

# Canco Ltd essay sample



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The Canadian fradistat industry consists of four companies: Acme Ltd., Beaver Ltd., Canco Ltd. and Deeco Ltd. Fradistats are components in many industrial products.

Acme's products have the highest quality and prices in the industry. While its sales volume and sales income are second-lowest in the industry, it has the highest profits, due to its high profit margins.

Beaver is the industry's largest company. It has the lowest prices and highest sales, but its profits are second to Acme's.

Canco is second-largest in sales but only third in profits, and is regarded as having fallen short of its potential.

Deeco has the lowest sales and profits in the industry by far.

### Industry Sales

Total industry sales have grown briskly over the past few years, although the distribution of sales and the rate of growth have varied considerably from region to region, as the following table shows:

2007 Industry SalesGrowth

000 units (% of total) Rate

Eastern Market

(Atlantic provinces3, 020 17%slowest  
and Eastern Quebec)

Central Market

(Ontario and most9, 691 57%average of Quebec)

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Western Market (west of Ontario) 4, 266 26% fastest

Total 16, 977 100%

Industry Manufacturing

All four companies have manufacturing plants in each region, with industry total production capacity distributed as shown below:

Production Capacity With Overtime

(000 units per year) (000 units per year)

Eastern region 4, 000 4, 800

Central region 11, 000 13, 200

Western region 4, 000 4, 800

Total 19, 000 22, 800

A company can use overtime to increase output in any plant to 20% above the plant's capacity. Overtime wage rates are one and one-half times regular wage rates.

Other Information

Profits per unit sold and total industry profits are highest in the large central Canadian market. One factor that has held down profits in the western market has been relatively high distribution costs due to the dispersion of the population and longer shipping distances in this region. In the central region, shipping costs average less than \$1.00 per unit, while shipping costs

in the west are often over \$1.50 per unit. To ship between regions costs \$2.00 to \$3.00 per unit.

To date, the industry has had a domestic focus; there are few exports and little import penetration.

The expansion of the industry over the past few years has created a tight labour market for the skilled workers that are needed in its production facilities. Over the past three years, the wages of these people have increased by over 15% as employers have sought to attract and retain these key people.

While the industry has grown rapidly over the past few years, sales are forecasted to grow less rapidly over the next two years due to a recession. After that, sales growth is forecasted to resume.

## THE COMPETITORS

Acme Ltd.

Acme's products have a well-established reputation for the highest quality in the industry, and sell for the highest prices in the industry. Its products enjoy the best image in the industry, partly due to their quality and partly due to the company's advertising expenditures, which are also the highest in the industry. Acme is the smallest company in the industry with a market share of roughly 18%, as compared to the industry average of 25%. The high quality of its products and its smaller scale of operations add to its manufacturing costs per unit, which are higher than the industry average.

However, its premium prices generate the highest profits per unit in the industry, and it is the most profitable firm in the industry.

Beaver Ltd.

Beaver is the industry's largest-scale producer and marketer. Partly due to the scale of its operations, it enjoys the lowest manufacturing costs per unit in the industry. This complements its low-price strategy aimed at securing a high market share. Beaver also enjoys the second-highest image in the industry, which has been generated by its heavy advertising expenditures, which are second only to those of Acme.

This combination of low prices and strong advertising has firmly established Beaver's grip on the highest market share in the industry — nearly 36%. Beaver's position is particularly strong in central Canada, where it has recently expanded its plant capacity to 4, 000, 000 units per year, more than 30% larger than each of its three competitors. This plant is the most efficient in the central region.

In 1994, Beaver built a new plant with capacity of 1, 000, 000 units per year outside Vancouver, British Columbia. Costs in this plant were relatively high due to high wages and taxes, and below-average labour productivity. In 2007, the company introduced new technology into this plant that made the plant more efficient, but did not increase its capacity. This technology increased labour productivity by about 20% and reduced labour costs per unit by about \$1. 25 (16. 7%). For a plant with capacity of 1, 000, 000 units, the technology costs \$3, 000, 000 to introduce. This is the first use in the

industry of this new technology, which has attracted considerable interest in the industry.

In 2007, Beaver's profits and its return on equity were both the second-highest in the industry.

Canco Ltd.

Canco is the second-largest company with a market share of 29%; however, its profits in 2007 were only third-highest and about equal to the industry average. Its products have been of average quality; however, their image has been lower than the image enjoyed by the products of Acme and Beaver, mostly due to Canco's lower advertising expenditures.

Canco was established in Atlantic Canada in 1976. Its head office and original plant are located in St. John, New Brunswick. For several years, this was the company's flagship plant, noted for its experienced and highly-qualified workforce. For the past three years, this plant has been operating below its capacity, as total industry sales in the region have grown slowly and Canco has lost some of its share of this market to Beaver's lower-priced products.

In 1994, Canco built a plant in Ajax, Ontario to produce for the central Canadian market. As a result of expansions in 1998 and 2004, this is the company's largest plant, with a capacity of 3, 000, 000 units per year.

In 1998, Canco built a plant south of Calgary, Alberta to serve the western Canadian market. Canco's products have sold well in Western Canada, and this plant's production capacity of 1, 000, 000 units per year was insufficient

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to meet Canco's orders in that region in 2007. As a result, Canco had to completely deplete its inventory in the west and ship products from Ontario.

The Calgary plant was financed with a bond issue that was well-received by the market and the company's underwriters have advised it that it would have no difficulty raising additional long-term capital should its plans require this.

Deeco Ltd.

Deeco Ltd. is the least successful company in the industry. Various management problems have left it with products with both the lowest quality and image, and a declining market share that is now the lowest in the industry at 17.4%.

A few years ago, Deeco began production in the western region in a new 1,000,000-unit per year plant outside Vancouver, but its products have not sold as well in the west as management had hoped.

As its sales lagged, Deeco reduced its production in each of its plants. With production well below capacity, fixed costs per product increased, reducing profit margins. As of 2007, Deeco's attempts to regain market share through price reductions had not succeeded, leaving it with a combination of low sales, low prices and high manufacturing costs per unit. Deeco's sales, profits and stock price are the lowest in the industry by far.