadian and U.S. economies were showing signs of recovering from a recessionary period. During the recession, companies in the industry generally experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring. With the signs of recovery, though still uneven, the medium-term outlook will correspondingly improve. Recovery from the recession in North America may be expected to result in increased demand for fur apparel but, over the medium term, only modest market growth is projected.

At the same time, there has been a significant increase in production capacity in many parts of the world, including several NICs. These countries can be expected to increase their fur garment production, to improve their manufacturing know-how and to upgrade their styling capabilities. As a result, the Canadian industry will require all its skills to maintain, let alone expand, current market share.

There is evidence that typical fur consumers now include younger working women. Lower fur prices as well as increased quantities of lower-quality furs have made this product accessible to a larger group but, in the process, may have reduced some of the prestige historically associated with fur products. Market studies show that Canadian consumers have a more pragmatic view of fur products and are more concerned with warmth and comfort than with the luxury and status associated with the products. American consumers, on the other hand, rank style as the prime reason for buying a fur coat before comfort, prestige and warmth, although they recognize Canadian fur apparel more for its quality than for its style. A reduction of world mink supplies and increases of 25 to 30 percent in raw fur prices in early 1991 suggest that retail prices will begin to rise. Whether a recovery of retail prices will restore fur apparel's former prestige remains in doubt.

Although the short- and medium-term effects of the animal rights movement are of some concern to today's manufacturers, there is apprehension that animal rights considerations may have a greater influence on the next generation of potential fur consumers. On the other hand, manufacturers can be heartened by the fact that fur consumers have generally been 35 to 60 years old. Individuals in this age range will make up the largest consumer group in the foreseeable future.

The United States will be one focus of the Canadian fur industry's export efforts as it attempts to regain lost ground. The FTA has removed tariff barriers to the United States. Despite the downturn in exports to the United States in 1989, the FTA should enable Canadian manufacturers to intensify their efforts to penetrate that market. However, as competition from U.S. and other foreign companies continues to increase, Canadian companies will have to devote more of their resources to ensuring that they are offering the best possible product, quality, style and service. The North American Fur Fashion Exposition is contributing to an integrated continental market and should provide increased opportunities for Canadian firms to make inroads into the U.S. market.

Recent developments in Western Europe, including a levelling off in the intensity of anti-fur campaigns and a colder winter in 1990–1991, have provided cause for some optimism regarding the future market potential of this region. As a result, the industry is intensifying its marketing activities in Western Europe. Opportunities offered by the Japanese market are likely to be explored by only a limited number of manufacturers who have the resources, products and appropriate designer identification.

The Canadian market is not expected to grow appreciably over the next few years, so firms that remain domestically oriented will probably experience only relatively modest growth and will be vulnerable to further erosion of their market share from both imports and other Canadian competitors. The trend towards extensive importing by manufacturers to diversify their product base and increase their profitability will probably increase in the future.

Competitiveness Assessment

Overall, the Canadian fur apparel industry is able to compete against other developed countries in both the domestic and international markets. It has the products, image, resources, capacity and experience 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.

The industry will have to make special efforts to regain market share in the United States and Europe. The increased concentration of the Canadian industry and the liberalized trading environment should enhance the industry's ability to regain, maintain and improve its exports to the United States. The North American Fur Fashion Exposition should serve to further increase the international stature of Canadian companies.

Canadian producers may be susceptible to greater competitive pressures in the future. The threat of increased penetration of the Canadian and U.S. markets by NICs presents a major challenge to Canadian fur apparel manufacturers. They may be less able to compete against imports from low-cost countries, particularly once those suppliers have upgraded their product quality and styling. However, Canadian producers' demonstrated ability to be innovative and adaptable to world trends in fashion and to capitalize on emerging market opportunities will ensure that they remain a major force in world markets.

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PRINCIPAL STATISTICS[a]

	1982	1983	1984	1985	1986	1987	1988	1989
Establishments	N/A	266	272	243	291	238	265	242
Employment	2 333	2 423	2 437	2 640	3 172	2 998	2 446	2 039
Shipments ($ millions)	247.2	251.0	280.1	321.7	374.9	390.8	351.5	277.4
Profits after tax[b] ($ millions)	14.6	10.4	14.7	18.0	19.6	21.9	N/A	N/A
(% of income)	5.0	4.0	4.0	4.6	4.8	4.8	N/A	N/A

[a]For establishments, employment and shipments, see *Clothing Industries*, Statistics Canada Catalogue No. 34-252, annual (SIC 2495, fur goods industry).

[b]See *Corporation Financial Statistics*, Statistics Canada Catalogue No. 61-207, annual.

N/A: not available

TRADE STATISTICS

	1982	1983	1984	1985	1986	1987	1988[a]	1989[a]
Exports[b] ($ millions)	111.6	99.3	141.0	160.0	207.9	229.6	184.6	121.1
Domestic shipments ($ millions)	135.6	151.7	139.1	161.7	167.0	161.2	166.9	156.3
Imports[c] ($ millions)	9.7	12.2	19.9	26.3	41.6	70.2	66.9	87.4
Canadian market ($ millions)	145.3	163.9	159.0	188.0	208.6	231.4	233.8	243.7
Exports (% of shipments)	45.1	39.6	50.3	49.7	55.5	58.8	52.5	43.7
Imports (% of Canadian market)	6.7	7.4	12.5	14.0	19.9	30.3	28.6	35.9

[a]It is important to note that data for 1988 and after are based on the Harmonized Commodity Description and Coding System (HS). Prior to 1988, the shipments, exports and imports data were classified using the Industrial Commodity Classification (ICC), the Export Commodity Classification (XCC) and the Canadian International Trade Classification (CITC), respectively. Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in shipment, export and import trends, but also changes in the classification systems. It is impossible to assess with any degree of precision the respective contribution of each of these two factors to the total reported changes in these levels.

[b]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

[c]See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

SOURCES OF IMPORTS[a] (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	14	20	9	11	6	4	5	12
Western Europe[b]	18	16	27	32	34	26	18	19
Asia	63	63	62	56	59	69	75	64
Other	5	1	2	1	1	1	2	5

[a]See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

[b]Western Europe includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

DESTINATIONS OF EXPORTS[a] (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	41	59	76	83	82	78	81	77
Western Europe	48	31	16	11	13	17	12	15
Japan	9	8	6	3	4	4	4	6
Other	2	2	2	2	1	1	3	2

[a]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

REGIONAL DISTRIBUTION[a] (average over the period 1986 to 1988)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	1	67	28	2	2
Employment (% of total)	X	71	23	4	X
Shipments (% of total)	X	79	18	2	X

[a]See *Clothing Industries*, Statistics Canada Catalogue No. 34-252, annual.

X: confidential

MAJOR FIRMS

Name	Country of ownership	Location of major plants
Amsel & Amsel Inc.	Canada	Montreal, Quebec
D.H. Grosvenor Inc.	Canada	Montreal, Quebec
Natural Furs International Inc.	Canada	Montreal, Quebec

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[a] Member of the Fur Council of Canada.

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