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DOREL INDUSTRIES REPORT

CORPORATE ANALYSIS



BUS-J501
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SYNOPSIS

Dorel Industries was established in 1962, and consists of 3 major divisions (Juvenile, Home Furnishings, and Recreational/Leisure). It owns a wide array of strong brands, including Cosco, Schwinn, Ironhorse, and Mongoose. While Dorel is a strong player in the bicycle industry, it recently announced (In January of this year) that it would be shuttering its bicycle assembly facilities in the United States and moving to Asia in order to become more competitive. Annual sales are roughly \$2.6 billion, and with a restructuring of the Recreational/Leisure unit, Dorel expects to save at least \$6 million annually. Dorel's primary competitors include Kid Brands, Inc., Trek Bicycle Corporation, and Evenflo Company, Inc. Employs 6,300 people in facilities located in twenty-four countries worldwide.



STRATEGIC ISSUES

- Competitors have already outsourced to Asia
- Fourth quarter earnings expected to be much lower than levels last year due to reduced revenue(not sure this a strategic issue as much as it's a "cause/effect" having having poor strategy)
- Currently have a unrelated portfolio amongst business units
- Cash cow (Home Furnishings) is losing revenue YOY
- Unfavorable foreign exchange rates reducing net profits(Same for this)
- The board believes the company's market price is currently undervalued
- One more Item

OPTIONS

1. Focus on outsourcing and cutting costs, compete on price.
2. Continue global expansion, specifically on elevating the recreational / bicycle unit by acquiring popular brands in each region.
3. Refocus on premium products, drop cheap brands (Pacific Cycle etc.) that conflict with company identity and differentiate on quality.

INTRODUCTION TO REPORT

This report consists of five major sections. Initially a brief history of Dorel Industries will be provided, followed secondly by an analysis of its competitive and corporate strategies. Third, is a breakdown financial analysis of Dorel's financials, both as a whole and by individual units. Using this data, the report will then delve into the company's current issues and possible solutions while incorporating various tools (BCG, Five Tests analysis, etc.). The final segment of the report will include our recommendations for the company, concluding with suggested initiatives to improve Dorel's competitive and corporate strategies.

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ABOUT DOREL INDUSTRIES

In 1962, Leo Schwartz founded "Dorel Co. Ltd" in Quebec, and began producing juvenile products. It was not until 1962 that "Dorel Co. LTD" became "Dorel Industries", following a merger with Ridgewood Industries (a furniture manufacturing company). Since then, the company has continued to grow primarily through acquisitions, eventually branching out to the recreational and leisure markets by acquiring Schwinn and Cannondale

1.1 RECENT STRATEGIC MOVES (2013)

- Dorel began a massive share buyback plan in order to raise its market value.
- The company acquired a 70
- Dorel's assembly and testing facilities located in Bedford, PA are being shut down and relocated overseas in an effort to reduce expenses.

2 | BUSINESS OVERVIEW

2.1 BUSINESS DEFINITION

Dorel Industries has a diverse business definition. Dorel makes high quality furniture, juvenile and recreational products for consumers who emphasize quality and durable products. Dorel's technologies include ready-to-assemble furniture, high quality and durable bicycles as well as safe and reliable baby products.

As you can see in the below figure, Dorel's business is comprised of very distinct products amongst distinct markets. Dorel's main products include furniture, bicycles and baby products. These products relate to Dorel's business units. In terms of Dorel's target markets, United States is a very important market. However, due to the US economy downturn, this has made Dorel focus on extending their business internationally. Lastly, the technology that Dorel institutes is one of outsourcing manufacture of their products, in order to be able to compete on price, specifically for their home furnishings business unit.

One, of many, issues with this business definition is there does not appear to be synergies amongst either the manufacture of the products, the products themselves, nor the target markets of each product. As part of our recommendation, Dorel would benefit from finding a way to have more synergies amongst their most important products.

- Products
 - Furniture
 - Bicycles
 - Baby products/accessories
- Markets (respectively)
 - North American retail chains
 - Mass merchant / Independent Bike Dealer (IBD) network
 - US and International retail chains
- Technology
 - Ready-to-assemble furniture
 - High Quality products
 - Safe and durable juvenile products

2.2 BUSINESS UNIT BREAKDOWN

Dorel's business is comprised of 3 distinct business units; Juvenile, Home Furnishings and Recreational/Leisure. These 3 business units drove 2012 revenue of \$2.49 Billion, as well as \$583 Million in gross profit. A breakdown of each business unit follows.

2.2.1 Juvenile

The Juvenile business unit is focused on the manufacture and import of high quality, safe and fashionable juvenile products. These products include car seats, strollers, high chairs, etc. Products are provided under their own brand names, as well as house brand names for their customers. This segment produced 2012 revenues of \$1.04 Million, which equates to 42

Dorel is focusing on growing this segment in Latin America, where the retail environment is beginning to prosper and birthrates in this region are on an incline. Dorel has also made very recent acquisitions for this segment to expand its breadth of offering as well as introduction to new international channels.

2.2.2 Recreational/Leisure

The Recreation/Leisure business is comprised of premium/mass market bicycles, jogging strollers, ride-on toys as well as branded performance apparel. This segment has a focus on international markets, with 50

Dorel is focused on making this segment the premier bicycle business in the market. In 2012, selling expenses for this business unit increased 13

2.2.3 Home Furnishings

The Home Furnishings business focuses on ready-to-assemble furniture, step stools, futons and imported home entertainment furniture. The primary focus for this segment is North American markets, which is evident since Dorel has five distinct segments within this business unit. This segment drove 21 percent of Dorel's 2012 revenue with \$521 million, as well as 11

This segment is the cash cow for Dorel. However, with this segment's focus being on the North American market, home-related market, this segment has suffered a bit with the US economy. Recently, Dorel moved more of its manufacturing overseas, which should help with this segment's ability to compete on price in their mass retail chains.

<u>Unit</u>	<u>Total Sales</u>	<u>%</u>	<u>Gross Profit</u>	<u>%</u>
Juvenile	\$1,040,765,000	42%	\$287,658,000	49%
Home Furnishings	\$521,523,000	21%	\$62,552,000	11%
Recreational/Leisure	\$928,422,000	37%	\$233,437,000	40%

<u>Unit</u>	<u>Operating Profit</u>	<u>%</u>	<u>Unit Strength</u>
Juvenile	\$73,313,000	43%	High
Home Furnishings	\$25,593,000	15%	Very Low
Recreational/Leisure	\$71,958,000	42%	High

<u>Unit</u>	<u>Unit Rating</u>	<u>Industry Potential</u>	<u>Industry Rating</u>
Juvenile	3	5	2
Home Furnishings	1	3	2
Recreational/Leisure	4	5	4

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