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Wholesalers: A Key Link in Canada's Economy

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Wholesalers: A Key Link in Canada's Economy

Alex Hays
Distributive Trades Division

Summary

Wholesalers may be one of Canada's best kept economic secrets. Because of their role as intermediaries, you don't hear a lot about wholesalers. But that's not to downplay their key link and impact on the Canadian economy.

In Canada, wholesaling is a multi-billion-dollar industry. In 2004, wholesalers did about \$450 billion worth of business. Between 1997 and 2004, wholesale revenues rose by 42%.

Based on growth in gross domestic product, wholesale trade out-performed the total economy during this period. In 2004, wholesaling also ranked as the third most important sector in the economy.

In addition, the industry was a beacon when it came to employment, with new jobs tending to be high paying and full-time.

Wholesalers have been quick to adopt new information and communications technologies and have recorded an above-average growth when it came to capital investments. As a result, labour productivity in the industry is one of the highest in Canada.

Globalization, offshore outsourcing, and the arrival of American-style retailing, such as big box stores and club warehouses, have all helped propel wholesalers forward. This is especially true in terms of commodities with a predominantly retail base, such as motor vehicles, food, and home and personal products.

For example, wholesalers have played an important role in getting motor vehicles, produced elsewhere in the world, to Canadians. Only five of the major automobile manufacturers produce vehicles in Canada, and six out of every ten cars in Canada are imported.

Likewise, with less and less consumer type products such as house furnishings, electronics, and apparel sourced from within Canada, wholesalers have been able to benefit by becoming a primary buyer and distributor of these products manufactured elsewhere in the world.

This study examines the Canadian wholesale trade industry, its phenomenal growth, and its role and performance in the context of globalization and strong domestic consumer demand.

Definitions

Wholesaler

A buyer in large quantities and subsequent reseller (usually in smaller quantities) to a wide range of clients such as retailers, industry or business users.

Activities may also include providing or maximizing market penetration for a product or good, advertising and marketing, consolidation of orders, logistics such as same day/next day shipping, training, repair services and/or warranty handling.

The sector often goes by numerous names, e.g., wholesaler, distributor, middleman; or more specifically; merchant, agent, rack-jobber, importer/exporter.

Wholesalers can operate independently, or, be affiliated with either manufacturers operating as marketing divisions or sales offices, or retailers operating as distribution centres for their corporate or franchise stores.

The products bought and sold are wide ranging; from primary goods such as raw logs or steel beams to high-end finished goods such as luxury automobiles or computer chips.

Wholesale Coverage

For the purposes of this article, the wholesale sector excludes the wholesaling of petroleum products, as well as oilseeds and grains. Wholesale agents, i.e. wholesalers who do not take possession of goods traded and trade on a commission basis, are also excluded.

Unit of measure

All dollars are in constant dollars unless otherwise noted.

One of the fastest growing industries

Based on contribution to gross domestic product (GDP), as well as sales growth in recent years, wholesale trade is one of the most dynamic and forward-moving industries in Canada.

Between 1997 and 2004, output by wholesalers, as measured by GDP, grew an average of 7.1% a year, the third highest rate of growth amongst all major industrial sectors. This was well above the 4.2% increase for the economy as a whole.

In 2004, wholesale trade accounted for 6.3% of industrial output in Canada, up from 5.3% in 1997. As a result, in 2004 it ranked as the third most important sector in the economy, up from fifth place seven years earlier.

Among the 18 industrial sectors defined by the North American Industry Classification System (NAICS), growth in wholesale trade was surpassed by only two other sectors: professional, scientific and technical services; and information and cultural industries.

Gross domestic product at basic prices, by North American Industry Classification System, Canada, 1997 and 2004

Industries ¹	Share of total		Ranking		Compounded annual growth rate
	1997	2004	1997	2004	1997 to 2003
	%		rank		%
Professional, Scientific and Technical Services [54]	3.7	4.4	11	9	7.4
Information and Cultural Industries [51]	3.4	4.1	12	11	7.4
Wholesale Trade [41]	5.3	6.3	5	3	7.1
Administrative and Support, Waste Management and Remediation Services [56]	1.9	2.1	17	17	6.2
Retail Trade [44-45]	5.2	5.7	8	5	6.0
Arts, Entertainment and Recreation [71]	0.9	1.0	18	18	5.4
Construction [23]	5.3	5.6	6	6	5.2
Finance and Insurance [52]	19.7	20.0	1	1	4.5
Other Services (except Public Administration) [81]	2.4	2.3	16	14	4.2
Manufacturing [31-33]	17.4	17.3	2	2	4.1
Transportation and Warehousing [48-49]	4.9	4.7	9	8	3.5
Health Care and Social Assistance [62]	6.3	5.9	3	4	3.3
Accommodation and Food Services [72]	2.4	2.2	15	15	2.9
Public Administration [91]	6.1	5.5	4	7	2.5
Mining and Oil and Gas Extraction [21]	4.2	3.7	10	12	2.2
Agriculture, Forestry, Fishing and Hunting [11]	2.5	2.2	14	16	2.1
Educational Services [61]	5.2	4.3	7	10	1.2
Utilities [22]	3.3	2.5	13	13	-0.5
All industries	100.0	100.0	4.2

... not applicable

1. NAICS sector code shown in brackets.

Source: Statistics Canada CANSIM Table 379-0017.

By 2004, Canadian wholesalers were selling about \$450 billion worth of goods and services, a 42% increase from 1997.

All wholesale sectors advanced, but the strongest growth was observed in those sectors with a predominately retail client base. Between 1997 and 2004, wholesale sales of personal and household goods rose 75%, automotive products were up 48%, and sales of food, beverage and tobacco products were up 40%.

Within those sectors, wholesalers trading in pharmaceuticals and motor vehicles recorded the strongest advance.

Wholesale sales, Canada, 1997 and 2004

Industries ¹	1997	2004	1997 to 2004 change	
	\$ billions		%	
Total Wholesale Trade [41]	316.7	450.3	133.6	42.2
Personal and Household Goods [414]	35.5	62.2	26.7	75.4
Pharmaceuticals	9.2	26.2	17.0	184.8
Apparel	7.1	8.5	1.4	20.6
Home and personal products	19.2	27.5	8.3	43.3
Automotive Products [415]	61.0	90.3	29.3	47.9
Motor vehicles	48.0	72.2	24.2	50.6
Motor vehicle parts and accessories	13.1	18.1	5.0	38.0
Food, Beverage and Tobacco Products [413]	61.2	85.7	24.5	40.1
Food products	55.4	77.9	22.5	40.6
Alcohol and tobacco	5.8	7.9	2.1	35.4
Miscellaneous [418]	37.9	52.9	15.0	39.8
Building Materials and Supplies [416]	44.0	61.7	17.7	40.3
Machinery, Equipment and Supplies [417]	73.5	92.1	18.6	25.2
Farm Products (minus grain) [411]	3.5	5.2	1.7	48.0

1. NAICS code shown in brackets.

Source: Statistics Canada CANSIM 081-0007.

Employment growth: Wholesalers surpassed manufacturers and retailers

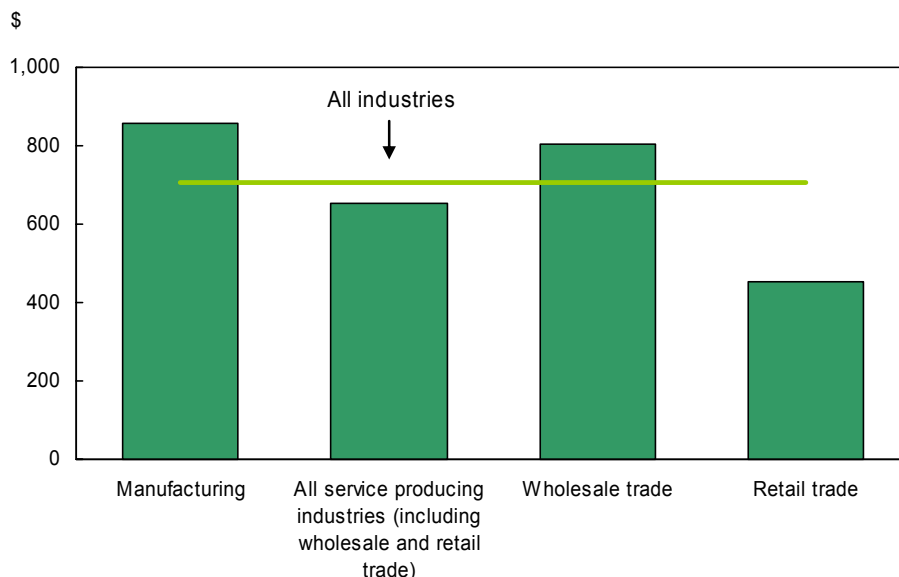
Wholesale trade was also a beacon when it came to employment. Between 1997 and 2004, employment in wholesale trade grew 28%. This was nearly double the rate of growth in both manufacturing and retail trade.

In 2004, employment in wholesale trade reached an estimated 584,000, which comprised about 3% of the nation's entire workforce.

In addition, new employment in wholesale trade consisted mainly of high-paying, full-time jobs. During this seven-year period, the number of full-time jobs in wholesale trade rose 30%, compared with 13% in both manufacturing and retail trade.

Wholesale trade jobs also tended to be better paying. The average weekly earnings for someone working in the industry in 2004 amounted to \$803.05, almost double the \$453.61 wage in retail. In fact, on average, wages in wholesale trade were almost 23% higher than the \$653.76 average for all service industries combined.

Wholesale industries were paying high average weekly earnings in 2004



Source: Statistics Canada, Average weekly earnings, CANSIM Table 281-0028.

A dynamic industry

Wholesale trade was also above average for all industries when it came to investment in non-residential construction such as warehousing and distribution centres. As well, wholesalers have been very astute when it came to the adoption of new technologies such as the Internet. As a result, wholesale trade is an industry where labour productivity has been one of the highest.

Between 1997 and 2004, spending by wholesalers on non-residential construction projects rose 62%, compared to a gain of 50% for the economy as a whole.

Investment by wholesalers of motor vehicles and parts more than doubled between 1997 and 2002. During this period, investment grew to an average of about \$232 million per year. In 2003 and 2004, investment had returned to 1997 levels. Investment in machinery amounted to \$290 million in 2004.

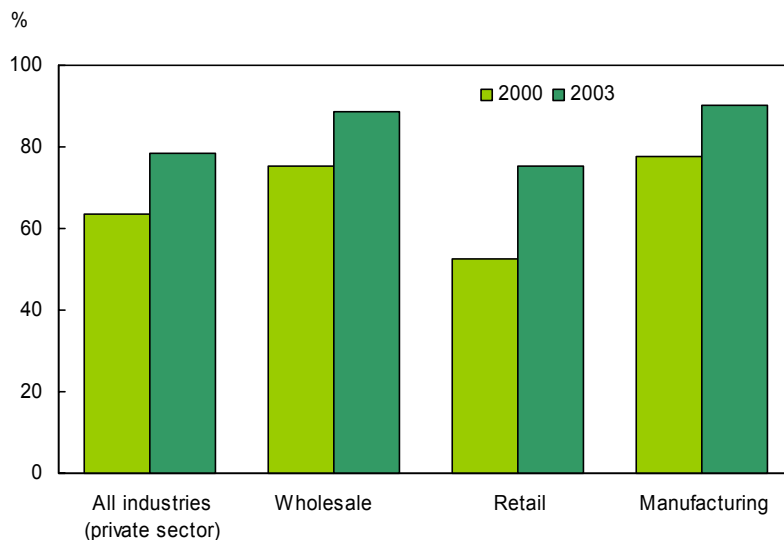
Among wholesalers of food, beverage and tobacco products, construction of warehouses and distribution centres more than doubled, hitting \$329 million in 2004. The sector experienced a surge in construction as a result of amalgamations and mergers at the turn of the millennium. Investment in machinery and equipment reached \$597 million by 2004, a rise of 20% since 1997.

Investment in machinery and equipment was strong but inexpensive. In fact, the volume of these investments rose by 44% between 1997 and 2004, but its costs, measured in current dollars, dropped by 4.3%. This is an indication that wholesalers, in all probability, purchased electronics and software; commodities that have seen declining prices.

Labour productivity among wholesalers also increased. Between the first quarter of 1997 and the last quarter of 2004, labour productivity in wholesale trade rose 36%. This surpassed gains in labour productivity of 20% in retail trade and 25% in manufacturing.

Similarly, wholesalers were quick to recognize the business advantages in applying new information and communication technology during the last decade, out-performing most other industries, including retail trade. In 2003, 89% of wholesalers used the Internet in some form of business transactions, up from 75% in 2000. In 2003, retailers lagged behind at 75%, but they have been catching up fast. (The 2004 Survey of Electronic Commerce and Technology has been recently released which shows that Internet usage has advanced slightly to 91% in wholesale trade and to 81% in retail trade.)

Wholesalers are big users of the Internet



Source: Statistics Canada, Use of information and communication technologies—Internet, CANSIM Table 358-0007.

Finally, wholesalers have lowered their inventory-to-sales ratio, possibly in a push to eliminate high storage costs and cut the risk of having to liquidate products if demand changes. A lower ratio may also be an indication of a just-in-time shipment philosophy.

Between 1997 and 2004, wholesalers were able to lower their inventory-to-sales ratio from 1.36 to 1.23. (The ratio is a key measure of the number of months it would take to exhaust current inventories at current levels of shipments.)

The most notable decline in the ratio occurred in the wholesaling of automotive products, where wholesalers pushed down their inventory levels to just under the one-month supply barrier. The ratio fell from 1.10 in 1997 to 0.94 in 2004.

Beyond the loading bay doors

During the 1990s and into the new millennium, external forces had dramatic repercussions for Canadian wholesalers. Buzz-words such as globalization, offshore outsourcing, and big box stores began to appear in the vernacular.

New possibilities arose, and individuals and companies were forced to change the way they conducted their operations. This had an impact on wholesalers, their suppliers and ultimately their customers.

This fact is clearly illustrated in the case of the three fastest growing wholesale sectors: personal and household goods; motor vehicles and parts; and food, beverage and tobacco products.

Automobiles: A driving force for wholesalers

Canadian wholesalers of motor vehicles and parts bought, on average, more than half (56%) their merchandises from outside Canada between 1998 and 2003. Wholesalers also saw their share of revenue from exports increase from 3% to 25%.

Strong retail sales and the impact of globalization have spurred growth in the wholesaling of motor vehicles and parts. Between 1997 and 2004, wholesale sales in this sector rose 48%. More than half of their earned revenue came from sales to retailers.

By late 2001 and early 2002, some automobile manufacturers were offering aggressive incentives to lure consumers into showrooms following the events of September 11, 2001. These financing incentives added stimulus to retail new car sales, which rose 29% between 1997 and 2004.

Once consumers were inside the showroom, their growing taste for imports benefited the wholesalers as well. On average, almost six out of every ten cars sold in Canada are imported.

Only five of the major automobile manufacturers have plants in Canada, and only for certain makes and models. Out of the approximately 266 different models of passenger and light trucks sold in Canada in 2003, only 29 models were manufactured in Canada.¹ All other makes and models were produced from foreign manufacturers and imported into Canada.

Wholesalers have a close affiliation with these foreign manufacturers. Nearly two-thirds of wholesalers of motor vehicles, parts and accessories are controlled by a manufacturing parent, and they tend to operate as the Canadian marketing division or sales office.

The wholesaling of automotive products is closely tied to international trade. Imports reflect the Canadian appetite for imported makes and models, while domestic production is primarily for markets outside Canada.

Between 1997 and 2004, imports of automotive products recorded strong growth: a 26% increase in imported passenger automobiles; a 64% gain in trucks and other motor vehicles; and a 18% increase in automotive parts.

Exports by wholesalers are also important, but to a lesser degree. Between 1997 and 2004, overall exports of passenger automobiles rose 31%; exports of trucks and truck tractors rose 6.9%; and motor vehicle parts were up 40%.

Food: Changing tastes and big box stores

The last few years have seen drastic changes in the way Canadians shop for food. American-style methods of retailing such as big box stores and club warehouses have advanced food distribution.

1. DesRosiers Automotive Consultants Inc, *Automotive Yearbook, 2004 Edition, Richmond Hill.*

The number of outlets selling food has not only increased; the diversity of that food has evolved as well.

Wholesale sales of food, beverages, and tobacco products rose 40% between 1997 and 2004, with the wholesaler's strong alignment with retailers driving the growth.

Three out of 10 wholesalers in this sector are controlled by a retail parent, in many cases by a major national grocery chain in which the wholesaler supplies the corporate or franchise stores.

As a result, about 57% of wholesale sales for food, beverage and tobacco were directed to retailers. Wholesale sales to retailers alone rose 31% between 1998 and 2003. During the same time, retail sales, whether from the traditional grocery store or other outlets, grew 18%.

While increased sales to Canadian retailers were the real motivator for the performance in wholesale trade, globalization may also have had an impact. Not surprisingly, about one-fifth of wholesale foodstuff purchases is obtained from outside Canada.

Canada must rely on imported fruits and vegetables during our winter months. However, Canadians also have a taste for imported gourmet, ethnic or exotic products.

While only 8% of wholesale revenue is earned from foodstuffs destined for outside Canada, the value of this segment almost doubled between 1998 and 2003.

Huge growth among pharmaceuticals

The quest for good health, home comfort and the latest in fashions and home and personal products from wherever in the world has benefited wholesalers enormously.

Between 1997 and 2004, wholesale sales of personal and household goods rose 75%, the strongest growth among all wholesale sectors. This sector includes pharmaceuticals, home and personal products and apparel.

Leading the way was the wholesaling of pharmaceuticals which surged 185% during the period, accounting for two-thirds of total growth in the sector.

In 2003, almost two-thirds of wholesale revenue from pharmaceuticals was in the form of sales to retailers. Drug manufacturers and their wholesalers have a close working relationship to get their medicines to market. But it is not uncommon for major drug store chains to operate as wholesalers who distribute to their corporate and franchise retail stores.

Wholesale sales of pharmaceuticals to retailers tripled between 1998 and 2003.

In 2002, pharmacies filled more than 335 million prescriptions, up from 254 million in 1998, an increase of 32%². During the same period, retail sales of drugs (over-the counter-drugs and prescription drugs) rose 57%.

Total retail sales for pharmacies and personal care stores rose 41% between 1997 and 2004.

2. Rogers Media, *The 10th Pharmacy Trends Report*, 2003, www.trendsreport2003.com (accessed April 14, 2005).

Globalization may have also had some effect since about one-quarter of all pharmaceuticals are imported, predominately by manufacturers and/or wholesalers. Almost one-third of purchases made by pharmaceutical wholesalers is from outside Canada—a possible result of global product mandates. Wholesalers earn a small 8% of their revenues on exports.

Made in Canada, probably not!

When it came to home and personal products, wholesalers were able to take advantage of the so-called cocooning phenomenon and the strong housing market and home renovation boom that spurred on retail sales.

Wholesale sales of home and personal products, which include such merchandise as home electronics, household appliances, home furnishings, toys and sporting goods, rose 43%. Most of these sales (56%) were directed to retailers.

Between 1997 and 2004, the retailing of furniture, home furnishings and electronic stores had the second strongest growth amongst all retail outlets (+63%). Building and Outdoor Home Supplies Stores, an ever increasing source for home furnishings and appliances, had the strongest growth (+72%).

At the same time, fewer of these commodities are sourced within Canada. Wholesalers have been able to benefit by becoming primary buyers and distributors of these products manufactured elsewhere in the world. The growth in Canadian imports for consumer type products was amongst the highest between 1997 and 2004; house furnishings (+64%), watches, sporting goods and toys (+50%). More than half of the wholesale revenues earned on these types of commodities are sourced outside Canada.

Likewise, wholesale sales of apparel, which includes textiles as well, rose 21% between 1997 and 2004. And, like home and personal products, less and less of the clothes worn by Canadians are manufactured in Canada³. Apparel imports climbed 64% between 1997 and 2004. More than two-thirds (68%) of apparel wholesale sales are sourced from outside Canada.

On average, approximately 50% of apparel wholesale sales are directed towards retailers. However, sales to retailers advanced only 5%. In contrast, sales to industrial, commercial and other business clients rose 33%. This is a case where wholesalers were able to be suppliers of not only finished apparel to retailers, but suppliers of textiles to the Canadian industrial segment.

3. Diana Wyman, "Stretching or Shrinking? The Textile and Clothing Industries in Canada," *Analysis in Brief*, Statistics Canada Catalogue no. 11-621-MIE2005022.

**Sensitivity of wholesale trade industries to international trade,
Canada, 1998 to 2001 average**

Industries ¹	Share of purchases from imports	Share of revenues from exports
	%	
Total Wholesale Trade [41]	35.2	12.7
Personal and Household Goods [414]	50.2	6.6
Pharmaceuticals	31.2	8.0
Apparel	68.4	7.0
Home and personal products	56.5	5.6
Automotive Products [415]	55.6	19.4
Motor vehicles	58.4	22.9
Motor vehicle parts and accessories	44.3	7.9
Food, Beverage and Tobacco Products [413]	18.5	7.7
Food products	19.4	8.5
Alcohol and tobacco	11.6	1.2
Miscellaneous [418]	29.4	14.2
Building Materials and Supplies [416]	26.1	12.0
Machinery, Equipment and Supplies [417]	54.9	5.0
Farm Products (minus grain) [411]	5.8	49.4

1. NAICS code shown in brackets.

Source: Statistics Canada, special tabulation, Wholesale Trade Commodity Survey by Origin and Destination, 1998 and 2001.

**Wholesale establishments are often controlled by enterprises from other industries,
Canada, 1998 to 2002 average**

Industries ¹	Industry of the controlling enterprise (parent)			
	Manufacturing	Retail	Wholesale	Non-wholesale industries ²
	%			
Total Wholesale Trade [41]	26.6	5.7	64.4	35.6
Personal and Household Goods [414]	8.0	0.9	89.9	10.1
Pharmaceuticals	8.9	0.9	89.3	10.7
Apparel	11.9	0.6	87.4	12.6
Home and personal products	6.0	1.1	91.2	8.8
Automotive Products [415]	65.3	1.3	32.9	67.1
Motor vehicles	69.8	1.2	28.6	71.4
Motor vehicle parts and accessories	43.1	1.9	54.3	45.7
Food, Beverage and Tobacco Products [413]	12.0	30.6	56.0	44.0
Food products	12.6	32.0	53.9	46.1
Alcohol and tobacco	4.1	13.1	82.8	17.2
Miscellaneous [418]	13.8	2.0	81.1	18.9
Building Materials and Supplies [416]	15.5	2.1	81.6	18.4
Machinery, Equipment and Supplies [417]	11.0	0.1	85.5	14.5
Farm Products (minus grain) [411]	4.1	0.0	87.7	12.3

1. NAICS code shown in brackets.

2. Non-wholesale industries include manufacturing and retail.

Source: Statistics Canada, special tabulation, Annual Wholesale Trade Survey, 2002.

Data sources:

The Monthly Wholesale Trade Survey (MWTS) measures monthly sales and inventory levels wholesale trade industry, excluding petroleum, and oilseed and grain wholesale merchants, and wholesale agents.

The Annual Wholesale Trade Survey (AWTS) measures, on an annual basis, the operating and financial characteristics of the wholesale trade industry. The AWTS universe is based on the 1997 North American Industry Classification System. Estimates for wholesale sales are published by province and for 15 trade groups.

The Wholesale Trade Commodity Survey by Origin and Destination measures the origin and destination of goods handled by wholesale merchants, and is an important component in measuring inter-provincial trade flows

The Monthly Retail Trade Survey (MRTS) collects, on a monthly basis, sales and the number of retail locations by province and territory from a sample of retailers.

The Quarterly Retail Commodity Survey (QRCS) collects detailed information about retail commodity sales in Canada.

The Canadian International Merchandise Trade (Customs Basis) provides statistical information and analysis of the value, volume and price of Canada's merchandise exports and imports by commodity and by partner country.

The Labour Force Survey (LFS) collects and provides estimates of employment and unemployment. The LFS covers the civilian, non-institutionalised population 15 years of age and over.

The Capital and Repair Expenditures Survey collects data on the intentions for capital investment and the expenditures. Information on capital spending provides a useful indication of market conditions both in the economy at large and in particular industries.

The Survey of Employment, Payrolls and Hours (SEPH) is Canada's only source of detailed information on the total number of paid employees, payrolls, hours at detailed industrial, provincial and territorial levels.

The Survey of Electronic Commerce and Technology (SECT) measures the use of various information and communications technologies (ICTs) by Canadian businesses and the extent to which the Internet is used to buy and sell goods and services.

The Quarterly Canadian Productivity Accounts (QCPA) contain time series on labour productivity, unit labour cost and related variables such as output, employment, hours worked and compensation.