CHAPTER 4. RESEARCHING YOUR MARKETS

Before you decide to build or operate a fish plant, you should have a good idea of what types of customers will buy your products and what they are willing to pay for them. Research about markets is the first step in planning a successful fish plant.

Until you’ve done research about markets, you won’t know what products your fish plant can produce most profitably. Until you’ve done research about markets you won’t know what kinds of buildings and equipment you will need.

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 at a price that allowed them to make a profit. Many of these companies failed because they didn’t do enough market research and they didn’t understand the markets for their products.

Here are some of the things you need to do as part of your market research:

- Learn about the seafood distribution system and seafood markets.
- 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.
- Determine what potential customers would be willing to pay for these products and what kind of sales volume you could reasonably expect from them.
- Do a price analysis so you can see what similar products sell for in your target markets.
- Do a competitive analysis to determine your strengths and weaknesses in the market.
- Develop a marketing plan for selling your products.
- Determine whether you will sell your products yourself or rely on other companies to sell your production.

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.

In the reference materials at the end of this handbook is a short section on “Seafood Market Basics,” which can give you some tips for getting started in researching your markets and developing a marketing plan.
Here we focus mainly on what you will need to do, rather than how to do it. 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 in your village?

Learning About the Seafood Distribution System

If you’re going to have a fish plant then you need to learn as much as you can about who the different kinds of players are in the seafood distribution system—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.

Learning About Seafood Markets

If you’re going to have a fish plant then you need to learn as much as you can about seafood markets. You need to learn about the factors that 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 fish are changing rapidly. One reason is the rapid growth in farmed salmon production. More and more farmed salmon is being sold every year. Farmed salmon is sold fresh year-round, much of it as convenient boneless, skinless fillets. This is making it harder to sell wild salmon. Farmed salmon is getting cheaper, and quality standards that buyers expect are becoming more and more rigorous.
U.S. Seafood Distribution Flow
Where Do You Fit In?

Foreign Buyers
Importers
Processors

Foreign Sellers
Fishing companies
Fish farmers
Exporters

U.S. Producers
Fishermen from your area
Other Alaska fishermen
Other U.S. fishermen
Fish farmers

U.S. Importers

Primary Processors
Other village plants
Other Alaska processors
Other U.S. processors

Middlemen
Brokers
Traders

Secondary Processors
Breading/Canning
Steak/Fillet/Portion
Cooking/Packaging

Specialty Seafood Distributor

Broadline Distributor

Retail
Supermarkets
Fish Markets
Club Stores
Specialty Stores

Foodservice
Restaurants
Hotels
Institutions
The Fish Plant doesn’t get all the money. A lot of people handle your fish before it gets to the consumer, and they all take a cut of the money. Just because your product commands a high retail price doesn’t necessarily mean that you can get a high price for it.
Your fish plant won’t be competing just with farmed salmon. You will also 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.

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.
Rapidly increasing farmed salmon production is changing world salmon markets. The world is now producing—and Americans are eating—more farmed salmon than wild salmon.

**World Salmon Supply: Wild and Farmed**

**Estimated U.S. Consumption: Fresh & Frozen Salmon**
Prices Alaska processors received for chum salmon fell sharply during the 1990s. Among the causes were growing competition from farmed salmon, record Alaska chum harvests, and large Japanese chum harvests.

**Average Wholesale Prices Alaska Processors Received for Chum Salmon**

![Graph showing average wholesale prices for chum salmon from 1990 to 1999.](image)

Source: Alaska Department of Fish and Game, Commercial Operator Annual Reports.

**U.S. Wholesale Prices: Fresh Atlantic and Frozen Chum**

![Graph showing U.S. wholesale prices for fresh farmed Atlantic and frozen semi-brite chum from 2001 to 2008.](image)

Source: Urner Barry Publications, Inc., Seafood Price Current. Prices are low list prices for first of month. Sizes are 6-9 lbs for frozen and 4-6 lbs for fresh.
Changing halibut markets

During the 1980s, small halibut processing plants were built in Toksook Bay, Tununak, and Mekoryuk to provide opportunities for local fishermen to harvest halibut and have a place to sell their catch. When the plants were built, the halibut season in the eastern Bering Sea (Area 4E) lasted all summer, while in other parts of Alaska it lasted only a few days. That gave the plants a marketing advantage because they could sell fresh halibut at times when it wasn’t available from other areas. After the halibut IFQ system began in 1995, the season in other areas of Alaska was extended from March to November. The small Bering Sea plants no longer had a marketing advantage, and their prices fell, making it harder for them to break even.

Identifying Products Your Plant Could Produce

As you learn about markets for different products, you should also make a rough estimate about what it might cost to produce them. As you learn more, you may give up on some products and focus your market research on the most promising products. You will also need to think more carefully about the costs of these products, and many other factors that may affect which products are best for your plant.

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<th>Less value added</th>
<th>More value added</th>
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<td><em>(H&amp;G)</em></td>
<td><em>(fillets, smoked fillets, etc.)</em></td>
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<td>Higher production capacity</td>
<td>Higher prices</td>
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<td>Lower labor costs</td>
<td>More processing jobs</td>
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<td>Fewer things to go wrong</td>
<td>Higher labor costs</td>
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<tr>
<td>Easier marketing</td>
<td>More skilled labor needed</td>
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<tr>
<td>But</td>
<td>Higher equipment costs</td>
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<td>Lower sales prices</td>
<td>More things to go wrong</td>
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<tr>
<td>Fewer processing jobs</td>
<td>More difficult marketing</td>
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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.

Value-added isn’t necessarily more money.

Sidney Huntington, owner of Dainty Island Fisheries near Galena, for many years turned all of his fish into traditional native-style salmon strips. Late in his career, he learned that he could make more money by making fillets and shipping them fresh to Fairbanks.

Remember that from a buyer’s standpoint your product is a combination of the product itself, its price, your promotion program, and the distribution method you use to get the product to the buyer. So your product from the buyer’s viewpoint is a combination of the product and the services that make it easy to obtain.

Try to have more than one product and more than one market. Not every fish that you buy will be a #1 fish. 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.
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.
Talking to Potential Customers

After you have an idea of a range of products your fish plant could produce, when it could produce them, and what it would cost to produce them, then 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 that are similar to the products you plan.
- Their expectations about quality.
- How often they may want to buy your products.
- The volume of your products they might want to buy, and the prices they might be willing to pay (remember, how much they might want to buy will depend partly on the price).
- 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 (i.e., 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.

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 whether or not you decide to build or operate a fish plant. 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 do, 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?

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<tr>
<th>Reality Check</th>
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<tbody>
<tr>
<td>Can you describe the kinds of customers who will buy your products?</td>
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<td>Can you make a realistic estimate of what prices you will receive for your products?</td>
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<tr>
<td>Can you describe your competitors and why you will be able to successfully compete with them?</td>
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**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 staff employed by your company. If so, you’ll also have to decide where they should be located: in your village, in a larger Alaska community, or nearer your potential customers, perhaps in a city like 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 no longer sells itself. In the past, Alaska processors could focus primarily on producing fish, which they could easily find buyers for. These days, seafood buyers have a lot of alternatives and your company will have to work hard to find buyers.

Do you have a plan for who will sell your products, and what selling your products will cost?

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 a 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. Ask for a list of customers he or she has been selling to as a reference. Then call these people to see what they have to say about the person you want to have represent your company. You may be surprised at what you learn.

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.

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**Good fish don’t sell themselves.**

Here’s how the manager of a Yukon River village fish plant described the importance of marketing: "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."

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**Don’t forget markets for your #2 fish.**

Here’s what one village fish plant operator said about his #2 fish: “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.”
### Planning Step: Products and Markets

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<tr>
<th>Question</th>
<th>Answer 1</th>
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<tr>
<td>What products will the plant produce?</td>
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<td>What kinds of buyer will each product be sold to?</td>
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<td>Over the first five years, what is the average price you expect to receive for each product ($/lb)?</td>
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<td>What is the lowest price you might receive?</td>
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<td>Who will be your competitors in producing this kind of product for sale to this kind of buyer?</td>
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<td>What kinds of advantages and disadvantages will you have compared with your competitors?</td>
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<td>Who will be responsible for sales (finding buyers) for the product?</td>
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<td>If a different company will be responsible for sales, what will be the sales commission (%)?</td>
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### Planning Step: Sales Timing

For each product that you will produce, what percent do you expect to sell in each month?

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<th>June</th>
<th>July</th>
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If you will have to pay for cold storage of the product until it is sold, what cold storage price will you have to pay per pound?