A STUDY OF

THE CANADIAN GREETING CARDS INDUSTRY

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

Canada

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1. Definition of Industry and Product

The industry is composed of establishments primarily engaged in the production of greeting cards. Production involves several operations including designing the card and composing the message. Some establishments perform their own printing while others sub-contract this operation to general commercial printers.

Greeting cards are generally defined as cards bearing an illustrated message that expresses, either seriously or humorously, affection, good will, gratitude, sympathy or other sentiments. Also included are blank cards that allow senders to compose their own sentiments. Greeting cards are usually given in observance of a special day or event and are generally divided into two general categories, holiday and everyday. Holiday cards (also called seasonal cards) include those for Christmas, New Year's day, St. Valentine's day, Easter, Mother's day and Father's day. Everyday cards include those commemorating birthdays and anniversaries, and cards for condolence, congratulations or friendship, as well as get-well cards and thank-you cards.

Greeting cards can be further divided between traditional and alternative. Traditional cards convey serious sentiments using conservative designs and messages. Alternative cards (also called untraditional or contemporary cards) typically feature offbeat humour and more risque messages. These cards are targetted at special groups, such as working women and divorced people.

The exchange of greetings among friends can be traced to the written messages that accompanied New Year's gifts in Egypt six centuries before the birth of Christ. In the 2nd century A.D., commemorative medals bearing the inscription "The Senate and People of Rome Wish a Happy and Prosperous New Year to Hadrianus Augustus, the Father of the Country", appeared as another early forerunner of the greeting card. In the 15th century, master wood engravers in Central Europe produced inscribed prints which had the same intent as the modern Christmas and New Year's cards. The first printed paper valentine was issued in Italy in 1669. In contrast, the printed Christmas card was first released in England in 1843. Mother's day and Father's day cards were comparative latecomers, appearing about 1910 in the United States.

Over the years, a wide range of raw materials have been used for the production of greeting cards, including cloth, leather, vellum, metal, wood, clay and even cork. Today, greeting cards are usually of stiff paper. In the same vein, greeting cards have appeared in a wide range of sizes. Extreme exceptions are an inscribed grain of rice presented in 1929 as a Christmas greeting to the prince of Wales and a Christmas card sent to the U.S. President Calvin Coolidge in 1924 that was 21 inches by 33 inches. The imprinted messages on cards may vary in length from a brief word or two to 100 words or more in prose or verse. The vast majority of cards are printed in color, ranging from soft pastels to bold primaries. At one time, greeting cards producers used only white envelopes, however, today the colour of the envelope is in many instances carefully coordinated with the colours of the card.

2. Commercial Production of Greeting Cards

2.1 Current State

It is estimated that total commercial production of greeting cards in Canada reached $166.1 million in 1986, a gain of 8.9 percent over 1985. Approximately 96 percent of this total, or about $158.9 million, originated from 15 establishments for which shipments of greeting cards constituted 35 percent or more of their total commodity shipments. Roughly $7.3 million worth of greeting cards, or 4 percent of total production in 1986, originated from 37 plants that produce greeting cards as a secondary activity. It is estimated that the Canadian industry shipped about 650 million greeting cards in 1986, about 25 cards for every man, woman and child in Canada.

Most plants engaged in producing greeting cards in Canada are classified by Statistics Canada under SIC 2819 - Other Commercial Printing Industries. The remaining establishments are found under SIC 2791 (Coated and Treated Paper Industry), SIC 2792 (Stationery Paper Products Industry) and SIC 2811 (Business Forms Printing Industry).

It is generally believed that everyday cards accounted for roughly 60 percent (20 percent for birthday cards and 40 percent for other types of everyday cards) of total shipments of greeting cards in 1986 and holiday cards for 40 percent (30 percent for Christmas cards and 10 percent for other festivities cards). Greeting cards can be further divided between traditional and alternative. While still relatively small in terms of market share (probably less than 20 percent), alternative cards are the fastest growing segment. These cards were first released in the 1970s.

It is understood that 1987 was another good year for Canadian greeting cards, with an increase in the value of shipments estimated at between 8 and 9 percent.

2.2 Historical Background

In response to generally favourable market conditions, Canadian greeting cards production achieved a solid record of expansion during the period 1977-86. As indicated in Table 1, commercial production grew from $59.1 million in 1977 to $166.1 million in 1986, an average annual growth rate of 12.7 percent. Growth in real terms (i.e. constant dollars) cannot be provided because of the lack of adequate price indices for greeting cards. During the period under review, commercial production declined only once, in 1979. Largest annual gains on a percentage basis were recorded in 1980 (34.3 percent) and 1984 (18.2 percent). Strong annual growth rates were registered even during the recessionary economic times of the early 80's. During recessions, cards are used as alternatives to more expensive gift items. Shipments of greeting cards on a per capita basis stood at $6.55 in 1986, compared to $2.54 in 1977.

TABLE 1
COMMERCIAL PRODUCTION ($000)

1977	59,093
1978	69,736
1979	66,575
1980	89,425
1981	103,521
1982	112,525
1983	127,849
1984	151,108
1985	152,577
1986	166,133

SOURCE: Statistics Canada Catalogue No. 31-203 and 36-203 and unpublished data

During the period under review, production of greeting cards in Canada performed better than the the overall manufacturing sector (average annual growth rate of 10.1 percent), the country's gross national product (10.0 percent) and personal expenditures on consumer goods and services by Canadians (10.3 percent), but at a slower rate than the commercial printing industries sector (13.3 percent).

3. Industry Structures

3.1 Overview

In 1986, the latest year for which complete statistics are available, there were only 15 establishments primarily engaged in producing greeting cards(1) in Canada. They employed 3,909 people on a permanent basis and reported shipments of goods of own manufacture valued at $218.1 million, of which $158.9 milllion or 72.9 percent of the total consisted of greeting cards. For comparison purposes, there were 5 greeting cards plants in Canada in 1985 and 9 in 1984. Industry's employment stood at 3,399 in 1985, compared to 3,333 in 1984. Industry's shipments of goods of own manufacture reached $186.2 million in 1985, versus $190.8 million in 1984.

In the last few years, greeting cards producers have diversified their production into paper products relating to greeting cards, such as gift wraps, calendars and stationery. In addition, most producers are engaged in purchasing for resale, related gift items, such as candles and stuffed animals. The 15 greeting cards producers generated a total of $29.8 million in 1986 from the selling of products manufactured by other companies, versus $90.4 million in 1985 and $48.6 million in 1984.

The 15 producers maintain a full-time staff of artists and writers to produce greeting cards. Designing seasonal greeting cards can begin as much as 18 months before the holiday date. Design of everyday cards usually begins about 12 months in advance of shipments. Some of the producers in Canada also import copyrighted verse and film positives of designs of greeting cards, primarily from U.S. greeting cards producers. Canadian producers also license popular characters from companies outside the greeting cards industry and use these on their cards and related product lines. Finally, some producers commission designs from well-known artists.

NOTE: (1) Establishments for which greeting cards accounted for at least 35 percent of their total commodity shipments. For the purpose of this study, these establishments will be considered as greeting cards producers.

Relative to the commercial printing industries sector, the greeting cards industry accounted for 0.5 percent of all plants, 6.8 percent of total employment and 4.4 percent of shipments in 1986. During that year, the average greeting cards establishment reported annual sales of goods of own manufacture of $14.5 million, compared to annual sale averages of $1.6 million in the commercial printing industries sector and $6.7 million in the overall manufacturing sector in Canada. In 1986, the typical greeting cards plant employed 261 people, versus averages of 18 people in the commercial printing industries sector and 47 people in the overall manufacturing sector.

3.2 Size of Plants and Firms

As outlined in Table 2, plants employing fewer than 200 people each represented 80 percent of all greeting cards establishments in Canada in 1986, but probably accounted for only about 13 percent of total shipments. By the same token, there were 3 plants with at least 200 employees, 20 percent of the total, and they shared roughly 87 percent of all shipments. In contrast, only 1.0 percent of all establishments in the commercial printing industries sector in Canada employed at least 200 people in 1986 and together accounted for 25.3 percent of sector's shipments. There have been no indications of major changes in the establishment size pattern of the greeting cards industry or the commercial printing industries sector in 1987-88.

TABLE 2
DISTRIBUTION OF INDUSTRY BY ESTABLISHMENT SIZE, 1986

	Establishment		Shipments (1)	
	(no.)	(%)	($million)	(%)
No. of Employees				
less than 200	12	80	28	13
200 or more	3	20	190	87
TOTAL	15	100	218	100

SOURCE: Statistics Canada unpublished data and Divisional estimates
NOTE: (1) Goods of own manufacture

In 1986, the smallest greeting cards plant in Canada had about 10 employees, with sales of about $1 million. There are no major barriers to entry into this industry at the small scale level. Smaller greeting cards producers can compete successfully by producing uniquely designed products for population segments not adequately served by the larger suppliers. The largest plant in Canada employed about 1,100 people in 1986, with revenues from all sources (including reselling activities) of roughly $100 million.

3.3 Regional Distribution

In 1986, nine of the 15 greeting cards establishments were located in Ontario and together accounted for 98.6 percent of all employment and 98.2 percent of total shipments. The remaining plants were in Quebec (5) and Manitoba (1). In contrast, 53.8 percent of the total output of the commercial printing industries sector in Canada in 1986 originated from establishments in Ontario, versus 52.6 percent for the overall manufacturing sector.

In 1985, there were only five greeting cards establishments in Canada, all located in Ontario. Of the nine greeting cards producers in both 1984 and 1983, seven were located in Ontario and two in Quebec. Establishments that produce greeting cards as a secondary activity, are more widely distributed on a geographic basis.

3.4 Ownership and Control

Of the 15 greeting cards establishments in Canada, three are foreign-controlled (USA) and together, they account for about 80 percent of the industry's shipments. In comparison, about 4 percent of all commercial printers in Canada are foreign-controlled and collectively they account for only about 15 percent of the sector's output. None of the Canadian-owned producers of greeting cards have investments abroad.

3.5 International Context

For the purpose of this document, international comparison has been limited to the United States because of the similarity in business conditions and consumer preferences. In addition, the United States is by far Canada's largest trading partner in greeting cards.

According to preliminary statistics provided by the U.S. Department of Commerce, the greeting cards industry(1) in the United States employed 20,300 people in 1986 with shipments of goods of own manufacture of US$2.8 billion, of which $2.0 billion

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NOTE: (1) Classified under SIC 2771

or 69.8 percent of the total consisted of greeting cards. The number of establishments stood at an estimated 200. In 1986, per capita shipments of greeting cards reached US$8.07 in the United States, compared to C$6.55 (US $4.71) in Canada. It is estimated that the U.S. industry shipped about 7 billion cards in 1986, roughly 30 cards for every U.S. citizen, versus an average of about 25 cards for its Canadian counterpart.

The American industry is also dominated by a small number of large plants. Establishments with at least 500 employees, 7.1 percent of all plants in 1982(1), accounted for 75.5 percent of the industry's employment and 83.9 percent of all shipments. In contrast, plants employing fewer than 20 people each accounted for 64.9 percent of all establishments, 2.9 percent of total employment and 1.9 percent of all shipments. Production is concentrated in New York, California, Illinois and Massachusetts. At the company level, it is believed that the three largest producers currently account for about 80 percent of the total commercial production of greeting cards in the U.S.

Between 1977 and 1986, the value of shipments of greeting cards by the U.S. industry expanded at an average annual growth rate of 11.0 percent, compared to 12.7 percent for its Canadian counterpart.

4. Domestic Market Structures

4.1 Market Size

Reflecting generaly favourable conditions, the apparent Canadian market (at producers net selling price) for greeting cards expanded from $63.2 million in 1977 to $175.9 million in 1986, an average annual growth rate of 12.0 percent. Growth in real terms (i.e. constant dollars) cannot be provided because of the lack of adequate price indices. At the retail level, Canadians spent roughly $475 million buying greeting cards in 1986. It is estimated that in 1986, Canadians traded roughly 200 million Christmas cards, 60 million St. Valentine's day cards and 15 million Mother's day cards. Estimates for other types of greeting cards are not available.

NOTE: (1) Latest year for which accurate statistics are available.

It is believed that over 75 percent of all greeting cards are bought by women. Because the basic objective of greeting cards is to communicate, cards are bought essentially on the basis of individual appearance and message, not by brand name. At the retail level, most cards fall in the $0.75 to $1.50 price category. Complex cards (pop-ups, musicals, etc.) retail at much higher prices. Christmas cards are usually sold in boxes, other types of greeting cards are normally sold individually. Greeting cards are sold together with envelopes.

A special characteristic of greeting cards in relation to other manufactured goods, is that its market is segmented into two linguistic groups. It is estimated that the Francophone consumers account for roughly 20 percent of the Canadian market.

4.2 <u>Marketing Practices</u>

Greeting cards are sold through a wide range of retail stores, including card specialty stores, drug stores, supermarkets, variety stores, gift stores and department stores. In addition, numerous charity organizations are engaged in selling greeting cards, particularly hand-crafted cards, usually on a door-to-door basis.

Card specialty stores account for an estimated 50 percent of the market. Hallmark Cards and Carlton Cards, the two largest producers of greeting cards in Canada, are also the largest greeting card retail chains in Canada. Each firm has over 100 company-owned retail stores across Canada. Hallmark and Carlton also sell to other retailers. Another important chain is Best Wishes Card Shoppes with 24 stores in Ontario.

It is generally believed that drug stores are responsible for about one-third of greeting cards sales at the retail level. Historically, greeting cards were relegated to the back wall of drug stores. Now greeting cards tend to be displayed on free-standing gondolas near the entrance, reflecting the fact that cards are high-profit items for drug stores.

Greeting cards producers employ direct field sales forces that regularly visit the large retailers. Independent agents are used to handle smaller accounts. Retailers are also approached through trade fairs. Attendance at these shows is usually restricted to trade people. In addition, greeting cards producers advertise their capabilities through company circulars and brochures, and through advertisements in specialized business publications. Some greeting cards producers offer racks to retailers in order to lure them to display their greeting cards. Many producers allow retailers to return for credit certain brands of seasonal greeting cards. Finally, some greeting cards producers market directly to consumers through mail order merchandising.

5. International Trade

5.1 Canadian Exports

Statistics Canada does not publish separate export data for greeting cards. It is estimated that Canadian exports reached about $0.3 million in 1977, $2.9 million in 1986 and $3.5 million in 1987. It is generally believed that over 90 percent of export shipments of greeting cards in 1987 were directed to the United States. It is understood that in 1987, small shipments were sent to Austria, Australia, France, Ireland, Sweden and the United Kingdom. Canadian exports of greeting cards tend to be concentrated in the high quality art/craft category.

Exports of greeting cards grew at a faster rate than domestic production, as their share of industry's output expanded from an estimated 0.5 percent in 1977 to 1.7 percent in 1986. The greeting cards industry is less export oriented than the overall commercial printing industries sector which recorded export orientation ratios of 1.5 percent in 1977 and 3.7 percent in 1986.

5.2 Canadian Imports

As depicted in Table 3, imports of greeting cards into Canada jumped from $4.4 million in 1977 to $12.7 million in 1986, an average annual growth rate of 14.4 percent. Imports expanded at a faster rate than domestic production, as their share of the apparent Canadian market increased from 7.0 percent in 1977 to 7.2 percent in 1986. In comparison, the overall commercial printing industries sector recorded import penetration ratios of 8.5 percent in 1977 and 7.2 percent in 1986.

TABLE 3
CANADA'S IMPORTS OF GREETING CARDS ($000)

1977	4,390
1978	5,092
1979	6,061
1980	5,230
1981	5,167
1982	5,779
1983	8,283
1984	11,221
1985	15,215
1986	12,684
1987	12,378

SOURCE: Statistics Canada Catalogue No. 65-007

Canada's imports of greeting cards stood at $12.4 million in 1987, a decline of 2.4 percent from 1986. Overall, Canada's trade imbalance in greeting cards (i.e. the difference between exports and imports) has grown from $4.1 million in 1977 to $8.9 million in 1987.

Based on partial statistics obtained through a special import analysis prepared by Industry, Science and Technology Canada(1), it is estimated that Christmas cards accounted for roughly 30 percent of Canada's imports of all types of greeting cards in 1986. Greeting cards imported into Canada are generally similar to those produced domestically with foreign language cards accounting for a small portion of all imports.

The United States is by far the largest supplier of greeting cards to Canada, as demonstrated in Table 4. Its share of all imports varied from a high of 84.3 percent in 1977 to a low of 67.7 percent in 1983. During the period 1977-87, the United Kingdom's share of all imports has increased from 9.9 percent to 21.0 percent. It is understood that the United Kingdom is the largest producer of greeting cards in Europe. The British industry is dominated by Hallmark and American Greetings, two U.S. multinationals, and by the Fine Art Developments PLC group. These three firms account for about 70 percent of the British

NOTE: (1) Copies of this import analysis are available free of charge from the Leisure Products Division (JSCG), Industry, Science and Technology Canada, 235 Queen Street, Ottawa, Ontario K1A 0H5 (613) 954-3100.

greeting cards market. Some 1.4 billion greeting cards were sold in the United Kingdom in 1986. In 1987, Hong Kong was the third largest supplier of greeting cards to Canada, with imports valued at $548,000, compared to only $6,000 in 1977. It is understood that the bulk of imports from Hong Kong consists of boxed Christmas cards.

TABLE 4
CANADA'S IMPORTS OF GREETING CARDS BY COUNTRY

	1977		1982		1987	
	($000)	(%)	($000)	(%)	($000)	(%)
United States	3,669	84.3	4,701	81.4	8,478	68.5
United Kingdom	433	9.9	608	10.5	2,594	21.0
Hong Kong	6	0.1	130	2.3	548	4.4
Switzerland	27	0.6	64	1.1	331	2.7
Italy	56	1.3	93	1.6	96	0.8
Others	169	3.9	183	3.2	331	2.7
	4,390	100.0	5,779	100.0	12,378	100.0

SOURCE: Statistics Canada Catalogue No. 65-007

Of the $12.4 million worth of greeting cards imported into Canada in 1987, only $0.5 million or 3.6 percent of the total came in duty free. The balance of imports were classified under 10 different dutiable tariff items. However, the vast majority of dutiable imports were dutiable at 11.3 percent.

5.3 Canada - United States Comparison

As demonstrated in Table 5, the United States greeting cards industry supplied a larger share of its domestic market than its Canadian counterpart in both 1977 and 1986. However, the Canadian industry was more export oriented than the U.S. industry in 1986.

TABLE 5
EXPORT ORIENTATION AND IMPORT PENETRATION

		Canada	United States
Export as % of industry's shipments			
	1977	0.5	0.6
	1986	1.7	0.5
Imports as % of domestic market			
	1977	7.0	0.4
	1986	7.2	0.7

SOURCE: Statistics Canada and U.S. Department of Commerce

In 1987, exports of greeting cards by the United States reached US$16.1 million. Canada was the principal export market of the U.S. industry, absorbing 24.7 percent of its export shipments, followed by Mexico (17.6 percent), Hong Kong (12.2 percent), the United Kingdom (7.8 percent), Singapore (6.0 percent) and Saudi Arabia (2.9 percent).

In 1987, the United States imported US$22.4 million worth of greeting cards. The United Kingdom was the principal source of supply, accounting for 25.5 percent of all imports, followed by Hong Kong (11.7 percent), Canada (10.8 percent), Italy (7.6 percent), Mexico (6.8 percent) and Switzerland (6.1 percent). One quarter of all imports in 1987 entered the United States duty free. The remaining imports were dutiable at 4.9 percent in the case of greeting cards with greeting and 5.0 percent for cards without greeting. Close to 10 percent of all imports consisted of cards without greeting or wording.

5.4 Other Developed Countries

As shown in Table 6, the United Kingdom was by far the largest exporter of greeting cards and postcards among developed countries(1) in 1987, followed by Ireland, West Germany and Italy. In contrast, the United States was the largest importer, followed by the United Kingdom, France and West Germany. In 1987, the United States had the largest trade imbalance in absolute terms, followed by France, Norway and Austria. However, on a per capita basis, Iceland had the worst trade balance (US$1.64 per inhabitant), followed by Norway (US$1.22), Finland (US$0.83) and Austria (US$0.63).

NOTE: (1) Separate statistics for greeting cards are available for a few countries only.

TABLE 6
INTERNATIONAL TRADE IN GREETING CARDS AND POSTCARDS (US $ Million)

	Exports		Imports		Trade Balance	
	1980	1987	1980	1987	1980	1987
Australia	0.7	1.2	2.3	5.6	-1.6	-4.4
Austria	2.8	3.7	4.3	8.5	-1.5	-4.8
Belgium-Luxembourg	2.7	6.4	5.3	10.5	-2.6	-4.1
Canada	0.4	2.6	4.9	0.7	-4.5	-1.9
Denmark	1.0	2.2	2.0	3.0	-1.0	-0.8
Finland	0.3	0.4	1.9	4.5	-1.6	-4.1
France	5.5	9.9	14.5	24.4	-9.0	-14.5
W. Germany	14.9	26.2	12.2	19.2	+2.7	+7.0
Greece	(1)	0.1	0.7	0.9	-0.7	-0.8
Ireland	18.2	27.1	9.4	11.6	+8.8	+15.5
Iceland	(1)	(1)	(1)	0.4	(1)	-0.4
Italy	13.2	19.8	0.8	3.4	+12.4	+16.4
Japan	2.1	4.7	0.6	2.5	+1.5	+2.2
Netherlands	3.1	12.3	7.0	11.9	-3.9	+0.4
New Zealand	2.2	2.9	0.1	0.6	+2.1	+2.3
Norway	0.4	0.5	2.9	5.6	-2.5	-5.1
Portugal	(1)	0.1	0.1	0.7	-0.1	-0.6
Spain	5.6	6.5	0.3	1.6	+5.3	+4.9
Sweden	2.2	4.9	3.0	5.1	-0.8	-0.2
Switzerland	8.8	13.9	5.3	13.1	+3.5	+0.8
United Kingdom	20.4	33.3	17.3	31.5	+3.1	+1.8
United States	11.9	16.3	9.5	31.6	+2.4	-15.3
Yugoslavia	0.8	0.6	0	0.2	+0.8	+0.4

SOURCE: Organisation for Economic Co-Operation and Development and Divisional estimates for Canadian exports

NOTE: (1) less than $50,000

6. Barriers to Trade

6.1 Tariffs

Annex A describes the principal tariff items for greeting cards in Canada, the United States and the European Community along with the duty rates applicable in 1988. The tariff rate in Canada is higher than those in its main trading partners. Under the Canada-U.S. Free Trade Agreement, the tariffs on printed matter, including greeting cards, will be eliminated in five equal annual stages starting on January 1, 1989.

6.2 Non-Tariff Barriers

There are no significant non-tariff barriers affecting Canada's international trade in greeting cards.

7. Relative Production Costs

7.1 Raw Materials and Energy

In 1986, the 15 greeting cards establishments in Canada spent $56.8 million for raw materials and supplies, representing 26.0 percent of their combined value of shipments of goods of own manufacture. This compares to averages of 45.4 percent for the commercial printing industries sector and 56.3 percent for the overall manufacturing sector. During the period 1983-86, the proportion of the value of shipments accounted for by raw materials and supplies increased in both the greeting cards and commercial printing areas, but declined in the overall manufacturing sector, as demonstrated in Table 7.

TABLE 7
RAW MATERIALS AND SUPPLIES
AS % OF SHIPMENTS(1)

Industry	1983	1984	1985	1986
Greeting cards	21.4	23.5	27.8	26.0
Commercial printing	43.0	44.0	44.3	45.4
All manufacturing	58.9	59.2	58.7	56.3

SOURCE: Statistics Canada Catalogue No. 31-203, 36-203 and 36-251 and unpublished data

NOTE: (1) Shipments of goods of own manufacture.

The major materials used by greeting cards producers are coated and uncoated paper (primarily bristols - a heavy weight paper grade) and printing inks. In addition, many producers purchase envelopes from envelope manufacturers. Most of the materials consumed by greeting cards companies are Canadian produced. No critical sourcing difficulties or delays in obtaining raw materials and supplies have been experienced by the Canadian greeting cards industry over the past few years.

Table 8 gives Canadian industrial product price indexes for some of the raw materials and supplies used by the Canadian greeting cards industry. As demonstrated, the price indexes for paper increased at a faster rate than all manufactured goods during the period 1981-87. The increases have been particularly large in 1987, 5.5 percent for printing paper and 6.9 percent for fine papers, versus an average of 2.7 percent for all manufactured goods. Where applicable, Canadian Most Favoured Nation tariff rates on paper ranged from 2.5 percent to 10.2 percent in 1988. Printing ink was subject to a tariff rate of 12.5 percent in 1988.

TABLE 8
CANADIAN INDUSTRIAL PRODUCT PRICE INDEXES

	Paper for Printing other than Newsprint (1)	Fine Papers (2)	Printing Inks	All Manufactured Goods
1981	100.0	100.0	100.0	100.0
1982	104.9	105.8	108.6	106.7
1983	107.5	106.5	110.4	110.4
1984	114.6	114.8	110.0	115.4
1985	117.9	116.2	111.7	118.6
1986	119.1	119.6	113.5	119.6
1987	125.7	127.9	113.3	122.8

SOURCE: Statistics Canada Catalogue No. 62-011

NOTES: (1) For domestic customers
(2) Other than writing and reproduction paper

The greeting cards industry is a small energy consumer. As a percentage of value of shipments of goods of own manufacture, the industry's fuel and electricity costs were 1.1 percent in 1986, compared to 1.1 percent for the commercial printing industries sector and 2.8 percent for all manufacturing industries. In terms of energy costs, the greeting cards industry is also affected indirectly through its purchases of printing inks (petroleum-derived materials) and paper. The paper industry ranks as one of the largest energy users among manufacturing industries. Table 9 shows that the proportion of the value of shipments accounted for by fuel and electricity remained at the same level in 1983 and 1986 in both the greeting cards and commercial printing fields, but declined in the overall manufacturing sector.

TABLE 9
FUEL AND ELECTRICITY
AS % OF SHIPMENTS(1)

Industry	1983	1984	1985	1986
Greeting cards	1.1	1.4	1.4	1.1
Commercial printing	1.0	1.1	1.1	1.1
All manufacturing	3.3	3.2	3.0	2.8

SOURCE: Statistics Canada Catalogue No. 31-203, 36-203 and 36-251 and unpublished data

NOTE: (1) Shipments of goods of own manufacture.

7.2 Employment

As indicated previously, the 15 greeting cards producers in Canada employed 3,909 people in 1986. Production and related workers accounted for 49.7 percent of total employment in the greeting cards industry, compared to averages of 79.1 percent for the commercial printing industries sector and 74.7 percent for the overall manufacturing sector. During the period 1983-86, the proportion of production and related workers to total employment has declined in the greeting cards industry, but has increased in the other two manufacturing groups, as shown in Table 10.

TABLE 10

PRODUCTION AND RELATED WORKERS
AS % OF TOTAL EMPLOYMENT

Industry	1983	1984	1985	1986
Greeting cards	52.2	51.9	51.9	49.7
Commercial printing	74.6	74.2	79.6	79.1
All manufacturing	71.4	72.1	73.9	74.7

Source: Statistics Canada Catalogue No. 31-203, 36-203 and 36-251 and unpublished data

As shown in Table 11, close to 62 percent of the production and related jobs in the Canadian greeting cards industry in 1985 were occupied by women, compared to 31.6 percent in the commercial printing industries sector and 24.7 percent in the overall manufacturing sector.

TABLE 11

FEMALE WORKERS
AS % OF TOTAL WORKERS

Industry	1983	1984	1985	1986
Greeting cards	60.1	59.9	61.9	60.8
Commercial printing	33.7	32.0	31.6	N/A
All manufacturing	24.5	24.6	24.7	N/A

SOURCE: Statistics Canada Catalogue No. 31-203 and unpublished data

Greeting card production is somewhat less labour intensive than general commercial printing, but both industrial groupings are significantly more labour intensive than the average for all manufacturing industries. Wages represented 17.3 percent of the value of shipments of greeting cards producers in 1986, versus 22.8 percent for the commercial printing industries sector and 13.1 percent for the overall manufacturing sector. As demonstrated in Table 12, labour intensity rates have increased in the greeting cards industry and the overall manufacturing sector during the period 1983-86, but declined in the commercial printing industries sector.

TABLE 12

WAGES AS % OF SHIPMENTS(1)

Industry	1983	1984	1985	1986
Greeting cards	15.9	17.9	21.5	17.3
Commercial printing	23.7	21.5	23.2	22.8
All manufacturing	12.7	12.3	12.5	13.1

Source: Statistics Canada Catalogue No. 31-203, 36-203 and 36-251 and unpublished data

Note: (1) Shipments of goods of own manufacture.

The greeting cards industry provides a lower wage structure than general commercial printing and all manufacturing. This reflects in some measure the low degree of unionization and the lower skill requirements of many jobs in the greeting cards industry. Hourly earnings averaged $10.25 for greeting cards producers in 1986 versus $12.33 for the commercial printing industries sector and $11.73 for the overall manufacturing sector in Canada. During the period 1983-86, hourly earnings have increased at a faster rate in the greeting cards industry than in the other two sectors, as depicted in Table 13.

TABLE 13
ANNUAL AVERAGE HOURLY EARNINGS

	Greeting Cards (GC) ($)	Commercial Printing (CP) ($)	All Manufacturing (AM) ($)	GC/CP (%)	GC/AM (%)
1983	8.83	10.92	10.49	80.9	84.2
1984	9.51	11.50	10.95	82.7	86.9
1985	9.95	12.21	11.36	81.5	87.6
1986	10.25	12.33	11.73	83.1	87.4

Source: Statistics Canada Catalogue No. 31-203, 36-203 and 36-251 and unpublished data

In the last few years, labour supply has not been a major problem for the Canadian greeting cards industry. The major vehicle for acquiring trade skills in this industry, like in other commercial printing sub-sectors, is still on-the-job training provided by management, unions and suppliers of machinery and equipment. In addition, a number of Canadian technical schools and community colleges provide courses in various aspects of graphic arts.

7.3 Productivity of Labour

Labour productivity, expressed as manufacturing value added per person-hour paid, is relatively high in the greeting cards industry. It stood at $38.98 in 1986, compared to only $29.18 for the commercial printing industries sector and $36.30 for the overall manufacturing sector. As shown in Table 14, labour productivity declined in the greeting cards industry during the 1983-86 period, while it increased in the other two manufacturing groups.

TABLE 14
MANUFACTURING VALUE ADDED PER PERSON-HOUR PAID

	Greeting Cards (GC) ($)	Commercial Printing (CP) ($)	All Manufacturing (AM) ($)	GC/CP (%)	GC/AM (%)
1983	43.73	25.84	31.35	169.2	139.5
1984	42.48	29.69	34.34	143.1	123.7
1985	38.93	29.19	35.06	133.4	111.0
1986	38.98	29.18	36.30	133.6	107.4

SOURCE: Statistics Canada Catalogue No. 31-203, 36-203 and 36-251 and unpublished data

7.4 Canada-United States Comparisons

7.4.1 Size of Firms

Three large well-established companies dominate the U.S. greeting cards industry, namely Hallmark Cards (40 percent of industry's sales), American Greetings (30 percent) and Gibson Greetings (10 percent). These firms reported 1987 worldwide corporate revenues from all sources of U.S. $2 billion, U.S. $1.2 billion and U.S. $360 million respectively. In contrast, the largest producer in Canada generated an estimated C $100 million (U.S. $80 million) only.

Greeting cards account for about 50 percent of Hallmark's total revenues. Hallmark has plants and facilities in over 100 countries including Canada. American Greetings generates about 65 percent of its revenues from the sales of greeting cards. It operates plants and facilities in the United States, Canada (Carlton Cards, Plus Mark and Rust Craft), Continental Europe, Mexico, Monaco and the United Kingdom. Hallmark and American Greetings have chains of company-owned and franchised retail stores. Greetings cards account for about 53 percent of Gibson's total revenues. This firm has no foreign subsidiaries.

The above three U.S. firms are technologically innovative. They have diversified their production into products related to greeting cards, featuring popular character creations used in their greeting cards. These firms are also engaged in licensing the use of their more popular character creations. These firms are able to realize economies of scale not attainable by Canadian firms. In addition, they are able to mount extensive marketing campaigns. For example, Hallmark spent US$93.9 million in national advertising in 1987.

7.4.2 Raw Materials

Table 15 provides a comparison of the Canadian and American producer price indexes for certain paper grades. While these indexes are not directly comparable, they are nonetheless useful for showing general patterns of price changes. They show that price increases in Canada for certain paper grades have been much higher than in the United States over the period 1981-87. Paper is the most important raw material used by greeting cards producers.

TABLE 15
PRODUCER PRICE INDEXES FOR JUNE

	1981	1982	1983	1984	1985	1986	1987
Canada							
Paper for printing, other than newsprint	100.0	103.1	105.0	113.3	116.0	117.5	121.9
Fine papers, other than writing and reproduction	100.0	104.8	104.3	115.1	115.0	120.0	125.8
U.S.A.							
Groundwood paper, uncoated	100.0	105.5	100.8	105.7	108.5	108.3	111.5
Clay coated printing and converting paper	100.0	105.1	103.9	116.5	123.3	121.1	118.1
Book paper, uncoated	100.0	101.6	98.8	108.1	101.9	101.6	106.6

SOURCE: Statistics Canada Catalogue No. 62-011 and U.S. Department of Labour - Producer Price Indexes Reports

It is generally believed that on an exchange rate-adjusted basis, prices for most raw materials used by greeting cards producers in 1987 were somewhat lower in Canada than in the United States.

7.4.3 Wages

In "local currency terms", average hourly earnings in the Canadian greeting cards industry were higher than in the U.S. industry, as shown in Table 16. This is due largely to higher inflationary pressures in Canada. However, after currency adjustment, the Canadian industry had a lower wage structure than its U.S. counterpart.

TABLE 16
AVERAGE HOURLY EARNINGS

	Canada		U.S.A.	Canada/U.S.A. Unadjusted	Canada/U.S.A. Adjusted(1)
	(C$)	(U.S.$)	(U.S. $)	(%)	(%)
1983	8.83	7.16	8.10	109.0	88.4
1984	9.51	7.35	9.20	103.4	79.9
1985	9.95	7.29	9.43	105.5	77.3
1986	10.25	7.38	9.70	105.7	76.1
1987	N/A	N/A	9.97	N/A	N/A

SOURCE: Statistics Canada unpublished data and U.S. Department of Commerce

NOTE: (1) After currency adjustments

At the state level, average hourly earnings in the U.S. industry in 1987 varied from a high of about U.S.$11 for California to a low of about $7 for New Hampshire.

7.4.4 Productivity of Labour

As demonstrated in Table 17, the Canadian greeting cards industry is much less efficient than the U.S. industry, both in local currency terms and on an exchange rate-adjusted basis. As a group, the large U.S. greeting cards producers are much larger than their Canadian counterparts, and achieve greater economies of scale. In addition, the shorter print runs in Canada due to the segmentation of an already small market into two linguistic groups militates against the realization of such economies.

TABLE 17
TOTAL VALUE ADDED PER EMPLOYEE

	Canada		U.S.A.	Canada/U.S.A.	
	(C$)	(U.S.$)	(U.S. $)	Unadjusted (%)	Adjusted(1) (%)
1983	49,893	40,484	71,609	69.7	56.5
1984	50,627	39,100	84,192	60.1	46.4
1985	59,694	43,726	95,216	62.7	45.9
1986	N/A	N/A	101,810	N/A	N/A

SOURCE: Statistics Canada unpublished data and U.S. Department of Commerce

NOTE: (1) After currency adjustments

8. Technology and Innovation

8.1 Machinery and Equipment

The manufacturing process for greeting cards can be separated into three basic steps:

a) preparation: which includes the setting up and arrangement of the message (composition); the separation of the colour components of drawings and photographs with filters (colour separation); and the production of printing plates containing the information and illustrations to be reproduced (platemaking).

b) printing: which involves the reproduction of the images contained on the plates onto paper or other substrates; lithography (also called offset) is the primary method for printing greeting cards, accounting for over 90 percent of industry's shipments; the screen printing process accounts for most of the balance.

c) finishing: which includes operations, such as die-cutting and embossing. Glitter and other materials are sometime applied to add luster to the cards.

Reliable statistics about the level of capital expenditures by the Canadian greeting cards industry are not available. For information purposes, Table 18 provides statistics on new capital expenditures by the U.S. industry.

TABLE 18

NEW CAPITAL EXPENDITURES

	US $ MILLION	% OF INDUSTRY'S SHIPMENTS
1977	18.8	1.8
1978	25.8	2.2
1979	49.6	3.6
1980	51.0	3.2
1981	71.3	3.7
1982	37.2	2.0
1983	51.1	2.3
1984	91.0	3.8
1985	46.5	1.8
1986	48.4	1.8

SOURCE: U.S. Department of Commerce

8.2 Research and Development

In terms of printing processes, the greeting cards industry like the commercial printing industries sector, worldwide, generally relies on suppliers of machinery and equipment to originate technological developments. Because of the existence of several competing printing methods, extensive research and development (R&D) programs have been conducted by suppliers in order to capture a larger share of the market. This has resulted in a rapid and continuing introduction of new or more sophisticated technologies. These technologies are made available on a worldwide basis. Most of this R&D work is done outside Canada.

Given the nature of the industry, the need for R&D to improve existing products or develop new ones is paramount. On the market today, there are cards that talk, cards with flashing lights and musical cards. Even laser techniques are being used to create multi-dimensional cards. There are also pop-up cards for children.

The Canadian greeting cards industry is generally dependent upon outside sources for ideas for new products, particularly U.S. greeting cards producers. In terms of diffusion of new products, the tradition has been for Canadian cards producers to follow the U.S. industry by a year or two.

9. Financial Situation

Regretfully, there is a dearth of reliable information about the financial situation of the Canadian greeting cards industry. However, it is understood that the financial position of most greeting cards producers in Canada can be described as healthy.

Table 19 provides a comparison of the profit performance of U.S. greeting cards producers and commercial lithographic printers for the year 1987. Traditionally, the financial performance of the greeting cards and commercial lithographic printing industries has been better than the overall manufacturing sector.

TABLE 19
PROFIT PERFORMANCE - 1987

	Return on Sales (1) (%)	Return on Assets (2) (%)	Return on Net Worth (3) (%)
U.S. Greeting cards producers (36 establishments)			
- upper quartile	8.7	10.7	36.9
- median	5.4	6.4	20.3
- lower quartile	3.6	5.5	10.9
U.S. Commercial lithographic printers (2039 establishments)			
- upper quartile	10.3	16.3	37.5
- median	4.7	7.5	16.9
- lower quartile	1.5	2.1	5.1

SOURCE: Dun & Bradstreet Credit Services
NOTES: (1) Net profit after taxes divided by net sales
(2) Net profit after taxes divided by total assets
(3) Net profit after taxes divided by net worth

10. Role of Governments

Governments in Canada have not developed special assistance programs for the greeting cards industry. Horizontal policies related to taxation, tariffs, postal distribution and copyright are the government measures that have had the strongest influence on the greeting cards industry in Canada.

A portion of the industry's output is ultimately distributed through the postal system. Consequently, changes in postal rates and regulations and mail disruption have an important influence on the industry. Chrismas cards are the type of cards most likely to be affected by increases in postal rates. Christmas cards' share of industry's output has dropped from roughly 50 percent in the late 1960s to about 30 percent in 1986, due in a large measure to rapidly rising postal rates in the seventies. Since 1983, Canada Post Corporation has been offering lower first class mailing rates for greeting cards mailed to destinations within Canada during the Christmas period.

Greeting cards are subject to provisions of the Canadian Copyright Act. The Act is the legal expression granted by parliament to creators to protect their works against unauthorized use. It came into force in 1924. As the Act had become obsolete and no longer provided adequate protection to those engaged in a creative process, a first series of major revisions were made in June 1988.

11. Medium - Term Outlook

11.1 Domestic Market Trends

Market demand for greeting cards is influenced by a complex and interrelated mix of factors, economic, demographic and sociological.

On the one hand, Canada's gross domestic product in constant 1981 dollars is expected to grow at an average annual rate of about 3.2 percent between 1986 and 1992(1), versus 2.9 percent during the 1980-86 period(2). Disposable personal income and personal consumption expenditures are expected to grow only moderately through 1992. It is anticipated that inflation, as reflected by the consumer price index, will increase at an average annual rate of 3.8 percent between 1986 and 1992(1) compared to 6.9 percent during the 1980-86 period(3). On the other hand, the population of Canada is forecasted to grow at an average annual rate of approximately 0.9 percent between 1986 and 1992(4), two-tenths of a percentage point below the level recorded in the 1980-86 period(5).

NOTES:
(1) Industry, Science and Technology Canada
(2) Statistics Canada Catalogue No. 11-003
(3) Statistics Canada Catalogue No. 62-010
(4) Statistics Canada Catalogue No. 91-520
(5) Statistics Canada Catalogue No. 91-001

Reflecting the above factors, it is anticipated that the apparent Canadian market for greeting cards in deflated dollars will grow at an average annual rate of between 3 and 4 percent over the 1986-92 period. This is slightly below the estimated growth rate for the commercial printing industries sector. Within the greeting cards market, above average growth is expected for alternative cards. Solid-colour cards which can be adapted to numerous purposes for various occasions should also grow in popularity.

11.2 International Market Trends

It is generally believed that import pressures from the United States will increase substantially under the Canada-U.S. Free Trade Agreement. In addition, there will be pressures on U.S. multinationals to reconsider the need to maintain separate production operations in Canada. In contrast, the elimination of the relatively low U.S. tariffs would have only limited beneficial effects on the level of Canadian exports. In addition, an increase in the value of the Canadian dollar vis-à-vis the U.S. dollar would worsen the competitive position of Canadian producers.

11.3 Supply Factors

No critical shortages of paper or other raw materials currently used by greeting card producers are expected over the medium term, although there will no doubt be spot shortages from time to time. The industry should face no significant problems in attracting sufficient workers. It will continue to be a small energy consumer, so that moderate increases in energy prices would not affect its competitive position.

12. Conclusions

The greeting cards industry in Canada is dominated by two well-established companies. It is highly concentrated in the Toronto metropolitan area.

Over the period 1977-86, the performance of the greeting cards industry in Canada compared very favourably with that of the manufacturing sector as a whole. People's need to communicate and their desire to be thoughtful have contributed in great measure to the growth of the industry. It would appear that 1987 was another good year for greeting cards producers, both in terms of capacity utilization and profit levels.

Under the present tariff structure and exchange value of the Canadian dollar, the Canadian greeting cards industry is capable of supplying most of the requirements of the domestic market and of filling specialized niches in export markets, principally the United States. However, the Canadian industry suffers size-related economic disadvantages vis-à-vis its U.S. counterpart.

It is projected that market demand for greeting cards will continue to grow at a relatively good rate over the medium term, although below the commercial printing industries sector average.

ANNEX A

PRINCIPAL TARIFF ITEMS FOR GREETING CARDS

Tariff Item	Description	MFN (1) Rate - 1988
a) Canada		
4909.00.20	Printed cards bearing personal greetings, messages or announcements, whether or not illustrated, with or without envelopes or trimmings	11.3%
b) United States		
	Greeting cards, valentines and all other social and gift cards, including folders, booklets and cutouts, or in any other form, finished or not finished, and with or without envelopes:	
274.00.00	Without greeting, title, or other wording	5.0%
274.05.00	With greeting, title, or other wording	4.9%
c) European Community (2)		
4909	Printed cards bearing personal greetings, messages or announcements, whether or not illustrated, with or without envelopes or trimmings	6.5%

NOTES: (1) Most Favoured Nation
(2) Belgium, Denmark, France, W. Germany, Greece, Ireland, Luxembourg, The Netherlands, Portugal, Spain and the United Kingdom.