A Village Fish Processing Plant: Yes or No?

A Planning Handbook

Prepared by
Institute of Social and Economic Research
University of Alaska Anchorage
March 2008

A Village Fish Plant: Yes or No?
A Planning Handbook

March 2008

Gunnar Knapp
Institute of Social and Economic Research

Terry Reeve
Alaska Sea Grant Marine Advisory Program
University of Alaska Fairbanks

with illustrations by Clemencia Merrill

This handbook was prepared at the
Institute of Social and Economic Research
University of Alaska Anchorage • 3211 Providence Drive
Anchorage, Alaska 99508
907-786-7710 (telephone) • 907-786-7739 (fax)
www.iser.uaa.alaska.edu

This handbook has been revised from an earlier version prepared in 2001 by Gunnar Knapp of the Institute of Social and Economic Research, Craig Wiese of Economic Consulting Services, and Jude Henzler of the Bering Sea Fisherman's Association.

Preparation of this handbook was funded by the U.S. Department of Commerce, Economic Development Administration. The statements, findings, conclusions and recommendations are those of the authors and do not necessarily reflect the views of the Economic Development Administration.

A VILLAGE FISH PROCESSING PLANT: YES OR NO?
SUMMARY

This handbook gives advice about planning a fish processing plant in an Alaska village. It discusses things you should think about and questions you should ask. It focuses on small locally-owned fish processing operations in western Alaska, but much of the handbook is relevant to any fish processing operation, regardless of its location or size.

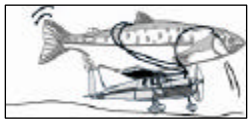
Starting and operating a village fish processing plant is not easy. It's a lot of work, and a lot of things can go wrong. Fish processing is a difficult business anywhere, but it's particularly challenging for small plants in remote villages. Small village fish processors face competition from larger fish processors elsewhere with lower costs of processing and transportation. Many fish processing plants end up losing money and shutting down. If that happens to your plant, you can lose a lot of money, time, and effort. So it's important to plan carefully and think realistically about whether you can succeed. Here are some of the most important things to think about:

Will there be enough fish? The run failures in western Alaska in recent years are a reminder of one of the biggest risks in the fish business—not enough fish. Think carefully about whether your fish plant will be able to process and sell enough fish to cover your costs. In a low-run year, when you don't sell many fish, you still have to pay overhead costs such as your manager's salary and plant maintenance. If your overhead costs aren't spread out over enough fish, your costs per pound of fish can be very high.

Will fishermen sell you the fish? Having a fish processing plant doesn't guarantee that fishermen—even the fishermen from your village—will sell you fish. Other buyers may compete with you for fish. You need to think about whether you will be able to compete with other buyers who may pay fishermen higher prices than you can pay. Even if there isn't any competition at the moment, there might be in the future—particularly when prices are high or when runs are low.

Can you produce consistent good quality? To get a good price that can make up for higher costs, good quality is absolutely essential for small village processing plants. You need to make sure that people pay strict attention to quality at every stage—from requiring that fishermen bleed and ice their fish to making sure that your fish are kept chilled while being transported to market.

Can you get reliable transportation at a price you can afford? Your fish plant can't succeed unless you have a reliable way to get the fish to your customers at a reasonable cost. If you're selling fresh fish that need to be shipped by air, your transportation costs and reliability will depend mostly on what length runway your village has, what kind of planes can land on it,



how often they can't fly because of bad weather, and how far they have to fly to get to a larger airport with jet service.

Can you find markets? You need to be as good at marketing fish as you are at processing them. You need to know how to find customers and understand and meet their needs. You have to produce products your customers want and deliver them reliably when they need them—at a quality as good as your competitors.

Can you get a good plant manager? Without a good manager, it will be hard for your plant to succeed. It's a tough job that requires a lot of skills. Managers need to be good at hiring people who can do the work, teaching them how to do it, and getting them to do the work well. Managers need to know how to maintain equipment and fix it when it breaks—or how to find someone who can. Managers need to be good at keeping track of how much money is being spent and how much money is coming in—and finding ways of not spending too much. They have to know what supplies are needed and to order them in time.

Can you get workers? Fish plant workers have to be there whenever fish are delivered, ready to work until all the fish are processed. Fish processing needs to be done carefully so your products are good quality and can sell for a good price. Workers need training—which costs time and money—so you need workers who will stay all season and come back in other years. It may be difficult to find local residents who want to work in your plant. If so, you'll need to hire people from outside the village—and feed and house them.

How much money will you earn or lose? Think carefully about what your sales revenues and costs are likely to be. Take the time and do the research to make realistic estimates of what prices you're likely to get for your products, what your processing yield is likely to be, and what your costs will be—particularly your costs for fish, workers, utilities and transportation. Remember to allow for unexpected costs when things go wrong—something always does. Remember that how much volume you process and your processing yield can make a big difference in how much money you earn or lose.

How much cash will you need to operate—and where will you get it? In the fish processing business you have to spend a lot of money before and during the season before you get paid for a single fish. Even if your total sales are more than your total costs, you won't be able to stay in business if you don't have enough cash when you need to pay your bills. Finding operating cash to get through the season is always a big challenge in fish processing, but particularly for new fish plants.

Think carefully about your financial objectives. Even if your goals are to provide a market for fishermen or create jobs, you still have to think about how much money you might earn or lose, and whether you will be able to afford to operate your plant.