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WINNING SUCCESS IN AQUACULTURE MARKETING

Shay Garvey and Ann Torres

A decade ago aquaculture in Ireland was essentially a ‘cottage’ industry - fragmented, undercapitalised, with uneven product quality, and at the mercy of larger, often foreign owned, distributors. Today, a rapidly growing aquaculture industry is achieving profitable prices for a quality product in competitive international markets. Key to this success has been a fuller understanding and reshaping of the aquabusiness ‘value chain’ - the chain of value adding activities from raw material to final consumer that characterises the industry. Producers, using cooperative and relationship based marketing approaches, have essentially changed the rules of the game and won more control over and profit from downstream activities.

In particular, Irish Seafood Producers Group (ISPG), headquartered in Kilkieran, Connemara, has grown to be the country’s leading aquaculture marketing firm. Its ‘commercialisation’ strategy and marketing practice have enabled it to supply profitably a quality range of seafood products to its international trade partners 52 weeks of the year. In doing so, ISPG offers a model to other companies in similar circumstances, particularly in the agrifood business.

The Aquaculture Industry
Aquaculture is an industry witnessing noteworthy change worldwide on a number of levels. The Irish aquaculture industry reflects these global developments. Colloquially aquaculture is known as fish farming, but a more correct definition of aquaculture is the farming of aquatic organisms such as finfish, crustaceans, molluscs and edible aquatic plants.1 Whereas it may have once been characterised by its fragmented nature and numerous small-scale enterprises, firms at all levels of the industry are moving towards a greater degree of consolidation, size and sophistication. Over the last ten years in particular aquaculture in Ireland has undergone a rapid development and growth.

Over the decade 1980 to 1990, aquaculture production increased nearly fivefold in terms of volume to 26,000 tonnes. This represented a fifteen-fold increase in terms of value to the Irish economy from a £2 million to a £30 million industry.2 During 1991 these figures had risen to 28,000 tonnes and £40 million respectively, while estimates for 1992 suggest an output worth £45 million.3 It is noteworthy that a significant portion of this growth occurred during the latter half of the decade, from 1985 to 1990. The rapid sectoral growth during this period was lead by two factors: first, major industry investment in the production stage facilitated by various state and EC agencies; and second, the strengthening of linkages among firms responsible for various channel functions.

In the earlier half of the decade, between 1980 and 1985, Irish aquaculture was a highly fragmented industry characterised by uneven levels of product quality, price cutting behaviour among producers, and short term economic benefits due to highly seasonal production and employment levels. This sluggish developmental phase may be attributed, in part, to the long production cycle required (typically two to four years) for the harvest of aquaculture products. However, a more compelling explanation attributes sluggish growth to inefficient linkages among channel members, i.e. from producers to final consumers.

Value Chain Analysis
One way of viewing these linkages between channel members, and indeed of studying the complexity of marketing processes in general, is to envisage markets and industries as ‘value chains’ or ‘business systems’.4 5 A business system is the chain of value adding activities that is undertaken in order to bring a product or service from raw material stage to the provision of final customer service and support. A value chain disaggregates an industry into its strategically relevant components in order to understand better the interrelationship of different activities, the behaviour of costs and

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Prices, the bargaining strengths and weaknesses between players along the system, and existing and potential sources of competitive advantage. Exhibit 1 illustrates such a value chain in the aquabusiness industry. When used as an analytical framework, the chain highlights weak points which existed within the Irish aquaculture industry, namely those links which connected the functions of production, packing, supply management, and sales (Exhibit 2).

Firms providing these various functions lacked sufficient market presence and negotiating power. For example, producers were small and numerous, and many were undercapitalised and inexperienced in scaling operations up from a laboratory setting to a larger business venture. Packing facilities were also numerous and did not consistently provide adequate quality control. Supply and sales agencies were small, not well developed, and competed with larger and more sophisticated foreign distribution firms.

This high degree of industry fragmentation had to be addressed if Ireland were to operate in an international market. Individually, these firms were not likely to compete effectively, but collectively, they would have the opportunity to develop the clout and influence necessary to become significant market players. Furthermore, the industry required greater coordination and management of aquaculture products when moving output from producers, to packing plants, and on to distributors and retailers.

Irish Seafood Producers Group (ISPG) identified this gap and was able to coordinate the activities of several firms so as to manage product supply and marketing functions. ISPG realized that market presence and influence did not necessarily lie in the ownership of each channel function, but rather could be won through the acquisition of timely and accurate market information and providing the pertinent supportive marketing system.

**Irish Seafood Producers Group (ISPG)**

ISPG, which also operates under the trade name "Bia Mara", was formed in 1986 by six salmon producers, and is headquartered in Kilkieran, Connemara, fifty miles west of Galway city. These producers came together to form a sales and marketing agency that would channel their products in the most economic and efficient manner. The advantages of such cooperation were that the producers had more effective, systematic access to the market, an integrated sales approach and a stronger negotiating position.

ISPG is the first EC-recognised producer organisation (PO) in aquaculture in Europe. Its structure is similar to a coop, in that it is owned by the producers who sell through it. However, the farms, packing plants and depots are separately owned and operate independently. No one owner/producer owns more than 30% of ISPG and should any one of these producers go into liquidation the shares return to the company. Shareholders provide approximately 80% of
ISPGR's supply and another six or seven producers provide the remainder. All producers which sell through the firm sign an agreement which requires ISPGR to sell all of the producers' supply and which in turn requires that the producers sell exclusively through ISPGR. ISPGR pays producers the weekly market price for their product less a commission for its commercial services, processing and shipping costs. In this way, over 80% of the product value remains with the producer (and of course, the shareholding producers also enjoy a share of ISPGR's final profits).

The company's main objectives are to:
- maximise sales price for suppliers;
- provide consistent sales outlets for the farms' output; and
- realise a profitable investment for shareholders.

Its operating policies are based around quality assurance, harvest coordination, year round sales, retail promotion and distributor support. The challenge for ISPGR as a group marketer is to manage the series of complex decisions required to achieve inter-firm cooperation. As a group marketing initiative, ISPGR has been successful in creating cooperative working relationships among its suppliers. The benefits accruing through such group marketing efforts are manifold: 1) diversification of risk among shareholders; 2) systematic access to the market; 3) an integrated sales approach; 4) the penetration of new export markets; 5) access to new types of buyers; 6) increased profit margins through better prices; and 7) a stronger negotiating position. ISPGR's rapid sales growth is evidence of this success; its sales turnover in 1992 of £17 million is almost eight times greater than in its first year of operation. The company directly employs fifteen people in its headquarters and some 250 people indirectly through producers.

Since its formation in 1986, ISPGR has become Ireland's leading aquaculture marketing firm. In 1991 the group sold, on behalf of 12 producers, 3,400 tonnes of finfish (i.e. salmon and trout) which accounted for approximately one-third of national finfish production. ISPGR's exports to Europe accounted for 70% of its sales in 1991 of which France was the largest market. Furthermore, bad debt cost was reduced from an average of 8% of sales prior to the formation of the company to less than .05% currently. Noteworthy price stability as well as improved credit ratings have also been achieved for the producers involved.

ISPGR's high proportion of sales for the export market indicates that it clearly operates in an international market. Norway and Scotland are the first and second largest producers of farmed salmon in Europe, while Ireland is the third. Yet, Ireland's production of farmed salmon in 1991, at 10,000 tonnes, was about 26% of Scotland's and 7% of Norway's production for the same year.* Ireland does not have a mass volume industry to command substantial market presence. Therefore, it must produce to the highest quality to compete in the market. The challenge for ISPGR is to persist in matching high quality products with quality complementary assets in areas such as selling, distribution, promotion and reputation.
Pricing levels enjoyed by Irish salmon are relatively strong in that it is generally positioned between Scottish and Norwegian salmon. Statistics for 1991 showed Irish salmon to be two price points, in retailing terms, below Scottish and four points above Norwegian salmon. Consequently, ISPG enjoys favourable product positioning. For example in France, ISPG's largest export market in which it holds 11% of the retail salmon market, the image is of a top quality product, while in Germany it is known in the trade as the 'green coop'. Besides fresh atlantic salmon, ISPG's product range includes sea reared trout and more recently several species of shellfish.

A New Challenge

Currently, shellfish farming is the area of aquaculture which is expanding more rapidly than the farming of finfish. Although most shellfish farming operations tend to be small-scale enterprises, government agencies are now devoting considerable effort towards developing this industry further. These agencies view shellfish farming as an attractive investment not only because there are good markets on the continent, but also because it may be a way to address the declining populations in maritime areas. "The aim is to attract young people into the business, if possible. In addition to its income and employment-creating capacity, it has the great advantage of being environmentally friendly." However, the shellfish industry is caught in a vicious cycle similar to what finfish farming experienced in the early 1980s.

Exhibit 3 shows that this industry has many of the same concerns that salmon and trout farmers had to address a decade earlier. For example, there are numerous small-scale producers (about 200 enterprises within the state), many of whom are not able to offer consistent product quality. This may be attributed to the lack of proper harbour facilities and technical production support. Between 1980 and 1990 the production of shellfish in Ireland increased nearly fourfold and the value of this output increased over fivefold from £1 to £5.5 million. However, the revenue producers receive for their efforts is still relatively low, at about £20,000 per producer. This is despite the fact that producers sell an overwhelming proportion of their output (nearly 90% of supply in 1990) to export markets where shellfish commands high prices. Again, the players further down the aquabusiness chain command more muscle and negotiating strength.

One of the more pressing problems these producers encounter is finding suitable outlets for their production. The cost to access markets, in terms of information, selling, distribution and promotion, especially for those markets abroad, can be prohibitively high. Such barriers have not permitted Irish shellfish producers to develop a regular and consistent market presence to date. Thus, the image of Irish shellfish products is poor in the eyes of the customer (i.e. distributors and retailers) and Irish producers are sometimes perceived as being amateur and unprofessional.
ISPG recognized the similarities between the shellfish industry of the early 1990s and the farmed salmon industry of the 1980s and has set out to break this vicious circle by integrating shellfish supply in the salmon and trout supply chain (see Exhibit 4). The major difference in this scenario is that rather than having the primary producers initially invest in a marketing group, ISPG along with the Udarás na Gaeltachta is investing in the formation of an embryonic shellfish marketing company Cumann Tairigeoirí Sloigéire Teo (CTST) to ensure both a consistent quality supply and a dedicated marketing initiative at this developmental stage. If the initiative succeeds and these producers grow to a critical mass, it is planned that they too will become shareholders.

**Relationship Marketing**

ISPG’s ‘commercialisation’ strategy has involved managing key components along the value chain in order to, first, ensure the best supply of product (see Exhibit 4) and, second, achieve more control over and profit from the downstream activities of selling and distributing (see Exhibit 5). Essentially, the firm has reconfigured the value chain by supplying a quality range of seafood products to its trade partners 52 weeks of the year. This has involved building cooperative and fruitful relationships on both the production and marketing side. This needs investment of time, acquisition of knowledge and research, and negotiating expertise. It is through the maintenance of such relationships that ISPG believes that it captures value in the market which allows it to maximise price to producers. The key factors to capturing this value are twofold. First, fish supply is crucial - the consistent provision of high quality fish product. Second, information is also critical - information regarding clients (i.e. distributors/agents), the retailer/caterer, and the end consumer.

Relationship marketing on the selling/distribution end of the chain involves more than a bilateral approach. The company seeks to build trilateral trade relationships with distributors and the retail/catering chains. For instance, ISPG will occasionally negotiate directly with a large supermarket to offer a special salmon promotion, particularly during peak periods of production. This has the benefits of generically promoting salmon, thus extending the overall market. However, the distributor is not excluded from this negotiation process and is happy to accept lower margins for guaranteed high volumes.

**The ISPG Organisation**

ISPG’s successful trade strategy is underpinned by a coherent organisation. In understanding the nature and culture of ISPG, it is helpful to use the McKinsey 7-S framework: strategy, skill, structure, systems, style, staff, and superordinate goal (Exhibit 6).

*Strategy:* While the overall thrust of the company’s strategy has been outlined above, it is possible to encapsulate it in the phrase: To satisfy consumers’ need for healthy well-tasting seafood.
Skill: As suggested in Exhibit 6, the supply base of the company is wide as is also the target market. Properly matching supply with demand is a particular skill or competence which ISP G possesses. It requires a focused sales operation offering a range of seafood products to its primary customer base of more than one hundred distributors and processors. It is the distributors and processors who sell to the secondary level of customers, retailers and caterers. This matching process is managed on a daily basis, mainly through tele-sales, from its headquarters at Kilkieran. It equally requires the ongoing acquisition and maintenance of an information network to underpin this selling activity.

The function of marketing is to develop the rapport and nurture the relationship between senior ISP G management and primary and secondary customers. This can involve extensive travel, nationally and internationally - what has been termed 'shoeleather' marketing. It is worth observing that this reverses the traditional relationship between selling and marketing, where selling typically takes place in the field and marketing is directed from the head office.

Structure: ISP G is a tightly run, lean operation which must also be highly flexible if it is to achieve its objectives. The company relies on a process driven approach which identifies four key activities in the firm's aquabusiness chain. This approach organises and empowers the staff into four teams which manage the firm's activities of product supply, sales, market development and administrative support.

Systems: Information is key in the commercial success of ISP G's activities. In many respects, the company operates within an industry which uses traditional clearing house practices such as auctions, commodity floors, weekly and spot prices. Yet the successful players in the aquabusiness industry bring sophisticated and computerised systems to match supply with demand. ISP G uses up to the minute information technology to manage this information flow optimally. To demonstrate the complexity of market matching that such a system must manage, consider that any one product (e.g., a salmon) may have up to seventy-two different product offerings according to quality, size and processing. Achieving the best price for each of these potential product offerings requires skill, systems, and an effective sales team.

Style and Staff: ISP G's style in many ways mirrors its flexible and innovative approach. The company atmosphere is open and team oriented and work performance is measured against clearly identified objectives. Bear in mind that this firm operates - by choice - out of a remote rural location some two hundred miles from the nearest sea ferries to the continent. At ISP G, the first language of commerce is Irish, spoken among staff and producers. The second is French, the language of its largest overseas market. The third is English. While the staff is knowledgeable, computer literate and versed in best management practice, it also has a deep commitment to Connemara and the economic survival of the West of Ireland. To this end, ISP G positively discriminates towards the employment of people from the West of Ireland. In fact, 65% of the staff
originates from Gaeltacht regions. Other staff demographics show the firm to be a young one, as the average age of employees is 31 years, and the female to male ratio is balanced at 50% to 50%.

Superordinate Goal: "We deliver against all the odds." This reflects an emphasis on execution and performance despite being located in a region of poor infrastructure, distant from its principal final markets. At one level, the success to date of ISP格 has given the firm ambitions to become a significant seafood marketing company in a European context. The company believes that its group marketing model originating out of Connemara could have a much wider application. The aquabusiness chain could be readily enlarged to encompass a much wider supply in terms of seafood products and the number of producers, within and without of Ireland, as well as a much broader demand base in terms of developing European wide trilateral trade relationships. At the same time the firm is continually conscious of its roots which lie in Connemara.

ISP格 and Its Community
An important economic benefit of aquaculture is that through the efforts of local entrepreneurs it has afforded gainful employment for the indigenous population. Firms like ISP格 offer a model of how cooperation may be a vehicle of wealth creation and distribution. Furthermore, enterprise development has a multiplier effect in that it promotes the start-up and/or expansion of other businesses. As an example, Transmara is a firm which transports, on behalf of ISP格, fish products to Dublin. Since the truck would be empty on its return to Kilkieran, it only made sense to fill it with fruits and vegetables which would be in demand by Kilkieran residents and could be sold in the local shop. Thus, Transmara, through its business for ISP格, established links with fruit and vegetable producers in other areas to service Connemara. Obviously future growth is highly desirable. In this process not only are purely economic factors at play but also considerations of a broader societal nature (see Exhibit 7).

Social and Cultural: Aquaculture facilitates local economies; these firms typically employ local people, have their roots in the community, and often become involved in supporting local school and community programmes. For instance, ISP格 supports Cairede na Mara social activities and contributes to the local school education programmes. Through its support of such activities it helps to promote Irish cultural activities. Furthermore, ISP格’s business activities facilitate inter-European communication as it hosts visits from French coastal communities, and since local and foreign languages are used in daily commercial life.

Physical: Ecology and resource management are pressing issues in aquaculture development. Fish farming activities obviously impact on the environment. However, not all such effects are detrimental; some are innocuous or imperceptible, while others are perhaps beneficial. All fish farmers are encouraged and assisted, by organisations like BIM and Irish Salmon Growers Association (ISGA), to employ best management practices and to avail of independent environmental assessment. ISP格 endorses these, and actively participates in the ‘Tidy Fish Farm Competition’.

Aquaculture Marketing
**Political:** As members of a community, fish farming enterprises would be wise to involve community representatives in major decisions. The support of these representatives can be vital in ensuring the development of local enterprises. ISPG routinely communicates with local representatives ensuring that they are aware of any decisions which may affect community life.

**Lessons of ISPG’s Experience**

Irish Seafood Producers Group has shown how it is possible to re-engineer a business - essentially, to change the rules of the game - in order to become a more profitable player in an international market. It has done so operating out of a peripheral location and against considerable odds. Along the way a number of important lessons have been learned:

- There is no substitute for 'shoeleather' marketing. Cultivating the necessary relationships with distributors and caterers and retailers along the value added chain requires commitment and perseverance; put simply, relationship marketing takes time.
- Information, and not necessarily ownership, can be the key to control the distribution chain, particularly for short shelf life products. Information gives negotiating and bargaining power. The use of IT systems allows the HQ sales office to operate with the efficiency of a trading floor.
- To ensure a first rate product consistently, cooperation must take place between producers. This reduces risk and inefficiency. In this context, ISPG views its suppliers, shareholders or not, as customers.
- Good customer service encompasses speaking the language of the customers and the producers.
- As a member of its community, ISPG actively supports local programmes and relies on community support to facilitate its long term success.

**Authors**

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