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PALLISER FURNITURE LTD.: THE CHINA QUESTION

In September 2003, Art DeFehr, president of Canada's second largest furniture company, Palliser Furniture Ltd. of Winnipeg, Manitoba, was pondering whether to significantly expand the company's relationship with China. Ever since Palliser set up a plant in Mexico in 1998, the company had faced increasing competitive pressures from Asia, especially from China.

THE MEXICO INVESTMENT 1998

In 1998, Palliser set up a leather furniture manufacturing facility in Saltillo, Coahuila, Mexico, to serve the mid-west and southern North American market. Palliser continued to ship products from its Winnipeg plants to the northern United States and Canadian markets. The Mexican facility would expand Palliser's leather manufacturing capacity, which was also part of its strategic shift from producing wood furniture to more leather products.

In 1997, DeFehr had considered the China option. Beginning in the mid-1990s, Taiwan furniture manufacturers started to establish plants in Mainland China, and China's household furniture exports to the U.S. market had increased quickly. However, in 1997, China was not making much leather furniture. This would have been a proactive move to respond to the emerging low-cost Asian furniture-manufacturing sector. DeFehr nonetheless chose Mexico over China for several reasons:

1. The Mexican location, which was close to the Texas border, would provide a lower distribution cost structure for Palliser. Prior to 1998, Palliser had difficulties absorbing the higher freight cost when the company shipped products from Winnipeg, Canada, across the U.S.-Canadian border to the south.

2. At the time, China's leather furniture sector was small and inexperienced. Tanneries in China were not suitable for making leather furniture, and the leather had to be imported. Moreover, although there had been leather cutting and sewing workers in the garment business in China, they had little experience in producing leather furniture. In Mexico, there were more industry skills. One other major firm in the volume furniture business, Leather Trend, built products in Tijuana (a Mexican city near San Diego, California) and shipped across the continent to other cities in the United States. Other firms in Mexico were all very small businesses.

3. At that stage, the foreign investments in China were mainly joint venture operations. DeFehr wanted to own a business; he did not want a joint venture (JV) and he did not want to contract the work.

> I did not feel comfortable owning something in China. I still have certain discomfort. There are millions of examples of joint ventures in China. The JV partners were pushed out after some time. In contrast, in Mexico it was easy to wholly own a business.

4. Fourth, Palliser had manufactured its products mainly in Canada with only a small portion of products being assembled in the United States in 1997. As a first stage of expansion, Palliser considered Mexico an ideal choice because it was closer to the U.S. market, and it was more manageable compared with offshore sites.

Since being established, the Mexican facility had been working well, operationally. It started to ship products to the United States, especially to the southern states, in 1999. Because of reduced costs and similar quality, Palliser's Mexican-made products were well accepted.

There had been some problems however, with the Mexico investment. Palliser had issues with the Mexican taxation practices and had disagreements with the local taxation authorities. According to Kliewer, senior vice-president in finance,

> (Their) way of interpreting the law was just so discretionary. What they allow and what they don't allow were not clear. For example, the inflation adjustment was very problematic . . . It is a bit hard to plan for that. These are things you learned as you go on.

It had taken longer than planned to recover the initial investment. For instance, Palliser did not anticipate all the shipping costs accurately. The company had not anticipated the extra tariff fees associated with cross-border shipments leaving Mexico. Moreover, there had been other costs involved in shipping products across the Mexico-U.S. border because the trucks from Mexico could not cross the border; goods had to be transferred to U.S. trucks which resulted in extra charges. DeFehr called it a "friction cost." According to Palliser calculations, the friction costs of crossing the Canadian border were around US$1[1] for a leather sofa, but the friction costs for the same sofa built in Mexico would be US$12. (The friction costs from China would have been approximately $10.)

As another example, the order allocation process initially favored the Canadian facility. While the Mexico plant essentially produced the same products, orders were given to the Winnipeg plants first and the balance was allocated to Mexico. As a result, the Mexico plant had to fight with headquarters for orders. Palliser acknowledged and corrected the issue, a move that had a positive impact on the Mexican overhead recovery rate.

It could also be noted that the decision to set up a facility in Mexico had relied upon the competitiveness resulting from the North American Free Trade Agreement (NAFTA). Palliser had yet to focus on how to lower the costs through changes in its Mexican supply chain. Mexico was, in a sense, trying to build its competitiveness on a more limited framework.

[1] *All currency in Cdn$ unless otherwise specified.*

THE FURNITURE INDUSTRY SINCE 1998

Since the late 1990s, the world furniture industry had undergone tremendous change. The most significant trend was the rise of China. In 2002, China's total furniture output value was US$20 billion, accounting for 10 per cent of the world's total furniture output value. In the past five years, China's furniture export had grown at an annual rate of over 30 per cent. Countries with heavy demand for furniture products had flocked to China to make purchases. China's export of household furniture to the United States accounted for almost 40 per cent of the market, while exports to Japan accounted for about 15 per cent of Japan's total furniture demand. IKEA, the top selling furniture company in the world, had shifted its purchasing centre from Singapore to Mainland China.

With the prospect of cheaper labor and high-quality workers in China, American, Japanese and Italian firms had established factories in China. Natuzzi, an Italian firm who was the No. 1 furniture manufacturer in the world, built a plant in Shanghai. DeCoro, another Italian furniture company, set up a plant in DongGuan, Gongdong province. Taiwanese firms had also built more than 500 furniture plants in Mainland China. Three U.S. office furniture firms with annual production values of US$1.5 billion, US$2.7 billion and US$3 billion, respectively, had all constructed production bases in Shanghai. China's furniture capacity had increased dramatically. Guangdong province, the biggest furniture manufacturing province, produced one-third of China's total furniture production.

The rise of China had shifted the world furniture market competition structure. It had affected most furniture firm's profit margins. Natuzzi's income dropped 70 per cent, and sales dropped 10 per cent in the second quarter 2002. Firms in the North America furniture industry felt the pressure most. The market share of all household furniture imports in the U.S. domestic market increased between 1993 and 2002 from 20.4 per cent to 38.9 per cent, while the market share of all office furniture imports increased from 9.1 per cent to 23.8 per cent during the same period. U.S. furniture imports in 2002 grew 13 per cent to US$14.2 billion. China fuelled much of that growth, accounting for 40 per cent of total U.S. imports in 2002. That year also marked the fifth out of the last six years in which total Chinese furniture exports to the United States jumped 30 per cent or more (see Exhibits 1, 2, 3 and 4).

The contributing factors were multifold, including China's cheaper labor and comparable product quality and design. Palliser managers estimated that the labor cost in China was around US$3 day, in Mexico about US$32, while in Canada around US$90 a day. Chinese workers usually worked more than 10 hours a day, six days a week. There were no unions nor union pressure. The leather furniture business in China did not need to deal with any environmental problems, although there were many concerns with tannery operations. Chinese firms did not pay much income tax, nor did they bear many social costs, such as health and insurance costs for employees. The Chinese currency was pegged to the U.S. dollar and, to many people, was arguably undervalued. The combination of these factors gave China a strongly competitive position. Furniture from China could be 20 per cent to 30 per cent cheaper than the same products that were produced in North America. Exhibit 5 provides the comparison of cost bases for some wood furniture components.

Under the weight of the competitive pressure, many U.S. firms moved manufacturing sites offshore. In July 2003, some furniture makers in America jointly protested to the American government about the severe impact the Chinese furniture manufacturers were having on the American wood bedroom furniture industry. They submitted anti-dumping applications seeking industry protection.

Total Canadian shipments of furniture and bedding hit a record $4.76 billion in 2002, capping 10 years of almost continuous growth (see Exhibit 6). According to a survey conducted by Statistics Canada, there were 630 residential furniture and bedding manufacturers in Canada in 1999 — the last year for which figures were available. Canada's furniture and bedding producers could be segmented into four categories: exporters, non-exporters, bedding producers and importers. The exporters were by far the largest group. While the 19 exporters did some business in Europe, South America and the Middle East, more than 95 per cent of all Canadian furniture exported was sold to U.S. retailers.

Canadian furniture producers were employing a variety of strategies to remain competitive in an increasingly uncertain North American economy. The impact of China had not been felt as deeply in Canada as it had been in the United States. Unlike their American counterparts, many of which had moved much of their production offshore, almost every one of the top 10 Canadian producers (see Exhibit 7) had recently made, or was making, a big investment in their business.

While others followed a balancing act to remain as low-cost manufacturers, some Canadian manufacturers became active importers, focusing on specialized lines not being produced domestically. Two examples illustrate this approach. Dorel Industries tried to develop a strong capability to source a wide variety of products designed by Dorel and manufactured in Asia. In 2002, the company established a new division called Dorel Asia, whose mission was to develop product suitable for North America that was built cheaply and efficiently in the Pacific Rim. A second company Shermag Inc., launched a new import division to expand its offerings of labor-intensive, traditionally styled bedroom and dining room furniture. These goods complemented the more technology-driven, casual contemporary furniture that Shermag made in its factories in Quebec and New Brunswick, Canada.

PALLISER'S STRATEGY SINCE 1998

Cost Leadership

The Mexico investment was part of Palliser's cost leadership strategy. Palliser negotiated with its Brazilian partners to be part of its supply chain for the Mexico plant. Brazil was the No. 1 source of leather in the world. Raw leather was delivered from Brazil to Mexico, where Palliser processed the leather (cutting and sewing) for redistribution to its U.S. and Canadian locations. Although it was more expensive than that in China, processing leathers in Mexico was still much cheaper than producing in Canada.

Quick Delivery

Quick delivery was another strategy. Purchasing from China meant a minimum delivery time of six to seven weeks, which translated into high inventory cost for those importers buying Asian products. Alternatively, Palliser focused on a custom manufacturing strategy with a delivery time of three weeks. Custom business was Palliser's premium business. The company was able to charge a slight premium for the service that could eliminate customers' inventory cost. According to DeFehr, Palliser was still making most of its money from the plants in Canada, which were strong at specialty order businesses. As the China threat developed, more and more competitors established factories offshore. However, in doing so, they became less flexible, either in time or in variety. For example, the cycle time of the specialty businesses of the Italian producers DeCoro and Natuzzi was around 90 days.

The quick delivery strategy had been working very well until September 11, 2001 (9/11). After 9/11, because the airlines cut their flights, airfares had risen, it became very expensive to ship leather from Brazil to Mexico by air. If shipping by ocean, the quick delivery advantages over China would soon disappear. Palliser was working with Brazilian suppliers seeking solutions.

Value Enhancement

Palliser was committed to delivering annual value improvements to its customers. For instance, if the company offered some products for $500 last year, it would try to offer the equal value of products at $400 this year. Such improvements were driven by process and product redesign. The first step was to identify those products where Palliser had absolute advantages or relative advantages in the North American market. Palliser still considered the North American market to be its first priority. Palliser considered developing a product using oak in Canada. Oak had a similar price around the world. Products could be built with a rustic and low grade of oak, with rough and simple machine-driven designs. By leveraging the low-cost material and leveraging the machine-driven design, the value would be similar to that produced in China.

At the same time, Palliser tried to remain a volume producer. Using Mexico and China to do cutting and sewing, Palliser was still doing low-price business. Beyond Mexico, the company was sourcing substantial quantities of finished goods from Asian countries, such as China, Thailand and Indonesia. Another way to enhance value was to produce machine-made and capital-intensive products instead of labor intensive-furniture. The new products that Palliser was going to produce were all less labor-intensive.

EQ3, a New Marketing Initiative

In the late 1990s, Palliser started a new marketing program called EQ3. Palliser realized that there was an opportunity in the market place, which had been underserved. A trend in the furniture industry was that consumers were becoming more fashion conscious, design conscious and more educated. EQ3 was a new concept that was designed to meet this market trend. It was not about one piece of furniture, but about everything in the home with fashionable designs. Palliser recruited some product managers from IKEA and designers from many regions over the world, such as Sweden, Hong Kong, and Italy. Most people in the new EQ3 team were in their late 20s and early 30s.

After two years of market research, Palliser introduced in-store EQ3 galleries through its traditional retailers in the United States and Canada in October 2001, but these galleries did not work well in the traditional stores channels which did not understand or draw in the target customer. In late 2002, Palliser started building new channels. The company set up the first two dealer-owned EQ3 stores — one in Toronto, Ontario, and the other in Grand Rapids, Michigan. These stores started offering a unique storefront with the new image and the right advertising and catalogues, which customers could identify with. This distribution channel was developed outside of the traditional channel and had been very successful.

Motion Business

In the North American marketplace, the motion business was one of the fastest growing categories. Motion products referred to furniture that could be adjusted, such as recliners. Palliser started to make motion products at the same time it started to make leather furniture. Several years ago, Palliser's sales in motion products were around $26 million dollars. In 2003, sales were expected to be nearly $100 million.

Previously, motion products were mainly considered to be products that would go in the basement, not something that could be a focal point in the living room or family room. But in recent years, with better leathers and the popularity of leather furniture in the market place, furniture companies had been able to utilize leather to make motion products more attractive, fashionable and contemporary. People were willing to put them in their living room, family room and home theatres. Leather had made motion products more fashionable. For example, the leather recliner became one of the most popular household furniture for every American family and sofas and love seats were becoming more fashionable too.

On average, from a labor perspective, motion products required 25 per cent to 30 per cent more labor than standard products. Motion products were more technical and required more skill to produce.

Palliser had motion product factories in Winnipeg, Manitoba; Airdrie, Alberta and Saltillo, Mexico. The latter plant called “Las Colinas” was set up in 2000. Each of these factories operated at the same scale, but production costs in Mexico were much cheaper. The lower labor rate in Mexico might translate into a $75 savings for a sofa ($1,000 in retail value). If making the same product in Asia, the possible savings could be $120 to $130 dollars for a product with a retail value of $1,000.

Currently, Palliser realized advantages in the North American marketplace by offering good value in motion products with color options, good service, delivery and good quality. Traditionally, even the large Asian companies, which had considerable exports to North America, had not been successful in the motion business. The lengthy lead time had been a contributing factor, but in the last year, motion products were starting to come from Asia. For instance, DeCoro now produced motion products in China. In the last international furniture show, DeCoro displayed around 10 new motion product styles.

Palliser’s approach to motion products was vinyl-leather match design. DeCoro’s approach was all-leather style. By producing in China, DeCoro was able to provide the same product at a lower cost than Palliser offered. For example, Palliser could offer a leather-vinyl sofa at $999 retail, while DeCoro could offer $999 for an all-leather sofa retail. Thus, for the same product, DeCoro would have approximately a $200 advantage over Palliser’s retail price. In the stationary category, several years ago, Palliser was providing leather-vinyl products. As a result of competition from Asia, which was offering all-leather products at the same price point, Palliser stopped producing leather-vinyl stationary products. The same shift might be anticipated in the motion product market.

Rach, director of motion products at Palliser, pointed out that contributing factors to cheap production in Asia were not only the leather for less money, but other components were cheaper too, such as the wood for the frame, the foam and the packaging materials.

PALLISER’S ASIAN PRESENCE

Palliser had several small factories in Indonesia, did contract work in Thailand and China, and had an office in Taiwan and two offices in Mainland China, (one in Shanghai and another in Guangzhou).

Taiwan

Furniture exports from Asia were driven by people from Taiwan, who developed the expertise first, starting around 20 years ago. Palliser set up an office in Taiwan in 1985. It mainly imported final furniture products to the North American market.

Taiwanese firms were the first investors to go to Mainland China. In contrast to Palliser, Taiwanese firms did not go to Indonesia because mainland China was closer and the culture was the same, therefore they preferred to invest in mainland. Also the Chinese had had a bad experience in Indonesia in the 1960s, and there had been a recent reoccurrence of this experience. Many Chinese people who were sent there to do quality work flew to Indonesia in the morning and flew back home to China at night. Some people considered Indonesia an investment place with a lot of uncertainty.

Indonesia

Palliser had several factories in Indonesia. Some were owned, some used 100 per cent contracting and others used partial contracting. Palliser provided loans to one of the plants in 1997 when the plant experienced financial difficulties during the Asian financial crisis. The loan ended up with Palliser's controlling interests in that factory. The other two plants were owned by Palliser. Compared with Palliser's production facilities in Canada and in Mexico, these operations were very small. The total investment amount was approximately Cdn$500,000. Indonesia was more like a training ground for Palliser in Asia. Palliser sent full-time Canadian staff to those local operations.

DeFehr had worked and kept in touch with Indonesia for almost 20 years, and he felt comfortable investing there. In terms of the risk concerns in Indonesia, DeFehr provided the following logic,

> By going to Indonesia, I separate myself from the face-to-face competition with these Chinese businesses for factory space, materials and other things. As a result, I am not competing with the best capital in the business. Will Indonesia be better than China in five years? I don't know, and you don't know either. So we make the bet . . . . We try to go to places that others might consider difficult. Because we are alone, you may get a little bit of a premium by being there.

Thailand and Mainland China

Beyond Indonesia, Palliser had a lot of contract work in Thailand as well. Local plants manufactured furniture components or finished products according to the design provided by Palliser.

Currently, Palliser contracted cutting and sewing work to a Chinese factory in Haiyin, a city south of Shanghai. The factory processed leather cover for its motion products. According to Rach, director of Palliser motion products,

> Chinese workers were very good at making leathers now. One of the advantages came from their larger tannery and their experience in the garment industry, especially the leather garment industry.

These leather covers were shipped back to Winnipeg, where they were upholstered. Almost $1 million of monthly sales were from Asia. Cutting and sewing covers from China had enabled Palliser to make a leather sofa at eight per cent to 10 per cent less than that in Canada. In retail, there is around one price point ($100) difference. That was the only component that Palliser outsourced from China for motion products. For a sofa with a total cost of $625, the cutting and sewing cost was around $250. It cost approximately $30 to $33 per seat to transport a sofa from China to North America.

DeFehr had certain concerns about doing business in China. Although many foreign firms had set up plants in China, few of them had been successful.

Finding the right partner was another concern. DeFehr felt that Chinese partners were not committed, long-term OEM suppliers. He was not comfortable building long-term relationships in China. This might be due to the fact that a level of trust had not been established yet.

DeFehr was also concerned about the product itself. If a product had a well- established brand, no one else could easily make it and sell to the market. But a sofa and chair usually were not branded products. People could easily imitate and sell them. Therefore, if the products were exclusive, either technologically or brand-wise, the partnership relationship could work. Most furniture products were not exclusive.

Realistically, Palliser could not ignore China anymore. The resources in China were phenomenal, both in labor quantity and quality. People in China were working more and more efficiently than people in the North America and in other developing countries. According to Tielmann, senior vice-president of marketing,

> If you look at India, Indonesia and Thailand, there are real differences. The value you get from China is one of the best worldwide. Another interesting thing was the Chinese Yuan, which was tied to the U.S. dollar. It had stayed that way for a while and might be that way for a long time yet. This could avoid currency fluctuations, which is different from Indonesia and Thailand. Also, the exchange rate was very advantageous for export.

TOP MANAGEMENT'S ASIAN EXPERIENCE

DeFehr had been to China many times, both on political and business issues. His first visit to China was with his family in 1983 as guests of the government. He had started visiting Taiwan regularly on furniture business since 1985. He had regularly visited Mainland China since 1992. Most recently, he had visited Beijing, Shanghai, Shenzheng, Dongguan, Qsingdao, Tianjin and other coastal cities. Those were cities where the Chinese furniture businesses were concentrated.

DeFehr had extensive experience with Asian culture. He had lived in Asia, but he had never lived in Mexico. His two children were born in Asia. He had lived in Bangladesh, Thailand, and he travelled to Cambodia, India and many other Asian countries. Asia, to DeFehr was very much home. However, because both of his parents were from the former Soviet Union and he had experienced dealing with communist governments, he did not think he was comfortable doing business in a communist environment.

Most members of Palliser's top management had been to China. As the director of motion products, Rach visited China more frequently. He went to China at least three times a year. As China's furniture business had become stronger in recent years, the top management team had shifted much more attention to Asia.

THE DECISION

Products from China had increasingly become threats to most furniture manufacturers in North America and the pressures on Palliser had been increasingly felt. In April 2003, Palliser conducted its first layoff in the Winnipeg factory.

Palliser had production facilities in Canada, Mexico and Indonesia, and the company experimented with cutting and sewing leather in China. DeFehr had to decide whether to significantly expand Palliser's relationship with China and discern what form that relationship might follow. Should it be an investment, either wholly or partly owned? Should it be through subcontracting? To build Palliser's competitive advantages, DeFehr summarized:

> What we are considering right now is how to take advantage of our particular organizational and geographic situation to counter the advantages that the people in lower cost environments have.

Exhibit 1

ALL HOUSEHOLD IMPORTS BY SIGNIFICANT COUNTRIES IN THE U.S. MARKET (US$ millions)

	1998	1999	2000	2001	2002	CAGR
China	1,550.5	2,235.6	3,001.6	3,423.2	4,832.8	37.9%
Canada	1,301.4	1,584.7	1,837.4	1,744.2	1,739.6	16.4%
Italy	760.3	917.8	1,140.1	1,107.7	1,139.3	14.5%
Mexico	641.0	704.7	764.2	699.9	729.1	13.1%
Indonesia	323.1	407.3	450.7	445.4	492.0	16.0%
Taiwan	687.2	722.1	701.1	502.1	477.6	-7.5%
Malaysia	384.0	443.1	452.3	407.9	467.4	10.8%
Thailand	165.2	210.5	253.7	261.1	338.3	9.5%
Philippines	214.0	241.1	269.2	223.8	217.7	8.4%
Brazil	53.4	74.8	96.9	135.2	209.5	23.6%

CAGR — Compounded Annual Growth Rate.

Source: Company files.

Exhibit 2

WOOD HOUSEHOLD IMPORTS BY SIGNIFICANT COUNTRIES IN THE U.S. MARKET (US$ millions)

	1998	1999	2000	2001	2002	CAGR
China	794.0	1,141.0	1,650.7	1,897.6	2,893.6	40.1%
Canada	947.5	1,182.9	1,368.5	1,306.7	1,267.7	17.1%
Italy	306.4	392.6	460.4	453.6	484.3	15.2%
Malaysia	340.4	396.4	399.5	364.4	414.5	11.3%
Indonesia	254.6	332.2	373.4	376.7	414.2	19.2%
Mexico	353.7	371.9	392.8	372.2	372.1	10.8%
Thailand	149.7	188.2	225.8	226.7	297.7	9.7%
Taiwan	381.7	402.7	349.4	280.5	260.2	-8.7%
Brazil	52.0	70.3	92.6	126.1	187.9	23.3%
Philippines	83.9	99.6	118.6	109.8	109.2	15.0%

Source: Company files.

Exhibit 3

UPHOLSTERED HOUSEHOLD IMPORTS BY SIGNIFICANT COUNTRIES IN THE U.S. (US$ millions)

	1998	1999	2000	2001	2002	CAGR
Italy	363.6	412.9	559.3	529.0	528.6	14.5%
China	46.6	83.6	127.6	172.8	312.9	53.8%
Mexico	111.8	139.0	170.5	172.3	208.6	27.3%
Canada	95.8	122.8	156.2	161.5	184.3	19.7%

Source: Company files.

Exhibit 4

METAL AND OTHER HOUSEHOLD IMPORTS BY SIGNIFICANT COUNTRIES IN THE U.S. MARKET (US$ millions)

	1998	1999	2000	2001	2002	CAGR
China	541.3	766.7	938.7	1,033.6	1,235.5	44.0%
Canada	181.9	185.4	205.2	167.7	183.4	13.0%
Taiwan	240.9	256.7	282.4	177.2	178.0	-6.0%
Mexico	150.6	164.8	171.0	126.2	121.0	8.0%
Italy	61.3	85.4	82.0	85.9	85.0	15.0%

Source: Company files.

Exhibit 5

WOOD FURNITURE COST COMPARISON

	American Made[1]	Chinese Made[2]	Difference
Bed headboard	100.00	89.00	11%
Nightstand	95.00	80.22	16%
Chest	109.00	88.76	19%
Entertainment centre	211.00	159.54	24%
Armoire	474.00	330.00	30%
Rolltop desk	275.00	181.50	34%

[1]*Costs are as if the product were in a U.S. warehouse, ready to ship to retailers.*
[2]*For the Chinese, shipping is included.*

Source: Furniture/Today, May 26, 2003.

Exhibit 6

THE CANADIAN FURNITURE MARKET
(Cdn$ millions)

	2002	2001	2000	2001-2002 Change	1997-2001 Change
Total industry shipments	4,760	4,307	4,106	10.5%	54.9%
Total exports	2,153	2,018	1,924	6.7%	87.9%
Export to the United States	2,036	1,911	N/A	6.5%	N/A
Total imports	1,443	1,252	1,134	15.3%	54.7%
Imports from the United States	489	509	N/A	-3.9%	N/A
Total domestic shipments	2,607	2,289	2,182	13.9%	34.2%

Source: Statistics Canada.

Exhibit 7

CANADA'S TOP 25 FURNITURE AND BEDDING PRODUCERS
(Cdn$ millions)

Rank	Company Name	Home Base	2002	2001	Change
1	Dorel Inds.	Montreal, Quebec	712.9	701.7	1.6%
2	Palliser Furniture	Winnipeg, Manitoba	518.8	493.6	5.1%
3	Shermag Inc.	Sherbrooke, Quebec	188.0	163.2	15.2%
4	Canadel Furniture	Louiseville, Quebec	155.0	135.0	14.8%
5	Sealy Canada	Toronto, Ontario	139.7	121.1	15.4%
6	Simmons Canada Inc	Mississauga, Ontario	130.9	120.1	9.0%
7	La-Z-Boy Canada Ltd.	Waterloo, Ontario	117.9	100.9	16.8%
8	Magnussen Home Furnishings	New Hamburg, Ontario	106.8	N/A	N/A
9	Gusdorf Canada	Montreal, Quebec	105.0	94.0	11.7%
10	South Shore Inds.	Sainte-Croix, Quebec	100.0	100.0	0.0%

Source: Furniture/Today, June 2, 2003.