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The Canadian Sports Equipment Industry (1995)

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THE CANADIAN SPORTS EQUIPMENT INDUSTRY (1994)

SPORTS EQUIPMENT

The Sports Equipment Industry includes firms primarily engaged in manufacturing a broad range of consumer goods for individual and group recreational and fitness activities Excluded are firms primarily engaged in recreational watercraft, camping equipment, sporting arms and ammunition, sport tape, skate sharpeners, athletic footwear, and jerseys.

1. INTERNATIONAL ENVIRONMENT:

In 1994, the world market for sports equipment at the wholesale level is estimated at about $80.0 billion. At the country level, there is a high degree of market concentration with the top 10 countries estimated to represent in excess of 80% of the world market and 75% of international trade. However, at the individual supplier level it is almost the reverse with industry estimates indicating the top 10 companies control less than 20% of the market. Although exact worldwide market figures are unavailable, industry estimates place the US at 30% of the sports equipment market, EC at about 33%, Japan at 22%, Canada at 3%, and the rest of the world at about 12%.

Worldwide, the sports equipment market is heavily trade-dependant and about 1/3 of the world market is subject to international trade flows. In addition, there exists a high degree of country-specific product identification and manufacturing specialization. Generally, lower-cost products are sourced from Far East low-wage countries while developed countries (including Taiwan) provide the higher value-added items.

During the late 1980's there was a high degree of rationalization and such well-known companies as Wilson, Nordica, Puma, Adidas, Head Prince, Cooper, etc., changed ownership or were taken over. This rationalization trend has continued through the 1990s and recently, major players such as Canstar, Atomic, Raichle, Abu Garcia, Weider Fitness Equipment (US), Rawlings, Victoriaville, and Sherwood-Drolet have also experienced ownership changes.

Brand names continue to dominate in the sale of medium to high end products and industry analysts estimate that 85% of all sporting goods are sold under a manufacturer's brand. Sporting Goods Survey, 1994 - conducted by Kurt Salmon Associates for the World Federation of Sporting Goods Industries.

Taiwan continues to be the leading exporter of sports equipment, accounting for almost 20% of world exports. Recent players emerging as significant exporters include China (particularly in bicycles) and low-wage areas in the Far East (Indonesia, Philippines, Thailand, Malaysia, etc.). In several cases, the emergence of these countries as exporters is the result of existing production facilities being transferred from higher cost locations, such as Taiwan, South Korea and Hong Kong.

While technological and innovation development is widely dispersed, it is the country or region usually associated with a particular product specialty that is often in the forefront of design and innovation. The sporting goods industry is second only to the defence/military sector in the use of composites and advanced materials. With many developed countries reducing spending on military and defence, companies engaged in the development and supply of advanced materials are looking more intently at this sector to expand its use of these materials. It is expected that the use of composites, already extensively adapted to ski, racquet and golf equipment, will become more widespread throughout the industry.

For the next decade:

Several key international trends will influence the world market for sporting goods, in particular:

Internationally, all indications are that the long-term outlook for sporting goods will be bright although sales may not achieve the 8-10% annual growth of the 1980's. The rise in many countries' income levels and an increasing interest in pursuing leisure-time activities while maintaining an active and healthy lifestyle will reinforce this growth.

Greater use of composites and advanced materials, supplanting traditional materials will improve sourcing opportunities and gain ready acceptance among consumers.

The more successful firms will be marketers with control over the brand name, distribution, service, and manufactured quality of its products rather than just manufacturing operations.

Product development lead time will be reduced and there will be pressure from major retailers to shorten the product buying cycle.

Increased female participation will continue to boost demand for existing equipment and create demand for new kinds of equipment, especially in North America and Western Europe.

Greater consumer awareness of the environmental and ecological effects of outdoor and recreational equipment and activities will encourage companies to increase the use of recycled and recyclable materials in the manufacturing process and greater emphasis will be placed on the development and marketing of environmentally friendly products.

There will be continuing and increased emphasis on personal fitness and family/group recreational activities. Significant growth is expected in individual outdoor oriented activities. Some segments targeted as growth areas over the next decade are products associated with cycling, soccer, golf, exercise walking, basketball, in-line skating, volleyball, exercising with equipment, wilderness activities, snowboarding, and personal protection.

Several key emerging markets will affect the industry in the next few years - primarily an expanded NAFTA, the developing economies of Eastern Europe and a more closely integrated EU. South America is anticipated to be an emerging market for sporting goods in the next 5 years. The effects of the GATT, which was implemented January 1, 1995, are difficult to assess at this time, although no significant changes are expected.

Two new, potentially major competitors that have appeared on the global sporting goods scene are Russia and China. China, in particular. has become a major supplier of bicycles to most of the developed economies including Canada.

2. THE CANADIAN POSITION:

Overview:

In 1994, the industry comprised about 215 establishments and employed roughly 8,500 people. Annual shipments totalled about $980 million of which $436 million (45%) was exported. Imports were $920 million and accounted for 63% of the Apparent Canadian market (ACM).

Many companies in the industry are Canadian-owned. They range in size and scope from numerous relatively small operations serving niche markets and usually manufacturing a narrow band of products to large, globally competitive companies with the resources and management depth to compete internationally against well-known brand names. The industry includes about 6-8 large vertically integrated manufacturers that are internationally competitive in the manufacturing and distribution of sports equipment. These firms suffer no serious disadvantages because of economies of scale. They are generally the leaders in research and development projects that are designed to maintain international competitiveness. While smaller Canadian companies have established a name and reputation in such diverse niche markets as sport whistles, above-ground pools, outdoor products, and swim goggles, to name only a few, Canadian industry is known on a global basis more for its strength in the skating and hockey equipment, cycling products, exercise equipment and personal protection segments. Canada's presence in these segments is dominated by one or more of the large manufacturers who have generally been in the forefront of opening new markets. In many cases, smaller companies have been able to take advantage of their efforts by exporting complementary and accessory products.

An important factor affecting the Canadian industry's ability to compete is consumer demand for brand name products. In some segments such as skating and ice hockey, Canadian brands are in demand. However, in most segments, Canadian companies have had difficulty in making their names widely known. This lack of brand name recognition is a serious impediment among the small and medium sized businesses.

Whereas SMEs require assistance in becoming export-ready and guidance in identifying international market opportunities, trade events, and best marketing practices, the larger companies have more interest in foreign government market access regulations and product certification requirements, and exploiting opportunities for investment, technology, and licensing. Canadian companies generally have a reputation for high quality, well-engineered and well-designed products and are strong international performers in certain product segments.

Canadian International Trade:

International trade is the key to maintaining this industrys viability. In 1994, imports now represent 63% of the Apparent Canadian Market (ACM) while exports account for 45% of industry shipments.

Imports: Between 1993 and 1994 imports increased by 16% (+$126m) to $920.8 million. Only racquet equipment declined significantly falling by 16% (-$3.6m) to $19.5m. All other major segments showed significant increases led by golf equipment/balls (+$24m) and in-line skates/parts (+$25m).

MAJOR IMPORT PRODUCT SEGMENTS
CANADIAN IMPORTS
($000,000)

CATEGORY	1993	1994	MAJOR SOURCE (1994 $MILLIONS)
Bicycles	83.0	88.5	TAIW-41.2 TAIW-41.2 TAIW-37.6;
Bike pts/Acc	96.2	100.1	US-100.6 US-91.2; US-30.5;
Gym/Exerc Equipt	121.9	129.8	FRA-16.2; TAIW-13.1;
Golf Equipt	110.6	135.0	US-10.7; US-3.5; US-17.9
Fishing Equipt	53.6	64.6	US-11.9; US-9.7; US-13.2;US-13.3;
Snow Ski Equipt	52.0	62.6	JAP-17.3; TAIW-21.6; TAIW-15.6;
Skates(incl. pts/acc)	34.3	59.8	KOR-9.3; AUS-17.3; ITAL-17.8;
Hockey Equipt	38.2	46.2	TAIW-8.0; TAIW-4.9;

			TAIW-0.2
Racket Equipt/Acc	23.2	19.5	CHIN-1.5; CHIN-6.2; TAIW-1.6;CHIN-13.6
Playgrd Equipt	16.3	19.4	US-15.8 CHIN-3.5
Swim/Wade pools/pts	14.9	15.0	CHIN-9.9 TAIW-4.4 US-11.1
Baseball Equipt	26.5	29.7	US-16.2 CHIN-10.1 CHIN-4.7
Billiard table/acc	16.2	17.2	PHIL-6.1 CHIN-0.7
Total Major Import Segments	686.9	787.4	<</TD>
Total All Imports	794.4	920.8	US-419.4;TAIW-161.4;CHIN-82.4

Geographically, the USA continues to be a major source with 46% of the total 1994 import market, up from 43% in 1993. In the same period, Asia's share has fallen from 43% to 40%, primarily because of reduced shipments from Taiwan and Japan in 1994. Despite its falling market share, Taiwan continues to be the primary source of Asian imports with a 18% share of the import market (23% in 1993). Western Europe share has risen slightly from 12% to 13%.

IMPORTS BY GEOGRAPHICAL REGION
1993 vs 1994
($000,000)

<</TD>	**1993**	**% of TOTAL**	**1994**	**% of TOTAL**	**% Inc.**
USA	$339	43%	$419	46%	24%
West Europe	95	12%	119	13%	25%
Asia	343	43%	367	40%	7%
Others	17	2%	16	2%	(6%)%
TOTAL	$794	100%	$921	100%	16%

On a country basis, the main imports from the USA are gym/exercise equipment ($101m), golf equipment ($91m), fishing equipment ($30m), and bicycles including parts/accessories ($29m). From Taiwan, bicycles including parts/accessories ($79m), gym/exercise equipment ($22m), and golf equipment ($16m) are the major items. In 1994 China displaced Japan as the third largest exporter. Bicycle parts and accessories ($22m), golf and hockey equipment are its main exports. There are strong indications that China will replace Taiwan as the second leading import source by the end of 1995 or sometime in 1996.

TOP TEN IMPORT SOURCES
VALUE IN DOLLARS
JANUARY-DECEMBER
($000,000)

COUNTRY	**1992**	**1993**	**1994**	**Jan-Sep/95**
United States	285.0	339.2	419.4	377.6
Taiwan	190.4	181.5	161.4	132.4
China	48.6	41.5	82.4	109.0
Korea, South	37.4	35.9	32.9	19.8
Japan	36.8	42.0	29.3	17.5
Italy	15.9	20.7	29.0	35.1
France	18.6	19.5	20.5	17.5
Austria	17.1	18.2	21.2	21.5
Thailand	5.0	8.0	16.4	18.6
Philippines	5.3	7.4	11.2	11.2

Other Countries	66.3	80.4	97.0	90.4
TOTAL - ALL COUNTRIES	726.7	794.4	920.8	852.9

Exports: Between 1993 and 1994 while the Canadian market increased by 12% to $1,464.5 billion, exports grew by 29% from $338.4m to $436.3m and now represent 45% of industry shipments. In particular there have been major increases in ice skates and hockey equipment (+$39m), roller/in-line skates (+$27m), protective headgear (+$10m), and snow ski equipment (+$7m). Exercise equipment (-$6m) and bikes/parts (-$3m)have fallen slightly.

CANADIAN EXPORTS ($000,000)			
CATEGORY	**1993**	**1994**	**MAJOR DESTINATION (1994 $MILLIONS)**
Gym/Exercise Equipt	112.5	106.2	US-87; US-36;
Protect. Headgear (inc. Hockey)	29.0	39.0	US-49; US-53; US-41;
Ice Skates/parts	39.9	59.8	US-39; US-6; US-16;UK-5;
Ice Hockey Equipt/Sticks	47.7	66.6	GER-1; TAIW-2;
Swim/Wade pool Kits/Acc.	36.0	51.0	SWITZ-3; EU-8
Inline/Roller skates	14.0	40.6	GER-2 JAP-1FRA-3
Bicycles/parts	12.9	9.6	FRA-1 GERM-1
Snow Ski Equipt	10.3	17.5	JAP-2 SWIT-1
TOTAL MAJOR EXPORT SEGMENTS	302.3	390.3	<</TD>
TOTAL ALL EXPORTS	338.4	436.3	US-370;GER-8;UK-8

Indications for 1995 are that exports should reach almost $500 million (1/2 Billion!). The major growth segments are expected to be roller/inline skates, hockey equipment (incl. sticks), snow ski equipment, and swimming pool kits and accessories.

Geographically, the USA continues to grow as Canadas main export market. In 1994 it received 85% of exports. It was followed by Western Europe with 9% and Asia (primarily Japan) with 3%. Eastern Europe is slowly achieving greater export potential.

CANADIAN EXPORTS BY GEOGRAPHICAL REGION 1993 vs 1994 ($000,000)					
SPORTS EQUIPMENT					
<</TD>	1993	%of TOTAL	1994	%of TOTAL	%INC.
USA	$275.6	81%	$370.70	85%	34%
Western Europe	41.7	12%	41.3	9%	(1%)
Eastern Europe	2.2	1%	3.8	1%	72%
Asia	12.2	4%	12.8	3%	5%
Other	6.7	2%	8.3	2%	24%
Total	$338.4	100%	$436.3	100%	28%

TOP 10 EXPORT DESTINATIONS VALUE IN DOLLARS JANUARY-DECEMBER ($000,000)			
COUNTRY	1992	1993	1994
United States	$223.2	$275.6	$370.0
Germany	7.0	9.1	8.3
United Kingdom	4.9	8.4	8.0
Japan	4.5	5.9	6.6
France	4.2	5.1	6.8
Switzerland	3.4	4.2	5.1
Netherlands	1.7	3.2	1.8
Taiwan	1.9	3.1	3.0
Finland	2.1	3.0	2.0
Australia	1.8	2.8	2.3
Other Countries	15.8	17.9	22.4
TOTAL - ALL COUNTRIES	$270.70	$338.40	$436.3

Exports to the USA are expected to continue to grow significantly. This growth in the US is fuelled by the growing North American popularity of certain segments in which Canadian firms are major players namely, ice hockey, in-line skates, exercise equipment, personal protection, and the complementary growth in products and accessories associated with cycling, roller and ball hockey, snowboarding, cross country skiing, and swimming pools and accessories. In virtually each of these categories Canada has at least one and usually several significant manufacturers who can ease accessibility to the US market for many of the niche and specialty companies.

In Europe, two notable trends are emerging which are now having an impact on Canadian industry. The development of market economies in Eastern Europe is creating opportunities for a variety of products in addition to skating and exercise equipment. In Western Europe, while it continues to be a significant export market, some firms in the industry are approaching this market in a different manner. Several companies who developed a broad base of European exports have now established wholly-owned marketing and production subsidiaries there to take advantage of the expanded EU and the emerging nations of Eastern Europe. Others are aligning with community-wide wholesalers and/or aggressively pursuing licensed manufacturing arrangements. While these strategies have led to a slowing in the growth of Canadian exports, they have also resulted in greater visibility of Canadian brand products and growth in technology transfer and investment opportunities. Thus, whereas larger Canadian manufacturers are more inclined to service the US market from Canada-based production facilities, they are more flexible in developing alternative strategies for the European market. Medium-sized and smaller companies with export potential are showing increased interest in identifying contacts to optimize opportunities as the EU expands and the GATT round of tariff reductions are implemented. There is still greater export potential for bicycle components and accessories, outdoor products, splasher pools and pool products, personal protection equipment, in-line skates and hockey equipment.

With the implementation of the NAFTA with Mexico and the impending extension of NAFTA to Chile, the Canadian industry has indicated a strong interest in identifying opportunities for sports and recreational products in the Mexican and South American markets. Several companies have already initiated contact but there is a general consensus that more information and market intelligence on market opportunities and doing business in these areas is required if the industry as a whole is to take advantage of potential export opportunities. Currently, some exercise equipment is exported to South America, while exports to Mexico, at this stage, consist mostly of ice skates and exercise equipment.

In Asia, Japan continues to represent the most short-term potential although there is emerging consumer demand among other Pacific Rim countries for recreational products. Currently Japan represents over 50% of the $12.8 million exported to this region. In the short-term there appears to potential in the Japanese market for export increases in such segments as in-line skates and equipment, snowboards, skis, bicycle parts/accessories, and outdoor items.

In summary, Canada is in a good position to take advantage of the growing popularity of in-line skating/hockey, fitness and exercise activities, outdoor recreation, and personal protection concerns. It should continue to maintain a dominant presence in the ice skating and hockey equipment sectors, with a lesser, though still competitive, position in snowboarding/x-c skiing, exercise equipment, and swimming pool products. In addition, Canada has established a good reputation as a quality supplier of specific niche products such as sport whistles, camping products, swim goggles,and high-end bicycle components and accessories.

SPORTING GOODS - EQUIPMENT ONLY

Statistics source: Statistics Canada
(E)Industry Canada Estimate

PRINCIPAL STATISTICS - SIC 3931					
<</TD>	1991	1992	1993	1994	1995(E)
Establishments	214	202	198	180	190
Employment	6744	7015	8139	8734	9500
Shipments ($millions)	676	702.5	847.2	1032.3	1100

TRADE STATISTICS					
<</TD>	1991	1992	1993	1994	1995(E)
Exports ($millions)	214.8	270.7	338.4	436.3	506.5
Domestic shipments ($millions)	461.2	431.8	508.8	596	593.5
Imports ($millions)	599.2	726.7	794.4	920.8	1081.2
Canadian Market ($millions)	1060.3	1158.5	1303.2	1516.8	1674.7
Exports (% of shipments)	32%	39%	40%	42%	46%
Imports (% of Canadian market)	57%	63%	61%	61%	65%

SOURCES OF IMPORTS (% of total value)					
<</TD>	1991	1992	1993	1994	1995(E)
United States	38%	40%	43%	46%	45%
European Community(15)	11%	11%	11%	12%	13%
Asia	48%	47%	43%	40%	39%
Other	3%	2 6%	3%	2%	3%

DESTINATIONS OF EXPORTS (% of total value)					
<</TD>	1991	1992	1993	1994	1995(E)
United States	73%	82%	81%	85%	81%
European Community(15)	17%	11%	11%	8%	10%
Asia	5%	3%	3%	3%	4%
Other	5%	4%	5%	4%	5%