Small Portable Electrical Appliances

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

1990–1991

SMALL PORTABLE ELECTRICAL APPLIANCES

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

Introduction

The overall Canadian electrical manufacturing sector includes companies that produce industrial electrical equipment, electrical power generation products, electrical wire and cable products, batteries, major appliances, small appliances, lighting products and miscellaneous electrical products. Each industry differs markedly from the others in technologies, production techniques and markets.

In 1991, shipments of electrical manufactured goods constituted 2.98 percent of total Canadian manufactured goods shipped and 2.02 percent of all manufactured goods exported. Shipments of electrical manufactured goods totalled $8 281.2 million, and the total Canadian market for these products was $10 867.8 million. Exports were valued at $2 139.8 million, and imports of $4 726.4 million satisfied 43.5 percent of the Canadian electrical goods market. The manufacture of electrical goods in Canada provided employment for about 70 000 people.

This profile deals only with small portable electrical appliances. In addition, other profiles have been published on the following industries:

- *Electrical Wire and Cable*
- *Industrial Electrical Equipment*
- *Major Appliances*
- *Power Generation Equipment*

Structure and Performance

Structure

The small portable electrical appliances industry produces a wide range of electrical products for domestic and personal use. These products fall under the broad categories of personal care (electric razors, etc.), cooking (fryers, skillets,

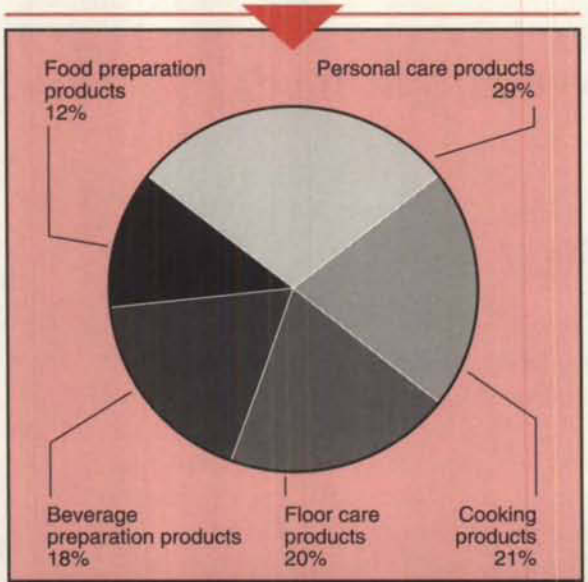

Figure 1 — Shipments by Product Category

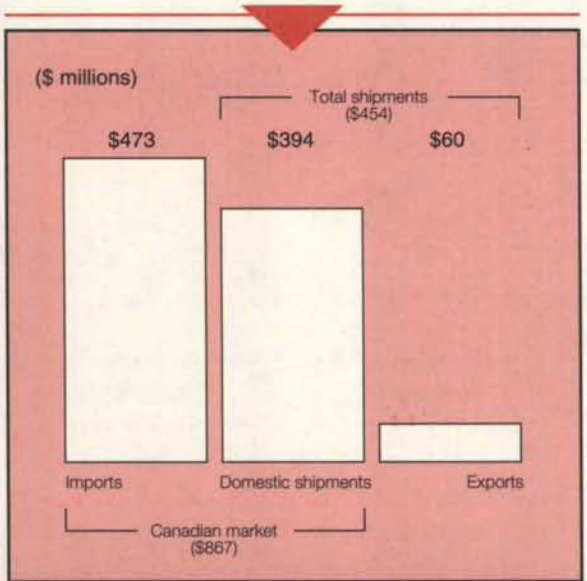

Figure 2 — Imports, Exports and Domestic Shipments, 1991

etc.), floor care (e.g., stick, canister and upright vacuum cleaners), beverage preparation (coffee makers, kettles, etc.) and food preparation (such as can openers and mixers). All products, except personal care products, are generally referred to as mainline products. There are 28 different small portable electrical appliance products manufactured in Canada.

The largest category of products marketed in terms of units is personal care products (29 percent of shipments), followed by cooking products (21 percent), floor care products (20 percent), beverage preparation products (18 percent) and food preparation products (12 percent) (Figure 1). The industry's prosperity depends heavily on disposable personal and family incomes, on general economic conditions and, to a degree, on new household formations.

In 1991, shipments amounted to $454 million (Figure 2). In the same year, exports were worth $60 million (13 percent of shipments). The total Canadian market amounted to $867 million in 1991, with imports worth $473 million (55 percent of the Canadian market). The United States was the major source of imports and destination of exports in 1991 (Figure 3). Asia (Hong Kong, Japan and the Republic of Korea) and the European Community (EC) accounted for most of the other imports and exports. Most personal care products, which change style frequently, are imported from the United States and Asia, while other products are supplied principally by Canadian and U.S. manufacturers.

The small portable electrical appliance industry in Canada markets most of its products through retailers, although for some products, such as portable vacuum cleaners, direct consumer sales are also made. The majority of input suppliers are from the steel, plastic and packaging industries. Heating components and motors are largely imported into Canada, while the packaging and labelling materials are almost entirely obtained from Canadian sources.

The small portable electrical appliances industry in Canada consists of eight manufacturers, of which six are Canadian-owned. The remaining two are foreign-owned — one American and one Swedish. The foreign-owned firms operate somewhat larger plants that achieve greater economies of scale than those of the Canadian-owned firms. Some production has been rationalized between Canada and the United States.

In 1990, the latest year for which statistics are available, there were 65 establishments in Canada that manufactured small portable electrical appliances, located mainly in Ontario and Quebec. Total employment in the industry averaged 5 500 people from 1983 to 1989.

The annual average investment in the industry from 1983 to 1988 amounted to $9.7 million (with almost twice this average occurring in 1986). From 1989 to 1991, this average dropped to $4.6 million. The earlier level of investment had a positive impact on industry modernization, productivity and shipments in 1986 and 1987. Thereafter, shipments dipped in 1988 followed by a brief recovery in 1989 prior to the recent recession (Figure 4).

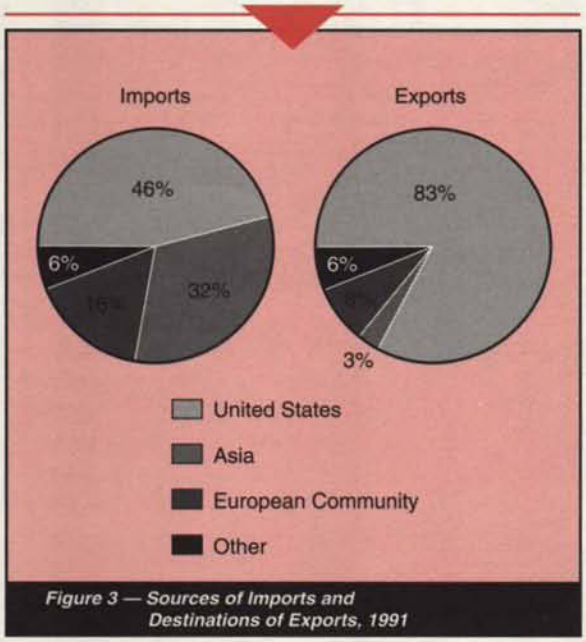

Figure 3 — Sources of Imports and Destinations of Exports, 1991

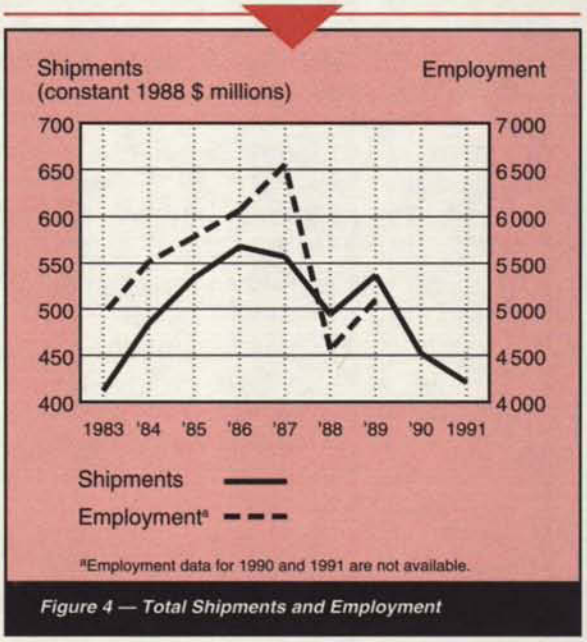

Figure 4 — Total Shipments and Employment

Performance

From 1983 to 1988, annual average industry shipments grew by 4.0 percent in real terms, significantly higher than the annual average growth of the manufacturing sector. This growth followed prolonged periods of decline, -4.2 percent from 1973 to 1978, and -2.1 percent from 1978 to 1983. The level of investment that took place between 1983 and 1988, as well as continuing consumer confidence, brought about a much higher than average growth performance.

The industry earned on average an after-tax profit of 3.7 percent of income from 1983 to 1987. Based on corporate financial statistics, the average debt/equity ratio for the sector is estimated to be 2:5.

From 1983 to 1990, the small portable electrical appliances industry appears to have achieved a greater degree of product specialization, particularly in mainline products. The industry has also been undergoing modernization and restructuring, with greater emphasis on product innovation and quality improvement. The industry made an average annual research and development (R&D) investment of 1.3 percent of its sales, principally for the mainline products.

The industry made significant strides in export performance, which increased from $32 million (constant 1988 dollars) in 1983 to $70 million in 1988. Imports rose from $422 million in 1983 to a peak of $622 million in 1987 before dropping to $434 million in 1988. This difference in relative growths in trade performance strongly suggests an improvement in the efficiency of Canadian production during the 1980s.

Economic activity in this sector generally improved from 1988 to 1989, but has subsequently declined with the recent recession. Constant 1988 dollar shipments fell from $494 million in 1988 to $421 million in 1991, or by 14.8 percent. This decline reflected the trend in both the export market, which fell by 21.4 percent, declining from $70 million (constant 1988 dollars) in 1988 to $55 million in 1991, and domestic shipments, which fell by 13.7 percent, dropping from $424 million in 1988 to $366 million in 1991. Imports in real terms increased by about 1.0 percent over the same period, rising from $434 million in 1988 to $438 million in 1991. This resulted in a real decline in the Canadian market of 6.3 percent, which dropped from $858 million in 1988 to $804 million in 1991 (constant 1988 dollars).

Strengths and Weaknesses

Structural Factors

Major competitiveness factors in small portable electrical appliances are labour and material costs, investments, scale of operations, product specialization, product quality, and the distribution and marketing infrastructure. Since the majority of trade is with the United States, the industry is being restructured to compete in the North American market.

Although no current data are available on costs of production relative to the United States, the industry has made significant progress, particularly through modernization and

rationalization. The Canada-U.S. Free Trade Agreement (FTA), which was implemented on 1 January 1989, is lowering duties on material imports, thereby encouraging Canadian suppliers of materials to be internationally competitive. The elimination of these tariffs will help to ensure that input and material costs are more comparable.

A number of improvements have been taking place. A great deal of the investment the industry made from 1983 to 1988 went into modernization, especially production equipment, with emphasis on plastic moulding equipment. Another area of improvement has been in the vertical integration of plants, which has improved efficiency on the assembly line, quality control and component delivery.

Quality control programs have also become very effective. Major improvements have been made in product safety, such as the removal of asbestos and lead from product design. However, despite such progress, U.S. and Asian manufacturers remain strong competitors due to their larger scale of operations, greater product specialization and more flexible production processes.

Investment in R&D is directed primarily toward mainline products, with special emphasis on new product development. Product mandates or product rationalization sometimes allow foreign-owned subsidiaries to produce low-volume products in the Canadian branch plants.

There are some weaknesses in the Canadian production process, particularly with regard to the relative scale of operation, specialization of products and deficiencies in the marketing networks required to serve key North American markets. While the Canadian channels are often limited to retail and wholesale distribution, the U.S. producers have a wider range of distribution types, including manufacturers' outlets, mail order houses, brand-name distributors in addition to normal retail and wholesale systems. The U.S. range of distribution types relies on large markets, which can often be segregated and still be large enough to be profitable. Canada's relatively small and insulated markets are less conducive to such a range of distribution channels.

Trade-Related Factors

Canadian tariffs are currently applicable on most small portable electrical appliances. For non-FTA countries, Canadian tariffs range from 0 to 12.5 percent, while corresponding U.S. tariffs range from 0 to 4 percent. Tariffs levied by the EC and Japan are 4 and 5 percent, respectively.

Under the FTA, the tariffs between Canada and the United States are being phased out in 10 annual, equal steps ending on 1 January 1998. Since product standards are similar in the two countries, non-tariff barriers (NTBs), although costly, have not precluded trade. Further, the current FTA harmonization process of electrical standards is intended to eliminate any potential NTB threats. An agreement has been reached to harmonize standards on vacuum cleaners and negotiations are proceeding on other appliances. Reciprocal testing of products to other countries' standards has already begun, and this practice should facilitate exports.

On the other hand, European safety and electrical standards differ substantially from those standards in Canada. EC products operate on 220 volts rather than the North American standard of 110 volts. This problem has been further compounded by the lack of uniform standards among the European countries themselves. The proposed economic integration of the EC after 1992 is expected to result in reciprocal standards recognition within the EC under the International Organization for Standardization's ISO 9000 program in the near future. Canadian manufacturers have also experienced difficulties in the United Kingdom due to the complex certification process required by the British authorities; however, some Canadian companies have obtained standards certification for some of their products in Europe.

In spite of the surveillance by inspectors, products that are not approved by the Canadian Standards Association (CSA) are entering Canada undetected and are undercutting the higher-quality, and therefore more expensive, CSA-approved, Canadian-made products.

Technological Factors

In product technology, Canadian producers are on a par with their U.S. counterparts; each uses components that meet the same standards. In terms of process technology, U.S. producers have introduced sophisticated technologies, such as computer-aided design and computer-aided manufacturing (CAD/CAM) and automated material handling, in their efforts to better serve the large U.S. market. Some Canadian producers have also implemented these advanced technologies. In the area of management technology, including intracompany computer networks for inventory control, the U.S. producers are ahead of the Canadian competitors. This capability allows U.S. firms to optimize costs of production and marketing.

Evolving Environment

Projected growth in units for the three main categories of products — personal care, cooking and floor care products, which together constitute 70 percent of shipments in terms of units — is estimated to be about 3 percent annually in the medium term, although the recent value of shipments has been decreasing due to the latest recession. The other products categories are also expected to keep pace. The replacement

market is the major source of these growth prospects, which depends increasingly on an aging population.

Environmental concerns have become a priority, and emphasis has been placed on producing products that are more energy-efficient. Recyclable plastics are now being used in products, as well as in recyclable plastic packaging. Polystyrene products using hydrochlorofluorocarbons (HCFCs) are replacing chlorofluorocarbons (CFCs), and less packaging material is being used. These factors will lead to more environmentally friendly products.

Although its short-term impact has generated competitive pressures on the industry, the FTA will have a positive impact in both the medium and long term, as the industry becomes more competitive through modernization, improved economies of scale and product specialization. Access to the larger U.S. market is expected to improve further the export performance of the industry.

On 12 August 1992, Canada, Mexico and the United States completed the negotiation of a North American Free Trade Agreement (NAFTA). The Agreement, when ratified by each country, will come into force on 1 January 1994. The NAFTA will phase out tariffs on virtually all Canadian exports to Mexico over 10 years, with a small number being eliminated over 15 years. The NAFTA will also eliminate most Mexican import licensing requirements and open up major government procurement opportunities in Mexico. It will also streamline customs procedures, and make them more certain and less subject to unilateral interpretation. Further, it will liberalize Mexico's investment policies, thus providing opportunities for Canadian investors.

Additional clauses in the NAFTA will liberalize trade in a number of areas including land transportation and other service sectors. The NAFTA is the first trade agreement to contain provisions for the protection of intellectual property rights. The NAFTA also clarifies North American content rules and obliges U.S. and Canadian energy regulators to avoid disruption of contractual arrangements. It improves the dispute settlement mechanisms contained in the FTA and reduces the scope for using standards as barriers to trade. The NAFTA extends Canada's duty drawback provisions for two years, beyond the elimination provided for in the FTA, to 1996 and then replaces duty drawback with a permanent duty refund system.

Competitiveness Assessment

Historically high import tariffs have allowed the industry to develop in the domestic market. However, in the years following the 1981–1982 recession, the industry made significant structural adjustments and modernizations, and Canadian producers have become more competitive relative to U.S. firms. The more competitive products, such as vacuum cleaners, have enabled the industry to withstand import penetration and improve export capability. The industry has been historically competitive in the manufacture of certain specialized components, including probes and controls for products such as frying pans, and is expected to remain so in the future.

As indicated earlier, the FTA and NAFTA will bring about further rationalization and modernization of the industry in the long run, along with free access to the larger North American market. As a result, the industry will enhance its competitive strengths in the North American market.

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

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PRINCIPAL STATISTICS[a]

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Establishments	62	58	57	63	67	69	67	65	N/A
Employment	4 939	5 513	5 786	6 068	6 553	4 561	5 099	N/A	N/A
Shipments									
($ millions)	378	457	504	546	544	494	558	478[e]	454[e]
(constant 1988 $ millions)	412	484	534	568	557	494	537	452	421
GDP[b] (constant 1986 $ millions)	234	262	259	272	277	212	235	191	157
Investment[c] ($ millions)	8.2	7.0	6.8	18.4	10.3	7.6	6.7	3.9	3.2
Profits after tax[d]									
($ millions)	8.9	10.2	12.3	17.6	45.1	N/A	N/A	N/A	N/A
(% of income)	2.4	2.2	2.4	3.2	8.3	N/A	N/A	N/A	N/A

[a]For establishments, employment and shipments, see *Electrical and Electronic Products Industries*, Statistics Canada Catalogue No. 43-250, annual (SIC 3311, small electrical appliance industry).

[b]See *Gross Domestic Product by Industry*, Statistics Canada Catalogue No. 15-001, monthly.

[c]See *Capital and Repair Expenditures, Manufacturing Subindustries, Intentions*, Statistics Canada Catalogue No. 61-214, annual.

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

[e]See *Monthly Survey of Manufacturing*, Statistics Canada Catalogue No. 31-001, monthly.

N/A: not available

TRADE STATISTICS

	1983	1984	1985	1986	1987	1988[c]	1989[c]	1990[c]	1991[c]
Exports[a]									
($ millions)	29	36	43	65	68	70	65	66	60
(constant 1988 $ millions)	32	38	46	68	70	70	63	61	55
Domestic shipments									
($ millions)	349	421	461	481	476	424	493	412	394
(constant 1988 $ millions)	380	446	488	500	487	424	474	391	366
Imports[b]									
($ millions)	388	472	518	550	607	434	481	424	473
(constant 1988 $ millions)	422	500	548	572	622	434	462	393	438
Canadian market									
($ millions)	737	893	979	1 031	1 083	858	974	836	867
(constant 1988 $ millions)	802	946	1 036	1 072	1 109	858	936	784	804

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

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

[c]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.

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

	1983	1984	1985	1986	1987	1988[b]	1989[b]	1990[b]	1991[b]
United States	65	61	63	58	60	46	46	49	46
European Community	13	14	15	18	17	16	16	17	16
Asia	21	18	13	19	17	34	34	30	32
Other	1	7	9	5	6	4	4	4	6

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

[b]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 import trends, but also changes in the classification systems.

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

	1983	1984	1985	1986	1987	1988[b]	1989[b]	1990[b]	1991[b]
United States	75	82	85	84	85	81	74	81	83
European Community	11	7	4	6	7	8	4	7	8
Asia	3	2	5	6	4	6	17	7	3
Other	11	9	6	4	4	5	5	5	6

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

[b]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 export trends, but also changes in the classification systems.

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

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	N/A	26	63	N/A	5
Employment (% of total)	N/A	N/A	76	N/A	N/A
Shipments (% of total)	N/A	15	82	N/A	N/A

[a]See *Manufacturing Industries of Canada, National and Provincial Areas*, Statistics Canada Catalogue No. 31-203, annual.

N/A: not available

MAJOR FIRMS

Name	Country of ownership	Location of plants
Black & Decker Canada, (1989) Inc.	United States	Brockville, Ontario
Creative Appliance Inc.	Canada	Fenelon Falls, Ontario
Euroclean Canada Inc.	Sweden	Cambridge, Ontario
Iona Appliances Inc.	Canada	Welland, Ontario
Superior Electrics Limited	Canada	Pembroke, Ontario
Swenson Canada Inc.	Canada	Toronto, Ontario
Toastess Inc.	Canada	Pointe-Claire, Quebec
Wesston Appliances Inc. (Division of Unireco Industries Ltd.)	Canada	Markham, Ontario

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