

CHAPTER 5. PRODUCTS AND MARKETS

A critical part of planning a fish plant is planning what kinds of products you will produce, what kinds of customers you will sell them to, and what prices you are likely to receive.

Many Alaska seafood companies have invested time, money and effort to build processing plants that produced excellent products, only to go out of business when they could not sell their products for a high enough price to stay in business. Many of these companies failed because they didn't research and understand the markets for their products.

Here are some of the things you—or someone working with you—should do as part of your market research:

- Identify potential products your plant could produce.
- Identify potential customers for products your plant could produce.
- Talk to potential customers to learn about their needs and expectations.
- Determine whether you can produce products that meet the needs and expectations of potential customers.
- Estimate what potential customers would be willing to pay for these products and what kind of sales volume you could reasonably expect from them.
- Learn what similar products sell for in the markets you hope to sell to.
- Analyze your strengths and weaknesses compared with your competitors..
- Develop a marketing plan for selling your products.

Market research is absolutely essential for any business. Just making products and hoping that someone will buy them is the fastest way to business failure.

Researching markets is a lot of work and requires expertise about the seafood market. So as you plan for your plant, you may want to work with a consultant who can help you with your market research.



Are you willing to research your markets carefully before you make the decision to build a fish plant?

Learning About the Seafood Distribution System

If you're going to have a fish plant then you need to understand who the players are in the seafood distribution system—from fishermen to retailers—and what their needs are and how they operate. You need to think carefully about where you might fit into this system, and what kind of buyers you should be selling your products to.

Depending on the products you produce and the volumes you produce, it may make sense for you to sell your products to another processor, a trader or distributor, or directly to a retailer or food service operation. It may make sense for you to sell your products yourself or to have a broker sell your products for you for a commission.



You should know what the matrix of distribution is, and whether you want to go through a brokerage or go direct and what are the benefits of all those different things. It's kind of boring stuff if you just want to produce fish and get it out there, but somebody really needs to have that understanding.—An experienced western Alaska processor and buyer

Learning About Markets for Your Fish

You need to learn as much as you can about the markets for the kinds of products your going to be producing and selling. You need to learn about what can affect prices, and why prices you can get for your products vary from day to day, from month to month, and from year to year.

Market conditions for Alaska salmon are changing rapidly. One of the factors behind changing market conditions is farmed salmon, which made salmon much more widely available, introduced new product forms such as boneless, skinless fillets, and greatly increased quality standards. Even though many buyers prefer wild salmon, they still want convenient and attractive product forms—and they are becoming more and more rigorous in their demands for consistent good quality.



*There's some excellent product now. I wouldn't say that was the case back in the 80s, there was a lot of poor quality wild product. Most of those companies went by the wayside. They've been replaced by companies with close to impeccable quality for wild salmon.
—An experienced western Alaska fish processor*

We try to make the very best product that we can. We try not to sell anything that we wouldn't want to eat ourselves. Which seems like an obvious thing to say—but sometimes you taste stuff and you wonder 'why is this being sold?—An experienced western Alaska processor and buyer

Your fish plant will be competing with other Alaska salmon processors, many of whom have lower transportation costs and can get fresh salmon to market quicker. What kinds of products they produce and how much they produce will affect the prices you can get for your products. You may wish to produce different product forms, or process at different times of year, than competing processors in your area.

When you are in the business of processing and selling fish you will need to pay close attention to market conditions and how and why they are changing. You should talk to your potential customers about market conditions. You should subscribe to publications which report about market conditions. You can also find a lot of market information on the Internet. You need to learn to use this information so you can make reasonable forecasts about how the prices you get for your products are likely to change from year to year. Fish prices are difficult to predict, but one thing you can be sure of is that they won't stay the same.

Identifying Products Your Plant Could Produce

As you learn about markets for different products, you should also make a rough estimate of what it might cost to produce them, and which work for your plant. Remember that many things will matter to potential buyers of your product, including its quality, what volume you can supply, when you can supply it, how reliably you can supply it, and what you can do to help promote it.

Try to have more than one product and more than one market. Not every fish that you buy will be a #1 fish (although this should be your goal). You need a way to process and sell lower-quality fish without hurting the market for your higher quality fish. And it's better to have choices if a problem develops with one market.

What products are best for your plant?	
<p>Less value added <i>(H&G)</i></p> <p>Higher production capacity Lower labor costs Less skilled labor needed Lower equipment costs Fewer things to go wrong Easier marketing</p> <p><i>But</i></p> <p>Lower sales prices Fewer processing jobs Higher transportation cost</p>	<p>More value added <i>(fillets, smoked fillets, etc.)</i></p> <p>Higher prices More processing jobs Lower transportation cost</p> <p><i>But</i></p> <p>Lower production capacity Higher labor costs More skilled labor needed Higher equipment costs More things to go wrong More difficult marketing</p>



Value-adding isn't necessarily profit-adding.

Many people believe that they will make more profit by producing a “value-added” product such as smoked salmon or fillets. A long time fish processor near Circle, Bill Straub, said that he tried every kind of value-adding he could think of for the Yukon king salmon that he caught. In the end, he decided that every time he touched his fish it cost him money. His final operation consisted of heading, gutting and freezing his fish at his fishing site and trucking his season's catch in a freezer van to Fairbanks at the end of the season. His operation was successful because he and his wife worked long hours and kept their operation simple.

Talking to Potential Customers

As much as possible, you should talk to potential customers to learn what their needs are and learn how you can meet their needs. Different buyers will have different requirements and expectations for quality, packaging, volume, timing of purchases, prices, and other factors. Here is some of the information you should try to learn from potential buyers:

- The types of seafood products they buy.
- Their expectations about quality.
- How much of your product they might be interested in buying.
- What prices they have paid for these products in the past. They probably won't want to tell you what they might pay in the future, partly because they don't know.
- Who they buy similar seafood products from now (this will help you learn who your competitors are so you can determine what your strengths and weaknesses are).
- How you could help them meet their needs better (for example, better service, higher quality, better price, better product forms).
- How they like to buy products (for example, would they want to buy your products directly from you, or would they prefer to buy them from a distributor).
- Their typical payment terms. (Do they pay in 15 days? 30 days? By letter of credit?)
- The type of inspection of your product they require.



Some Western Alaska Village Fish Processing Plant Products



Freshly sliced king salmon strips produced by Dainty Island Seafoods



Hot-smoked vacuum packed salmon produced by Yukon Delta Products in Emmonak.



Yukon King Seafoods traditional salmon strips, produced by Maserculiq Fish Processors in Marshall. This product won the Grand Prize in the 2001 Alaska Symphony of Seafood.

Developing a Marketing Plan

After you have done your preliminary market research by learning about the market and talking to buyers, you should develop a marketing plan. This marketing plan should be an important part of decision about whether or not you decide to build or operate a fish plant. Don't make the all-too-common mistake of looking for a market after you've built your plant and started operating.

As you prepare your marketing plan, make every effort to be conservative in your projections. People you talk to may be optimistic in their projections, whether it's the price they will pay for your product or the amount of your product they might want to buy. It's much better to have positive surprises than negative ones.

Your marketing plan should include:

- **A Description of Your Market.** This will include a list of your most likely customers, the products they are likely to buy, and the volume they are likely to buy. What geographic region are you targeting (your local region, other parts of Alaska, markets in the Lower 48, markets in other countries)? What kinds of buyers will you target (food distributors, seafood markets, grocery stores, casinos, gift shops)? As you think about your market, remember that it is critical to have more than one customer!
- **Market Trends for Your Products.** What kinds of prices are your potential customers presently paying for the kinds of products you will produce? What is the price trend over the past few years for the kinds of products you will produce? What kinds of people are the end customers for these products? Are the markets for these products growing, shrinking, or stable?
- **A Pricing Strategy.** You should think about the best way to price your products compared with your competitors. If you believe your quality is higher than your competition, you will probably want to price your product higher than your competitors' products. On the other hand, if you can produce fish at a lower cost, then you may want to price your fish lower than your competitors' products, so you can have a competitive advantage.
- **Competitive Analysis.** You should describe who your competitors in the market are and your strengths and weaknesses compared with them. Think about why a buyer would buy from you instead of another processor.
- **A Marketing and Sales Strategy and Budget.** How will you make potential customers aware of your company and your products? What will it cost you? Marketing takes money and you'll have to include money in your budget for activities such as advertising and participating in trade shows.
- **A Payment Strategy.** What payment arrangement and terms will you establish with buyers? How will you protect yourself against buyers who pay slowly or don't pay?



Without a good customer list, you don't have a business.
—An experienced Alaska fish processor

Sometimes you just have to start making connections. Some people call it the 2% rule: you have to go through 100 people to get 2% positive response. Word of mouth is a good way to start, from somebody that maybe everybody knows or has heard about.
—An experienced western Alaska processor and buyer

You have to spend quite a bit of time doing the research. And you will get rejected. You'll have people say "I'm not going to talk to you." It's not my job to educate you. Come down here and figure it out yourself. There will be people like that. But every now and then you'll find somebody who will speak to you.
—An experienced Alaska fish processor

It's good to have more than one buyer. Have as many as possible, because they could have different needs; and some could be indifferent and some could need the fish desperately and be willing to pay more. Developing several relationships is really key.
—An experienced western Alaska processor and buyer

Our #1 fish on the fresh market sells well. The biggest problem we're having right now is that our #2 fish is devalued to where you don't make any money at all—you almost have to give the fish away to get rid of them. So now we hope to use the number two fish in our smoking operation. That could help our profitability.
—A village fish processing plant operator



Do you have a marketing plan?

Planning How You Will Sell Your Products

Selling fish costs money. Some seafood processors figure it costs them as much as 25 cents a pound in salary and overhead to sell their fish. So make sure you plan for the costs involved in selling your fish.

How much it will actually cost you to sell your fish—as well as the prices you get—will depend on your sales and marketing strategy. It may make sense to have an in-house sales person employed by your company—if you will be selling large enough volumes at high enough prices to cover this overhead cost. Another alternative may be to have a partner in your business whose main expertise and responsibility is sales and marketing. In either case, the person should be based where he or she can easily meet with your customers—perhaps in Anchorage or Seattle.

Or it may make more sense for your company to sell its fish through brokers or traders. Many smaller processors decide that this is the best strategy for them, since it reduces the time and money company management has to spend hiring and managing an in-house sales staff. Be sure to factor into your business plan the fees that brokers typically charge. Their commission fees will typically range from 3 to 7 percent of the value of the seafood they sell.

Regardless of what sales strategy you decide is best for your fish plant, you need to understand that fish doesn't sell itself. Seafood buyers have a lot of alternatives and you will have to work hard to find and keep markets.

Choosing People to Sell Your Fish

It's not easy finding good people to sell your fish. It is important to understand that selling seafood successfully depends, to a great degree, on the relationship a sales person has with a buyer. Buyers will often buy mostly from people with whom they have good relationships. To a certain extent, this is human nature. That is why good sales people tend to be very outgoing and friendly.

Most seafood companies will hire sales people or brokers that already have a good track record selling the kinds of products they produce. This is generally a low-risk proposition, as these people will already know who the buyers are for these products and they will have good relationships with many of these buyers. Depending on the types of products you produce, this may be best for your company.

However, you may also want to consider hiring someone who is new to the seafood industry, if your sales position requires a lot of new market development. Sometimes people who are new to the seafood industry will be more motivated and will work harder at developing new markets for your products. While experienced seafood sales people can be quite good at selling to buyers with whom they already have relationships, they are often not willing to make a lot of the "cold calls" needed to find a lot of new buyers.

Keep in mind that by their very nature, sales people tend to be optimistic. If you are interviewing prospective brokers or sales persons, for example, they will probably tend to give you overly optimistic sales projections. They are in effect trying to sell you that they are the best for the job. While that may be true, it's wise to discount any projections you get from sales people before putting them in your business plan.

Before you select a person to sell your fish, be sure to take the time to do some background checking. As references, you should ask for a list of customers the person has been selling to. Then call these people to see what they have to say about the person you want to have represent your company.

Hiring the right people to sell your fish is critical to the success of your company. Make sure you go about this task carefully. It could make or break your company.



The Yukon has Alaska's best salmon—but it's Alaska's best kept secret. Copper River has the reputation, but people ask: "the what-kon?" It's an uphill battle. If you start out here with the mentality "I'll build it and they will come" you might starve to death while you wait. Our sales guy was trying to operate out of the village. But that doesn't work. You've got to have somebody meeting with people in town.—A Yukon River village fish processing plant manager

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What products will your plant produce?

What markets will you sell to?

What prices do you expect to receive?

Who will your competitors be?

What advantages and disadvantages will you have with respect to your competitors?

Who will sell your products?

What will it cost you to sell your products?