

Planning Your Business

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Nearly 75 percent of all start-up businesses fold within their first five years, and seafood businesses are no exception. There are many reasons. Some business concepts simply aren't viable but, in other cases, owners go broke because they lack sufficient operating capital, don't manage well enough or simply lose interest after a while. Those who remain in business succeed because they have certain skills or attitudes that help them overcome all obstacles. The following tips are gleaned from interviews with dozens of successful direct marketers and their customers.

Strategies and Plans

Consult with a variety of marketing authorities. Success as a direct marketer is dependent upon consulting with others in the business and sharing practical information. Call other direct marketers and go to one of the non-profit business development assistance programs for free or low-cost advice.

Define a target consumer population. Develop a list of products in seasonal demand in the target areas. To make direct marketing more workable, various strategies should be used, including contacting seafood brokers, making use of the services provided by other regional marketing specialists, researching printed literature, and the use of the Internet.

Differentiate your product from the competition. Why should someone buy from you rather than from someone else? Can you truly produce better quality or a better price or superior service? You probably can't deliver all three at once, but while striving to do so emphasize what you can do.

Locate buyers who are your philosophical allies. Your customers need to understand the limitations of a small operator, and be willing to work with you and at the same time to pay more for premium quality fish. Buyers who simply want the cheapest source of supply probably won't be good long-term prospects even if you are "cutting out the middleman." Buyers who are interested in product appearance, nutritional benefits, the sustainability of the resource and fishing culture are the best prospects for a small independent marketer.

Do market research. Invest time in understanding your potential markets. When possible, talk to prospective buyers and consumers in person.

Test the waters before plunging in. Try to maintain a relationship with your current processor, who may be willing to help you with your direct marketing enterprise or at least might take you back if you change your mind. You may be able to avoid burning bridges by continuing to deliver part of your catch to your processors, so long as they don't get the impression you're high-grading and just selling them the lower quality stuff. Some processors will do custom-processing for you or sell back your own catch — both possible approaches to easing your way into direct-marketing your catch.

Correctly assess your costs. It's easy to anticipate success when you see relatively high prices you can charge, but your profit is only what's left over after you pay all your costs. Remember permits, bonding, taxes, packaging, transportation, insurance, cold storage, distribution and additional boat-operating costs. Home phone bills, fuel and wear-and-tear on your truck, special clothing and equipment are all costs of doing business and should be included when projecting profitability.

React to good news. There is so much bad market news (market saturation, large carryover of previous year's products, etc.) that we often forget that positive news is present. Your business plan should exploit this information such as:

- Positive nutritional news (from infant brain development to the prevention of Alzheimer's disease in the elderly)
- Rapid development of the domestic fresh fish market
- Growing consumer awareness of seafood, due, in part, to the growth of aquaculture
- Growing preference for "wild" and organic products
- New opportunities in the frozen portion-controlled market
- The emergence of new Asian markets

Properly diversify your markets. Do not direct all of your products to a single buyer or market area. Develop markets in

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several broad regions. As product prices in one market area begin to decline because of oversupply, promote your products in the next.

Make provisions for future growth. Plan for the growth of your business and also for your clients' growth.

Making Sales

Geographical familiarity. Locate suitable markets for seafood products and determine how to efficiently transport your products. It is important to know the geography of the region, including the available transport infrastructure present in the area.

Develop your markets. Know everything about your potential customers before making the first call. Understand the whole distribution network in your region, who the players are and where the potential customer fits into that network. Know the customer's operation and needs. Find out who in the company does the actual purchasing and arrange to talk to that person.

Call ahead for an appointment and then go prepared for an interview. Dress appropriately (Don't try to impress buyers by dressing like a fisherman fresh off the boat; dress like a businessman with a product to sell.) Take samples of your product to the interview. Provide a photo album or a brochure that describes the attributes of your product. Be prepared to tell the story of how you catch and handle your fish.

Don't promise more than you're prepared to deliver. "Under-promise and over-deliver" is the key to good business. If you over-promise, you may get the first sale but probably not repeat orders.

Try to get everything in writing, especially quantities, sizes and grades, quality standards, delivery schedules, prices and payment terms. Use fax or e-mail to confirm any verbal agreements.

Be sure to know what price the market will bear. Base prices are driven by major processors who have lower unit production costs and can get breaks on packaging and freight rates. Some buyers expect to pay fishermen less than the going rate because dealing with fishermen entails greater effort and risk on the part of the buyer. Have a strategy for responding when a competitor comes in with a lower price. Some direct marketers will lower their prices to meet competition, while others will hold the line in the belief that their quality and service are superior to that of the competition.

Be Sure You Get Paid

If possible, do a credit check on your customer and check out the company's reputation. Some companies make a habit of cheating small and remote suppliers, whom they know can't afford the time and costs involved in collection. However, word gets around, so take advantage of the grapevine.

Start off small. Never deliver large quantities of product to anyone until they've established a track record of paying promptly and in full. A common scam is to pay for two or three small shipments and then default on a large volume purchase, so build your relationship carefully.

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Set realistic payment schedules. Most corporate buyers expect to pay anywhere from 14 to 30 days (or more) after taking delivery of your fish. If you can't live with this, you need to retail for cash only. If you can negotiate payment on delivery, go for it. But that approach can greatly limit your potential market. Find out what payment schedule is normal in your market segment, then insist that your customers adhere to it.

Establish a system for verifying the quality of the product when it arrives at its destination. Consider using recording thermometers or contracting an independent agent to examine each shipment and verify that your product arrived in good condition, especially if the buyer has a reputation for rejecting shipments or not paying.

Protect yourself with insurance. Most seafood products are highly perishable and a brief delay in delivery will make them worthless. Furthermore, certain fresh and processed seafood products have the potential for causing sickness and, therefore, pose potential liability problems. Cover these risks with product insurance and product liability insurance. You can find companies providing this insurance in business directories (such as *Business Resource Guide for Alaska Fishermen*, published by Alaska Sea Grant Marine Advisory Program) and on the Internet.

Potential Causes of Failure

Inadequate capitalization. A business needs not only enough capital to purchase equipment, supplies and raw material, but also enough to pay wages and operating costs while operating for one or more years until sufficient cash flow is established.

Inadequate business planning. Some industry members have erred by assuming that a business plan need only be a brief diagram scribbled on a napkin. Hasty actions of this sort have predisposed many businesses to failure.

Failing to cope with new realities. Many processors have been unable to come to terms with changing market realities, such as lower wholesale prices for some species, higher ex-vessel prices for others and higher quality standards. Some have ceased operation.

Accounting failures. Failure to keep strict account of business finances is a chronic problem. Proper accounting practices should be used from the outset.

Underestimation of personal energy required. This is a chronic problem associated with direct marketing. Most

participants are involved in a number of fisheries. There is little time available to deal with customers, air carriers, seafood regulators and others — all of whom are essential to the success of your business. They need competent assistants on the beach. Beware of creeping exhaustion.

Insufficient credit control. Whenever possible, do not sell your product on credit. Arrange to take credit cards or insist on Irrevocable Letters of Credit if customers do not have cash. If you are convinced that credit is the only option, use a credit service to help you assess the financial status of your prospective customer. Remember, “It’s not a sale until the check clears.”

Ineffective cost control. Know all aspects of your operation, including how to control cost. The business must be simplified to its basic elements to maintain costs at a level that allows a margin of profit.

Excessive risk. Investigate all areas of risk and find solutions to various identified forms of risk.

Market volatility. Carefully consider market fluctuations when deciding to actively engage in the business of direct marketing. A rule of thumb used to be to aim for a differential of approximately \$1.00/pound above the posted ex-vessel value of the product after direct-marketing-related expenses. Anything less represented a marginal undertaking because of the extra costs and risks associated with direct marketing. As overall costs rise and your financial needs increase, this target margin also should increase.

Operating Tips

Prepare to change the way you fish. You probably will have to sacrifice volume to meet the needs of your customers. You may have to shift the species you target, or change your timing for catching them to optimize quality and meet buyer demands. Your objective is not to fill your boat, it’s to fill your customers’ needs.

Expect to become more self-sufficient. If you stop delivering to a packer, you may lose access to fuel and groceries, ice, use of a port engineer, dock space, boat storage, and a range of other services that companies provide their fishermen.

Separate the fishing and marketing functions. Many direct marketers say it is exceedingly difficult to run a catching operation and a sales operation at the same time. Many rely on a spouse, partner or employee to do the marketing, or they use a broker or sales agent. Some have formed small marketing cooperatives to ensure enough volume to support hiring a marketing person. However, few small-scale marketing co-ops have been successful.

Take good care of your catch at every step of the process. Quality cannot be overemphasized. No one can improve your fish, so it’s up to you to sustain the quality it had when it came out of the water for as long as possible. Bled and chilled is virtually assumed.

Establish communication. One of the main reasons buyers are reluctant to deal with fishermen is that it is hard to keep track of them and the product and to communicate concerns. Buyers are more likely to be responsive if you can demonstrate that you will be in regular communication with them, and that they can reach you if need be. Providing cell or satellite phone numbers is a help, as well as fax and e-mail. Some buyers will want to talk to you daily while you are fishing, so if yours is expecting to hear from you, be sure to call or be available to take their call, or they’ll soon lose faith in you.

Respond quickly to customer schedules and specifications. “If you are going to keep ‘em, you will need to please ‘em.”

Maintain proper attitude. Some direct marketers have not done well because of business and personal problems.

Learn to be civil, no matter what kind of day you are having. Project a positive, optimistic image to your customers, regardless of what is currently happening.

Be consistent in terms of product quality, delivery timing and price.

Use various means of promotion. Prospective marketers pursuing aggressive markets will need to invest in expanded promotional efforts. The use of expanded advertising and product listings may be necessary to reach business goals.

Keep it simple. Your time is not unlimited. Project complexity increases the probability of many types of risk and makes business capital more difficult to acquire.

Things to Keep in Mind about Direct Marketing

Buyers get frustrated working with fishermen. The main reason, they say, is that fishermen too often do not understand the seafood business. Study the wholesalers, retailers and foodservice businesses to understand their needs.

Buyers purchase seafood from multiple sources. If you’re selling to a retailer or foodservice business, they probably are buying from processors, distributors and other fishermen, in order to satisfy all their needs. They may buy most of their fish from a volume distributor to minimize risk and keep the price down. There may still be a place for your offering in their selection, but they probably will be in touch with bigger suppliers and will know prevailing market prices and standards.

You have to do everything yourself. The tasks and risks that someone else previously assumed are now yours alone. Many of

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them are very different from fishing and take a great deal of time and energy to address.

You can't be in two places at once. So, unless you're selling right off the boat, you probably will have to hire or contract someone to meet the plane or truck at the other end and deliver your product to the storage facility or buyer. In some cases, buyers pick up the product; however, you must specifically arrange that. Buyers ask that air bills identifying the content, weight and arrival time be faxed ahead of time. Some cold storages will deliver the product locally. Regardless, nobody (other than relatives, possibly) does anything for free. You will need to get the *tariff* (rate) sheets for the companies whose services you plan to use, calculate all the costs involved and contract for their services well in advance.

You have to get rid of it all. You have to sell all of your catch, including any inferior species, any #2s and #3s, as well as any quantity in excess of what your buyers want. In most cases, it is illegal to discard commercially caught fish, even if you can't find a buyer. You may have to sell the excess or less desirable parts of your catch at a price below what it costs to box and ship them.

Develop backup market options. What will you do if a buyer refuses a shipment, cancels an order, reneges on a price agreement or you simply find that you've caught more than you anticipated? You want backup markets that are no more than a phone call away. Relationships with brokers and traders come in handy at times like these. The only backup plan that many people use is to put the catch in a freezer and hope they can unload it later.

Middlemen and end-users normally do not buy roe. Part of the value of your salmon is in the roe, which you may find difficult to sell, or may have to market separately. See Appendix E for tips on selling salmon roe.

There will be no retros. Salmon fishermen often get a 10- to 30-percent "bump" after the season but, when you direct market, what you get is what you get.

If you succeed, expect to attract competitors. Nothing is static in the business and an exclusive arrangement with a buyer can quickly become uncertain or vanish altogether if another supplier comes along with similar quality and a lower price. Develop a strategy for dealing with competition bent on taking your market share.

Writing A Business Plan

Your business plan is a blueprint that provides an outline of your objectives, the steps in meeting those objectives and the necessary financial requirements for both a startup as well as an existing business. It explains where your operation is, where it is going and how it will get there.

A business plan will be most useful if you update it as

changes occur. These changes may be internal or external factors that may have either negative or positive effects on the company. The plan should be reviewed annually to ensure you and your plan are still moving in the same direction and to incorporate any changes that may have occurred.

Nothing is static for long in the business and an exclusive arrangement with a buyer can quickly become uncertain or vanish altogether if another supplier comes along with similar quality and a lower price.

The person best qualified to answer the questions raised in the business planning process is you. You have the information and details as to where the business currently is and where it will go in the short and long term.

There are many different business plan outlines that exist and no two plans are identical; however, there is standard information that is seen in most business plans. The idea in writing a plan is to provide as much information and detail as possible, so the reader is able to gain as much knowledge about your operation as possible.

Appendix O of this document contains a generic business plan outline that is adaptable to your operation.

Many federal, state and private resources are available to business owners for developing a business plan. Consultants with experience and knowledge can assist with business plan development, and experts in many different industries can provide technical advice.

Why Write a Business Plan?

There are three main reasons why you should have a business plan.

- A business plan provides you an operating tool for managing the business and working towards your goals and objectives.
- A business plan is a great resource for communicating the business ideas to potential financial institutions and/or investors for possible funding.
- Writing a business plan forces you to look at every aspect of the business in an objective, critical manner. In other words, it forces you to think about all the details of where the operation is and how it will move towards its goals.