



THE FISH Resources for Alaska's Direct Seafood Marketers ENTREPRENEUR

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DEVELOPING PRICING STRATEGIES FOR DIRECT MARKETS

By Glenn Haight

Developing a pricing strategy is one of the more dynamic challenges for direct marketers. Seafood markets are ever-changing. Fish inventories, consumer preferences, competition and other market-based factors change all the time. This article addresses the basics for developing a pricing strategy in this environment.

A little bit about "price"

It is important to understand that price setting does not occur in a vacuum. Price is one of the "4 P's" of marketing. Along with price, the other variables - product, placement and promotion - weave together to develop a marketing strategy. These variables work together and should complement each other in the final product offering to a buyer. Keep this in mind while reviewing the general principals of price setting.

Pricing objectives

Develop a set of core objectives. Take a moment to answer true or false to the following statements. I am trying to:

1. Survive and have enough cash flow to pay bills.
2. Maximize profits and achieve a certain return on my investment.
3. Carve out a certain market share.
4. Develop a product image that supports a higher price.

Often a business will answer these questions differently depending on its stage of development. Also, a business can and often does have multiple objectives achieved through its pricing strategy. What are your objectives?

Determining demand

Demand in this context is about how much a consumer wants or needs a product. Again, answer a couple of questions.

1. How badly does the buyer want my product(s)? Is it essential to their daily lives or business?
2. How much more or less product will I sell if I increase or decrease my price?
3. If I'm trying to cast my product as a high-end product, do I risk selling less if I lower my price?

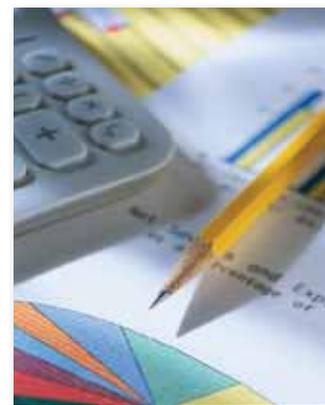
These questions get to an important concept called "price sensitivity", which asks how much more or less the target market (those you are trying to sell to) will buy with changes in price. Consumer sensitivity to price depends on a number of factors, including current economic conditions, individual income, where the product is sold, and available like products. If the buyer's demand for the product is weak, producers are cautious about increasing the price. Conversely, if consumer demand is strong, producers may find increases in price do not significantly lower the quantity sold.

Know your bottom line

An obvious consideration in price setting is making sure money is made. Determining a profitable price requires understanding the business's cost structure - or expenses. Developing a pricing strategy is just another reason to understand your cost structure.

Develop a list of the business's expenses as either fixed (those paid regardless of the quantity of fish caught, like insurance, annual maintenance, permit fees) or variable (those that vary depending on fishing activity, like bait, grub, crew share, shipping, packaging). Next, determine the average amount of fish harvested in a year by adding up all the fish ticket information. Dividing the average amount of harvested fish by the total variable expenses will determine how much it costs to catch a pound of fish.

For example, a producer has variable expense at \$18,600, fixed expense at \$8,500 and average annual harvest of 12,000 pounds. Dividing the variable expense by the annual harvest yields a variable cost of \$1.55/lb. By dividing annual harvest by the fixed expense, there is automatically \$0.71 of fixed cost in every pound produced. Adding the variable expense to this figure finds the total cost per pound is \$2.26. The



INTERVIEW: ALASKA BLUE HARVEST

Brian and Lisa Gabriel run the family owned Alaska Blue Harvest, a Cook Inlet set net direct market operation. Lisa sat down with Fish Entrepreneur for an interview about their operation.

FISH ENTREPRENEUR. Thank you for joining the Fish Entrepreneur for an interview. Just to get started, can you tell us about Alaska Blue Harvest Seafoods? What prompted you and your husband Brian to change from a set net operation into a direct market business?

ALASKA BLUE HARVEST: For the past 10 years the price of salmon paid to fishermen has been significantly reduced. We found ourselves getting paid less for our catch and getting less time in which to harvest the fish. The combination of the two made it tough to make a profit in the commercial fishing business. So, we decided that we could make a positive change and guarantee our own future with our direct marketing business.

FE: Since starting, how has the production side of the business changed?

ABH: We have streamlined our fillet process and have moved to a full walk in freezer for our products. This has enabled us to produce much more product than our original years of business. We also hand pinbone our fillets. Learning the techniques for removing pin bones has really helped. Keeping the integrity of the fillet is very important to the consumer visually.

FE: What have been the greatest challenges you faced in making those changes?

ABH: Learning the techniques for removing pin bones so it doesn't rip the fillet. Knowing which way to hold the fillet and knowing when the fillet is ready to have the bones removed. This is a part of the production that cannot be rushed or have shortcuts taken.

The consumer will know if you have not removed the pinbones.

FE: Alaska Blue Harvest is one of the first direct market land based processors in Alaska, a new processor category for the Department of Environmental Conservation. How complicated was it to set up this new phase of the operation?

ABH: When I first started to license Alaska Blue Harvest, I found it confusing to both the agency and myself as to what category we fell into. We were not just direct marketing from a boat and we were not a large processor. My application was returned when I had to choose the direct marketer and they wanted to know the name of my boat. Since we operate from setnet skiffs, and I process on land I was categorized as a land based processor. The cost of being a land based processor was significantly higher than a direct marketer so I had to make a few phone calls. It was finally determined that direct marketers as myself should be categorized as a direct marketing land based facility. It was pretty much ground breaking. After that, I certified my plant and we were in business.

FE: In looking at your website, www.alaskablueharvestseafoods.com, you use a number of marketing features to promote your product. What have you found as the most successful selling points for a direct marketer?

ABH: Having a good website is key if you are selling outside of the State of Alaska. It is worth your time to advertise with a couple search engines too. They bring your site up with ads that run on certain pages or with different searches. I also run pre-season sales on product and do geographic promotions.



FE: Marketing is often mentioned as the most daunting challenge to direct marketing. Do you have any tips for individuals who may be considering direct marketing portions of their catch?

ABH: Know what you are able to provide to your customers and don't over promise. Have enough product to sell in all of your promotions. Also, if you are unfamiliar with webpage design, hire someone to do it for you. There are many hours involved in designing a site, and your time may be better spent on marketing research. Also, you will need to have a good shopping cart and accept credit cards. This expedites the ordering process.

FE: Another common concern for direct marketers is shipping and transportation. Living and working on the Kenai road system may afford you some advantages, but what are some of the obstacles Alaska Blue Harvest faced over the years and how have you overcome them?

ABH: We ship primarily with Federal Express. The flights out of Kenai are before noon and the product always makes it to the consumer by 1:00pm the next day. For smaller internet sales, this is the way to go. We have also done promotions in areas that we are traveling to and taken the product with us. I offer free shipping if we bring it with us.

Quality Troll Salmon

From water to ice, it all begins on the back deck.

To ensure the highest price possible and continued market placement, salmon trollers must produce the highest quality product possible. The handling of a salmon, from the time it leaves the hook to the time it is iced down, will go further to determining the quality of a salmon than any other stage in its movement from the ocean to the consumer's plate. During the past few years, some new techniques have surfaced to guarantee that troll salmon is truly the king of salmon. Washington Sea Grant, the Makah Tribe, Pacific Marine Conservation Council and the Washington Trollers Association strongly urge all trollers to follow these simple steps to ensure the highest quality salmon attainable.



Salmon are stunned in the water and should be landed on a surface to ensure minimal or no scale loss. (An ice blanket works very well for this.) Sticking the salmon with a knife, directly behind the gills (as shown), quickly bleeds the fish.



The gills are then removed and the fish is prepared to be flushed of all blood. Making two cuts in front of where the kidney ends does this. The knife tip is pointing to the spot where the first cut will be made, right where the kidney ends.



The first cut is made straight down to the backbone, being careful not to cut through the backbone.



The second cut is made forward of the first cut, cutting back to the first cut at a 45-degree angle. This takes out a notch, very similar in appearance to a felling notch in a tree.



With the notch removed, a large vein will be exposed. This vein runs through the kidney along the backbone and spreads throughout the entire fish. It can be seen at the tip of the knife blade.



A pipette tip or similar device is inserted into the vein. Notice the slight bend of the pipette tip to ease insertion of the tip. Be careful not to use too much water pressure; a stream that shoots about six to eight feet from the tip of the pipette is sufficient.



The pipette tip is inserted and the water is turned on. Notice the blood being flushed from the entire fish. Also notice that it is easier to do this with only the gills removed; once the kidney is removed, this technique cannot be done.



The fish should be flushed for at least 30 to 60 seconds, depending on the size of the fish. The gills can be removed from the next fish at this time while the tube sits in the first fish, flushing out all the blood.



The tube is removed and the fish is cleaned. This fish was just rinsed with no massaging of the veins and the kidney bones are not cut. Notice that no blood is visible in the veins of the belly wall.



With a little more work, the kidney bones are then cut and flushed clean of all blood. Make sure to only cut the first four of the kidney bones taking care not to cut along the back bone into the flesh of the fish. The collar is also trimmed and cleaned of all remaining kidney on the sides of the backbone. The fish is then put into slush ice for a quick chill and then iced, or, without pre-chilling in a slush tank, put quickly into ice. Letting the fish sit on deck can cut the shelf life in half.

This flushing technique is recommended for all troll salmon. It is quicker and easier than massaging the belly and backs to remove any blood and, by doing so, ensures a firmer salmon. The final photo on this poster shows the finished product — a high-quality salmon worthy to be served at the highest quality restaurants throughout North America. Many buyers are willing to pay extra for fishermen to flush their salmon. Ask your buyers for price incentives.



MAKAH TRIBE



www.wsg.washington.edu

Flush your salmon. Its easy and quick and it pays, now and in the future.

For more information, contact Sarah Fisksen, Washington Sea Grant Program, at sfisksen@u.washington.edu, 206.543.1225.

INNOVATIONS IN QUALITY: PRESSURE BLEEDING SALMON

by Sunny Rice

Pressure bleeding is a relatively new technique for removing the bacteria-feeding blood from the veins of recently caught salmon. Instead of (or in addition to) “milking” the veins by hand or with a spoon, or bleeding the fish in a tank of water, the fisherman forces the blood from the fish with water pressure. While there is still debate as to whether this technique is superior in terms of quality to other bleeding methods, when done properly, the final product is indeed beautiful.

Most fishermen that have used the method for awhile say that it is actually faster than other bleeding techniques, particularly if they are direct marketers that will be further cleaning or processing the fish later. Trollers have probably been using this technique the longest on king salmon, but others have been adapting it to other salmon species in recent years. A long-time Petersburg fisherman

mentioned that they even used to use a similar technique for halibut long ago.

There doesn't appear to be one “right” way to pressure bleed, although there are certainly wrong ways. Some fishermen use pipettes ordered from scientific supply stores to direct the water into the fish, while others direct the water flow by simply squeezing the end of a flexible hose. Some remove the guts from the fish first, but others do not. Removing the gills prior to pressure bleeding is probably a necessity to allow access to the appropriate vein, and the kidney is always left in place until after the veins have been flushed. All say the process is relatively simple, but that they mastered the technique through trial and error.

The trickiest part is getting the right water pressure. Too much force will cause bruising of the flesh that may appear immediately or when it is further processed. Cohos may

be particularly prone to this problem. The required pressure varies depending on the size and species of fish. When you've got it right, you should see the belly cavity filling with blood and may see blood draining gently from the veins at the edge of the belly cut.

The best piece of information illustrating this technique that I have found is a poster produced by Washington Sea Grant. Their photos and descriptions help pinpoint the target vein and discuss the level of water pressure needed. They have generously allowed us to reproduce it for you here.

Whether or not pressure bleeding is the ultimate method of bleeding is still up for debate. In my book, the best way to bleed salmon is the one that you'll do – the one that works for your fishery, your vessel, and your crew. This new technique is just one more tool in your toolbox for producing high quality Alaska seafood.

DEVELOPING PRICING STRATEGIES FOR MARKETS - CONTINUED

price cannot be set below this figure or the business will not make money. It is important to run this kind of calculation before taking on new ventures.

Keeping up with the Joneses

It is critical to know what the competition is up to. When thinking about competition, expand the review beyond just seafood into other protein sources like beef, pork and chicken. While you are making a seafood product, you are actually competing in the food protein industry.

Market research is the key to understanding what price the competitors are getting in the market. There are a number of good sources for market price information, many of them at a cost. The best way to get a handle on research services is to search the Internet with key words like “market research seafood prices”. Subsequent results will include piles of

information on export/import prices, consumer data, and trend information, again often at a price.

Another simple way to follow market trends and the competition is to read the seafood periodicals available. These services tend to cover a wide range of seafood species and markets, while keeping a good pulse on current trends. The US Department of Agriculture's Economic Research Service is a good avenue for market information on most livestock products, except wild fish. As mentioned before, you are in the protein industry and should pay attention to all of the competition.

Finally, one of the best ways to find out the going prices is to interview potential buyers. While caution is advisable, one may find buyers are willing to talk in hopes of getting a lower price or perhaps finding

a supplier that can satisfy other problems like poor quality and inconsistent supply.

Pricing, a dynamic process

In developing a pricing strategy, a producer must establish pricing objectives while understanding how consumer demand, their own bottom line, and competition impact the ultimate price. Pricing is a dynamic process, but once established a producer should enjoy long-term success with reliable customers.

For further reading, see Pride and Ferrell's “Marketing Basic Concepts and Decisions, 5th edition.” For some handy web based seafood marketing resources, visit: Alaska Seafood Marketing Institute, www.alaskaseafood.org, and California Sea Grant's Seafood Network Information Center, <http://seafood.ucdavis.edu/Marketing/marketing.htm>.

INTERVIEW WITH BLUE HARVEST - CONTINUED

FE: Consistent quality is considered the hallmark of direct marketing. What kinds of quality standards does Alaska Blue Harvest employ to assure consistent quality for your customers?

ABH: Our main quality control measure is processing time and ice. We harvest the fish in setnet skiffs where they are immediately live bled and iced in the boat. Within minutes they are brought to the beach and transported to our processing plant. Our product does not sit around on a dock on ice for days or in a hold of a boat; they are immediately processed. This is a huge advantage for our product quality.

FE: What has been the most rewarding part of running your own processing operation?

ABH: There is a sense of liberation and pride in being able to process and sell your own fish. We still depend on our cannery to move the bulk of our fish, but we are also able to produce quality Alaska salmon products to the public with our name on it. It is awesome to talk to your customers and hear the positive feedback that they have about our products. We have also met so many great people through our direct marketing business. People are fascinated with what we do and we love to share our process with them.

FE: What do you see as the future of direct marketing?

ABH: I think that it is the new buzz of this era in commercial fishing. I know a lot of fishermen are participating in branding programs and improved quality control. I feel that direct marketing our own fish with our own

quality control measures ensures that our product is always the best quality. By direct marketing my own salmon, I can guarantee that the fish is the best available, without a doubt. As more and more fishermen venture into direct marketing, many of our friends are asking us how they could get into direct marketing their own salmon. Not every fishermen will do it, and not all of us will get rich at it, but the security of knowing that I have a place to sell my fish if all of our other options disappear, has made me a more confident and self reliant fisherman. Direct marketing is hard work, and it is a year round job. It is definitely sink or swim. Today's fishermen are not the fishermen of the past. We have options and direct marketing is one that is open to anyone willing to take a little extra time. The state agencies have also streamlined the paperwork to accommodate direct marketers so that we spend less time doing paperwork and more time producing and marketing our products. With each one of us that ventures into direct marketing, there is one more getting braver about doing it themselves. I love to talk to people about my business now, and they are always full of questions about how we do it and what it takes to direct market our salmon.

FOR MORE INFORMATION ABOUT ALASKA BLUE HARVEST, VISIT THEIR WEBSITE AT WWW.ALASKABLUHARVESTSEAFOODS.COM.

Sea Grant Bookstore Tour

Be sure to stop by the Alaska Sea Grant website to catch the latest publications on your favorite marine topic. www.alaskaseagrant.org

Prefer to receive this letter by e-mail?

Contact Beverly Bradley at beverly.bradley@uaf.edu
(907) 274-9694

For business and marketing assistance contact:

Quentin Fong
Seafood Marketing
907-486-1516
qfong@sfos.uaf.edu

Glenn Haight
Business Specialist
907-465-8746
glenn.haight@uaf.edu

BUSINESS OF FISH COURSE

These classes cover a number of subjects related to financial management for commercial fishing operations.

Classes available on UATV cable television channels throughout Alaska as well as live on the internet through the UATV website, Tuesdays at 12:00 pm.

For more information go to <http://seagrant.uaf.edu/map/staff/haight.html>

(Classes are archived so that prior classes are available for viewing.)



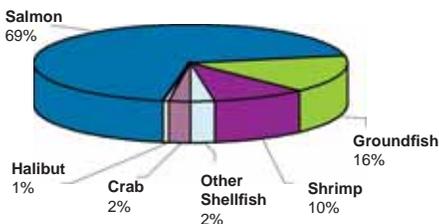
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Total Estimated Production 2007	Count	% of Count	Pounds Processed	% of Pounds
All Processors	686	100%	2,406,968,171	100%
Small Processor Categories				
Direct Market Catcher Processors	181	26.4%	2,280,629	.09%
Catcher Sellers	269	39.2%	357,439	.015%
Small Processors	63	9.2%	14,278,106	.59%
% of Total		74.8%		.70%

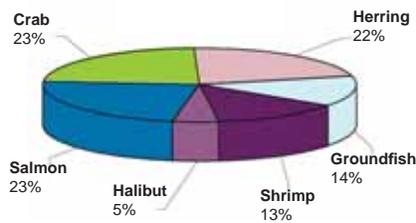
While making up about 75% of the total seafood processing operations in Alaska, the Alaska Department of Fish & Game's Information Services Section reported the cumulative production from Alaska's small processors (DEC's classification of under 5,000 pounds a day), direct marketers and catcher sellers, was 0.7% of total Alaska seafood production.

Direct Market Catcher Processors 2007 Species Sold by Pounds



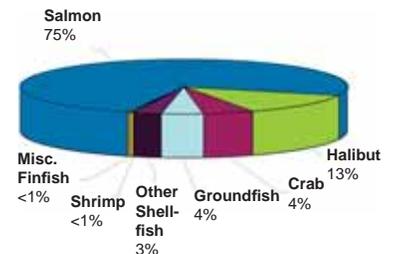
The vast majority of seafood sold by the direct market catcher processor category was salmon. Surprisingly very little halibut is sold by these direct marketers.

Catcher Seller 2007 Species Sold by Pounds



Conversely, catcher sellers sell a diversified selection of seafood, as crab and herring join salmon as the most widely sold product. Herring is generally sold into the bait market.

Small Processors 2007 Species Sold by Pounds



Small processors, are mainly selling salmon and halibut.