CHAPTER 3. A REALITY CHECK

Before you spend a lot of effort and money in planning a village fish processing plant, you should do a reality check about whether there is a reasonable chance that it might succeed—or whether there are fundamental obstacles that make it unlikely that it could succeed. If you can’t answer “yes” to the reality check questions in the chapter, it would probably be difficult for your plant to succeed.

It’s Hard for a Small Village Processing Plant to Succeed

It’s hard for small fish processing plants in small western Alaska villages to succeed. Only a few plants have operated successfully over a long period of time. Here are the some of the reasons why:

Fish processing is a difficult business. All fish processors face the challenges of varying and uncertain fish supply and working with a highly perishable product.

Fish processing is a highly competitive business. Village fish processors face competition from larger Alaska processors supplying markets with similar products in much larger volumes. These processors in turn face competition from both wild and farmed seafood producers from around the world. Margins are usually small in the fish processing business. Even the most efficient processors usually earn only a small profit per pound of fish sold.

Small processing plants face higher costs. Small processing plants can’t get deals as good as their larger competitors do by buying in bulk, on everything from boxes to insurance.

Costs are higher in villages. Everything from labor to utilities costs more in small villages than it does for processors located in larger communities with road access or jet service.

Costs of transportation are typically much higher for small villages. Not only is it more expensive to ship fish out, but it’s more expensive to ship supplies in.

Transporting fish to market from villages takes longer and transportation is less regular and reliable. Time and reliability are critical in transporting fresh fish to market.
The processor doesn’t get all the money. A common misconception is that because consumers pay a lot more for fish than fishermen get paid, processors must be making a lot of money. But just because a product sells for a lot at retail doesn’t mean a processor can make money from it. A lot of people handle every fish before it gets to the consumer, and they all take a cut of the money the consumer pays. Typically the wholesale price the processor gets paid is a lot lower than the retail price. After the processors pays fishermen, processing workers, utilities, and other bills, very little is left over as profit.
People with experience in operating village processing plants and doing business with them consistently point out that it’s not an easy business to be in. It’s worth listening to their advice:

> It’s a very convoluted business and I don’t think anyone ought to enter it without a very detailed business plan up backed up with an incredible amount of research.—A long-time Alaska fish processor

> I have found from experience that there’s a tremendous amount of expense in getting the product to market. If this was easy money, you’d have thousands of people doing it. It’s not.—A long-time Alaska fish processor.

> It’s a big undertaking. It’s one of those things where you have to be careful what you ask for. If you just went on good common sense it probably doesn’t make sense to start a lot of these projects. If you look at all the facts, it’s just a tough road. Really knowing what you’re getting into is important.—An experienced western Alaska fish processor and buyer

> There’s an expectation that somebody’s making a lot of money and if you just did the same thing you’d make a lot of money. There’s not a lot of money in building and running a processing plant and marketing. It is a small percentage.—An experienced Alaska fish processor

Our purpose in pointing out the challenges village fish processing plants face is not to say that your fish processing plant can’t succeed or that you shouldn’t try. Village fish processing plants can succeed and bring real benefits. But you are more likely to succeed if you start with a realistic understanding of the challenges you will face and what you need to think about and plan for.

> Sure, there's a lot of problems, and you shouldn't underestimate them, but it can also be exciting and personally rewarding. —An experienced western Alaska fish processor.

**Do you understand the challenges small village fish processing plants face?**

**Do you understand that it’s not easy to operate a village fish processing plant successfully?**
Having a Strategy for Success

Village processing plants can succeed in the highly competitive fish processing business despite the challenges of higher costs and more difficult logistics. But in order to succeed, you need a strategy to make up for these challenges.

You’re not likely to succeed if you try to sell the same products at the same prices as competitors with significantly lower costs. You will need to sell different products, or get better prices, or find a way to lower your costs. For example, your strategy might be to get better prices by producing particularly high-quality products or by having an effective marketing story about special characteristics of your fish, your region, or your operation.

You will need to think carefully about what strategy can succeed for you, and you will need to focus on your strategy as you plan, build and operate your plant.

The bad news is you’re not going to be all that competitive. The good news is that doesn’t mean there isn’t a way to build a successful small business. You succeed by some strategy whereby you do it different. You figure out some niche or some strategy that gives you some advantage to compensate for this overall disadvantage. —A long-time Alaska fish processor

If you just go in with a commodity, you’re not going to have much of a chance. One thing we appreciate about small village settings is that you can usually instill the importance of bleeding and icing and quality control. That’s something that we can take to market.—An experienced western Alaska fish processor and buyer

Can you operate more cheaply or sell for more money than the big processors? Those are the only opportunities to make money.—An experienced Alaska fish processor

Do you have a strategy to offset the cost and logistical challenges faced by village fish processing plants?
Community Support Matters

For your plant to succeed it’s important to have the support of the community. People need to understand what you are doing and feel that the community will benefit from it. Otherwise fishermen may not sell you fish, or the community may object to disruptions caused by your plant, such as bringing in non-local people to work in the plant.

Will people in your community support your plant?

Consider Starting Small

A good way to learn whether your plant can be successful is to start small. For example, before you build your own plant, you may wish to have some local fish custom processed and sell them. From this you can learn something about what processing costs, how potential buyers respond to fish from your area, and how good you are at marketing fish.

If things go well, you can get more custom processed the next year, or you can start your own processing operation. If things don’t go well, you haven’t lost a lot of money learning an expensive lesson.

The main thing is trying to figure out a plan that looks into the future so that you don’t have to do it all in one year. It’s hard to be successful in this business. You have to find a way to find little bits of success all along the way.

If you have fish from the previous season, or fresh, even a small amount, go through the steps of custom processing. Have somebody do a small batch. By just doing a few thousand pounds of fresh out of a certain area, even though your costs might be up, you’d have some real numbers to look at.

I’ve found that sometimes just doing a very small amount of something can give you enough information so that you can say “well, if we did a hundred times more it would have been profitable” or “gosh, we’re just barking up the wrong tree, we’re never going to make this thing work, I’m glad we just did it with a few hundred pounds.”—An experienced western Alaska fish processor and buyer
If you’re a fisherman, another way you can “start small” and gain experience in quality control, fish distribution and marketing is to become a “catcher-seller.” Under state regulations, a “catcher-seller” is allowed to bleed and gut fish and market them within Alaska. Catcher-sellers are not allowed to buy fish from other fishermen or do any processing beyond bleeding and gutting. Applying for a catcher-seller permit is easy. The application is issued annually, is free and takes just minutes to fill out. More information about the catcher-seller program, as well as catcher-seller application forms, can be found on the Alaska Department of Fish and Game website at www.cf.adfg.state.ak.us/geninfo/permits/forms_cs.php.

If you’re a fisherman and you want to take the next step and process fish, have fish custom-processed for you, or ship unprocessed fish outside Alaska, you can obtain a Direct Marketing Fisheries Business License from the Alaska Department of Revenue. The Direct Marketing Fisheries Business License does not allow you to buy fish from other fishermen for processing. More information about how to apply for a Fisheries Business License can be found on the Alaska Department of Revenue’s Tax Division website at http://www.tax.alaska.gov/programs/forms.aspx.