

Changes on the structure of the Icelandic Fish industry since abolishes of export licenses

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Introduction

- Aims of the Study
 - Examining the aspect of recent changes in the structure of the Icelandic Fish industry (IFi)
 - to widen our ongoing study on the structural, organisational and productivity changes in the Icelandic fisheries sector
 - Main study emphasis is on Demersal species
 - Reporting changes in the IFi's value chain
 - Period of research: From the fall of the big marketing organisations to date
 - Main emphasis on the last 5 – 7 years

Introduction

- Previous studies
 - Strategic Alliances; The Role of the Central Firm in Governing Strategic Alliances Between Small and Medium Size Companies; The Case of the Icelandic Fish Industry
 - PhD thesis about the role of the big marketing organisation in Icelandic fish industry from their establishment up to 2001 (Ögmundur Knútsson)
 - FROM PRODUCERS SALES ORGANISATIONS TO GLOBAL MARKETING CONGLOMERATES; HOW THE ICELANDIC SEAFOOD EXPORTING COMPANIES CHANGED (Ögmundur Knútsson and Ólafur Klemensson)
 - STRUCTURAL CHANGES IN THE ICELANDIC FISHERIES SECTOR (1990-2007) - A VALUE CHAIN ANALYSIS (Ögmundur Knútsson, Ólafur Klemensson and Helgi Gestsson)
 - Value chain analysis for cod and haddock fillets

Methodology of the study

- Methods
 - Primary data was collected through semi-structured interviews with managers in eight IFi's companies
 - 3 quota holders – vertical intergraded companies
 - 2 commission/sales and marketing
 - 3 small independent fish producers
- Secondary data
 - Comparison of contribution margins (productivity index) from 1990 to 2007
 - Computation of the relative value creation in cod/haddock value chain export to the UK in week 27 2009
 - Annual report from the companies

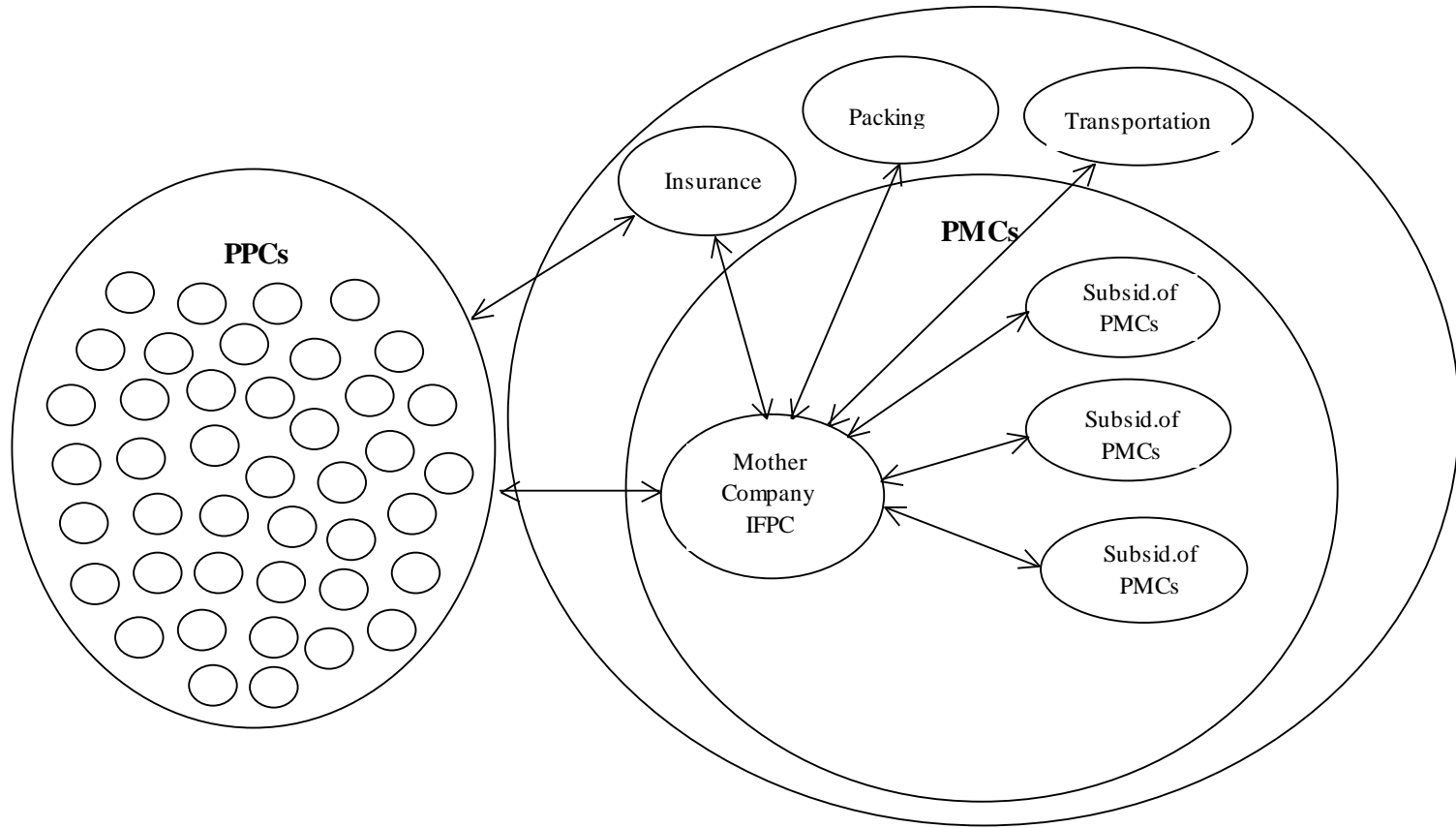
The execution of the study

- Semi-structured interviews
- Five main threads
 - Structure of the value chain, value creation, sales and marketing, innovation, strategic formality
 - Over 30 sub-threads
- Eight IFi companies
 - 2 relatively large vertically integrated companies
 - 1 traditionally vertical intergraded company (harvesting, processing)
 - 1 small commission/sales and marketing company (csm)
 - 1 medium commission/sales and marketing company (based on one of the old MO's)
 - 3 independent producers
- Interviews were conducted in May and June 2009

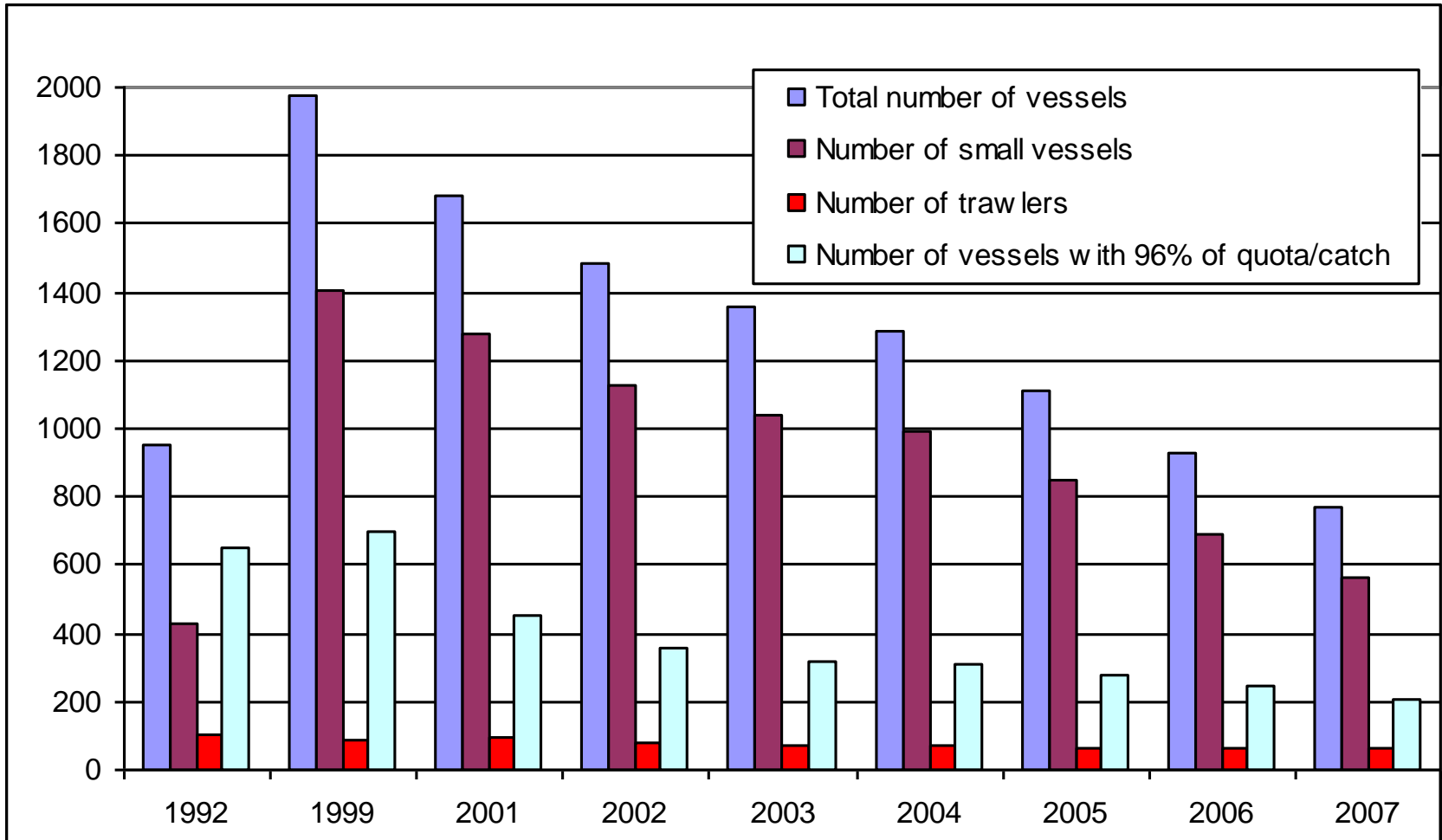
Value chain in 1997

- Dominated by three MSOs and export licensing
 - Producers co-operatives
 - Members had duty to hand in all there products.
 - Lack of marketing information
 - Conflict of interest in value creation in the VC
 - High percent of product in low value adding packing
- 1990 to 1997 characterised by structural changes in the marketing sector, new sme's marketing companies entered the industry as well as larger producers established marketing division.

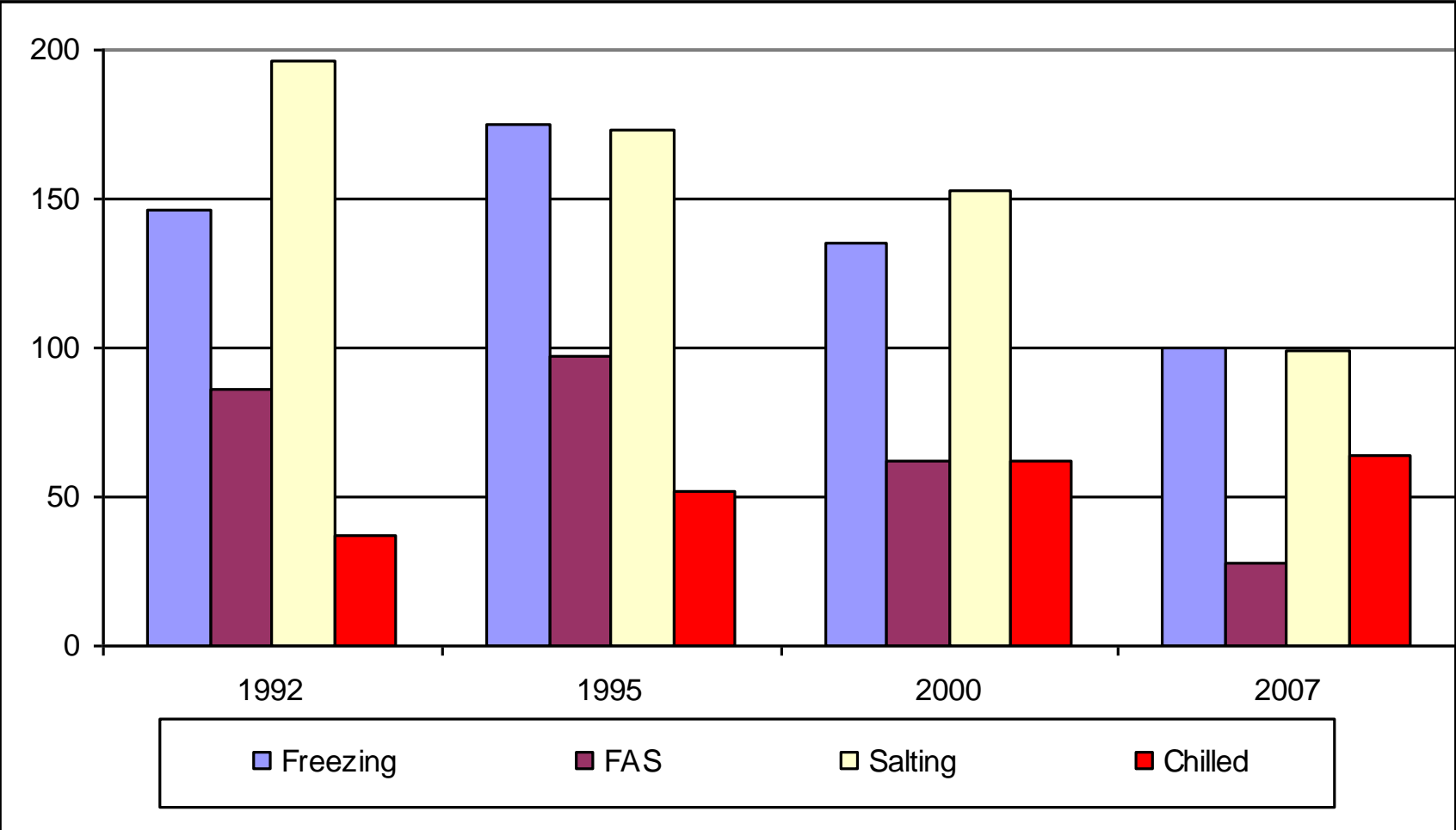
IFCP network in 1997



FISHING COMPANIES



FISH PROCESSING COMPANIES



Changes in the value chain

- Before 1997 the IFi's value chain was product driven with the quota holders and the three big marketing organisation in power
- The power of the IFi's value chain lies now mostly with the quota holders and the foreign retailers
- In the last 5-7 years the value chain has changed to become both value and market(ing) driven

Changes in the value chain

- Value added is gained by fulfilling wishes of buyers through robust technical development
- Value added is derived through the specialisation of small companies' products from species that can easily and steadily be bought from fish markets and tailored to retailers stringent wishes
- Value added is gained by processors using csm companies with direct ties to foreign wholesalers, processors or retailers
- Value added is gained by processors cutting out links in the value chain and doing business directly with foreign wholesalers, processors or retailers

Business models of interviewees

- **Quota-yield based optimisation** – Exporting in cooperation with foreign wholesalers and retailers. These integrated fisheries companies produce and market products from selected main fish species. The rest is mainly sold on domestic and foreign fish markets. The companies have few but steady business partners abroad galvanised through long term contracts. These companies have little or no reprocessing facilities abroad. Secondary-processing can in some instances be outsourced.
- **Value based optimisation** – Exporting both through own marketing department and foreign wholesalers/distributors or directly to retailers. Harvesting and producing to orders in Iceland and abroad. Long term bilateral or trilateral relationships with retailers

Business models of interviewees cont.

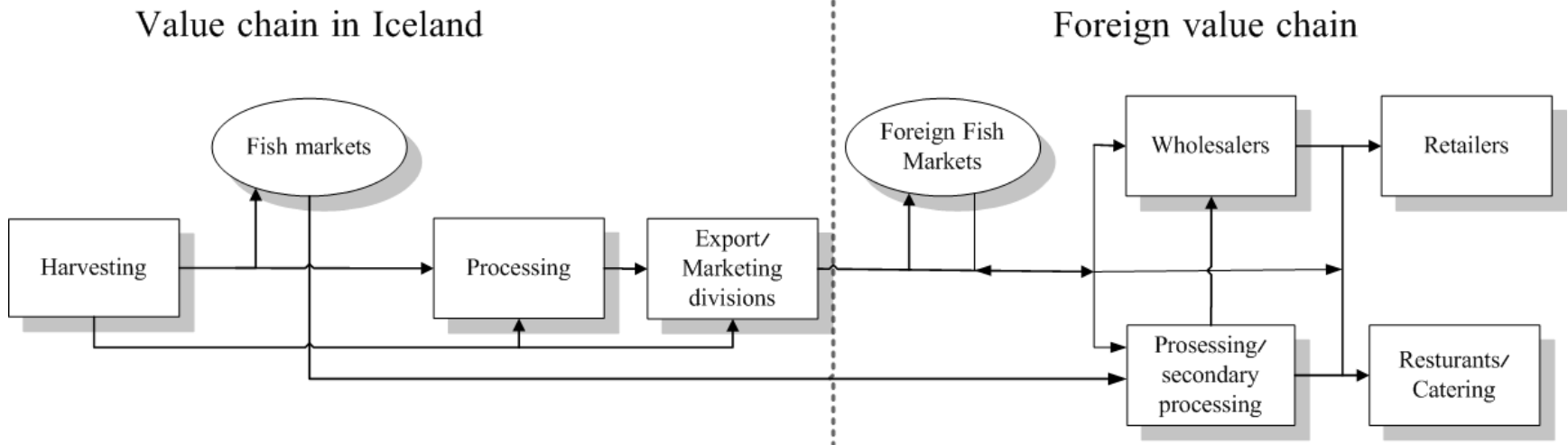
- **Globalized commission/sales and marketing companies (csm) and processing** – With three main lines of business 1) straight csm both in Iceland and internationally selling both Icelandic and foreign products 2) value adding subsidiary or connected company abroad with reprocessing facilities at chosen locations and 3) a processing company abroad. Marketing information is seen as of high strategic value and usually kept within the company.
- **Local csm company** – Mostly operating locally in Iceland, focusing on quality and stability, selling Icelandic products to foreign markets – Seeking value added through strong ties with retailers and key customers in chosen markets, stability on the supply side through long term contracts, active sharing of marketing information to clients

Business models of interviewees cont.

- **Specialised producer** – specialising in cod and haddock sourced from chosen vessels through long –term exclusive contracts and fish markets (also from selected vessels). Almost all products are sold to the UK, directly to major retailers in cooperation with an UK agent. The flow of market information between the actors in the value chain is of great importance as are the contacts to the vessels owners.
- **Harvester and specialised producer** Specialising in processing selected species as cod. Harvesting cod and selling all other species on fish markets were additional cod is bought exclusively from chosen contracted vessels. Selling most products to Central-Europe to a Belgian buyer that resells to retail chains and hotels. The rest is sold through an Icelandic sales and marketing company. Long term cooperation between the producer and the customers is of high importance.

Placement in the IFi's Value chain

Value chain for Icelandic Cod



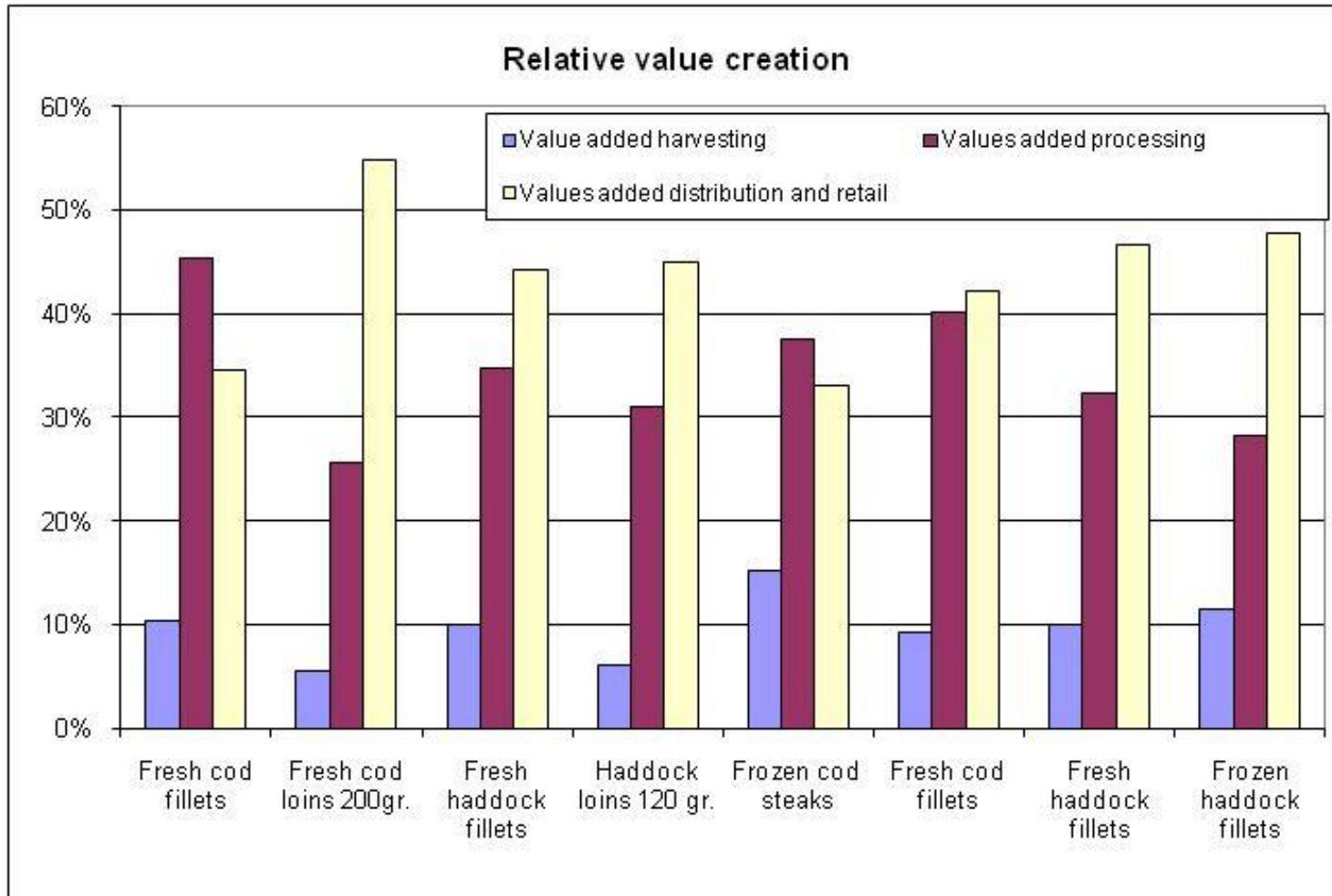
Driving forces for changes in the value creation

- Buyers demand
- Technical development
- Longer shelf life
 - Control of harvesting and processing through effective marketing information
 - Innovation in packing
 - Ease of transport
- Fish markets
 - Specialisation
 - Stability
- Increased value added
 - Harvesting
 - Production
 - Yield
 - Distribution and retail



The relative value creation in cod/haddock export to the UK

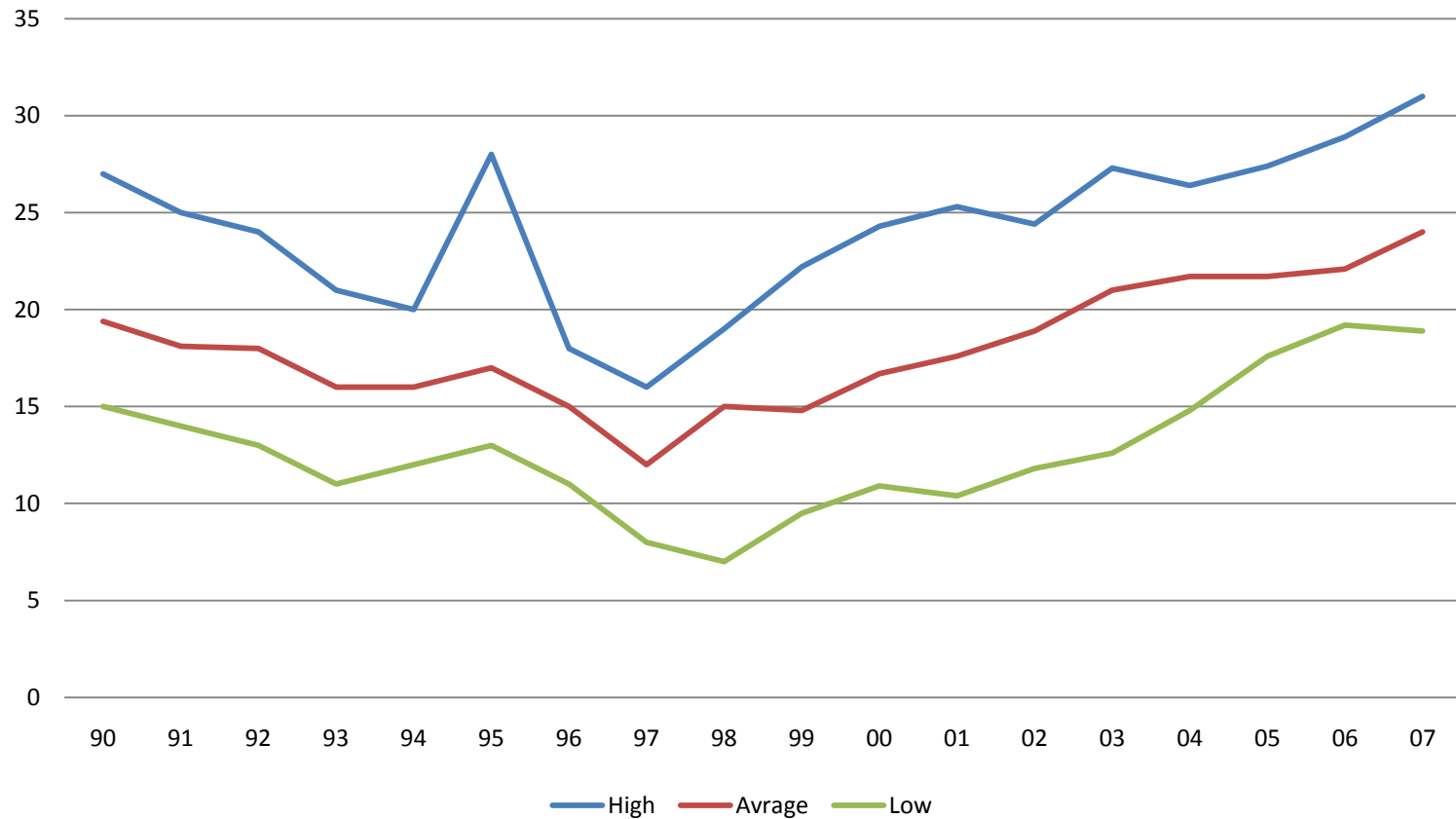
week 27 2009



Product output kg. cod pr. man-hour

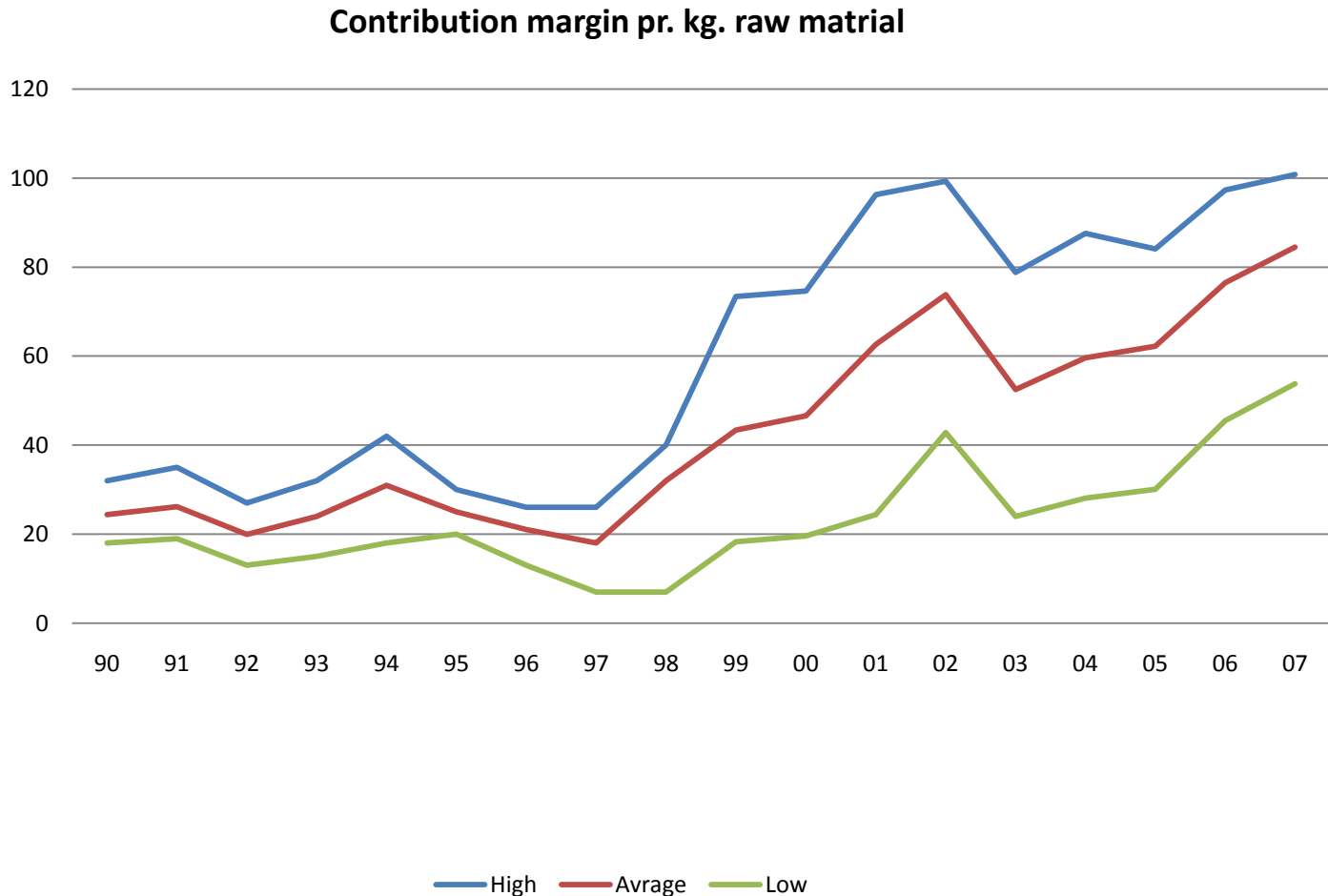
Information from the Association of Icelandic fish producers 2009

Product output pr. man-hour



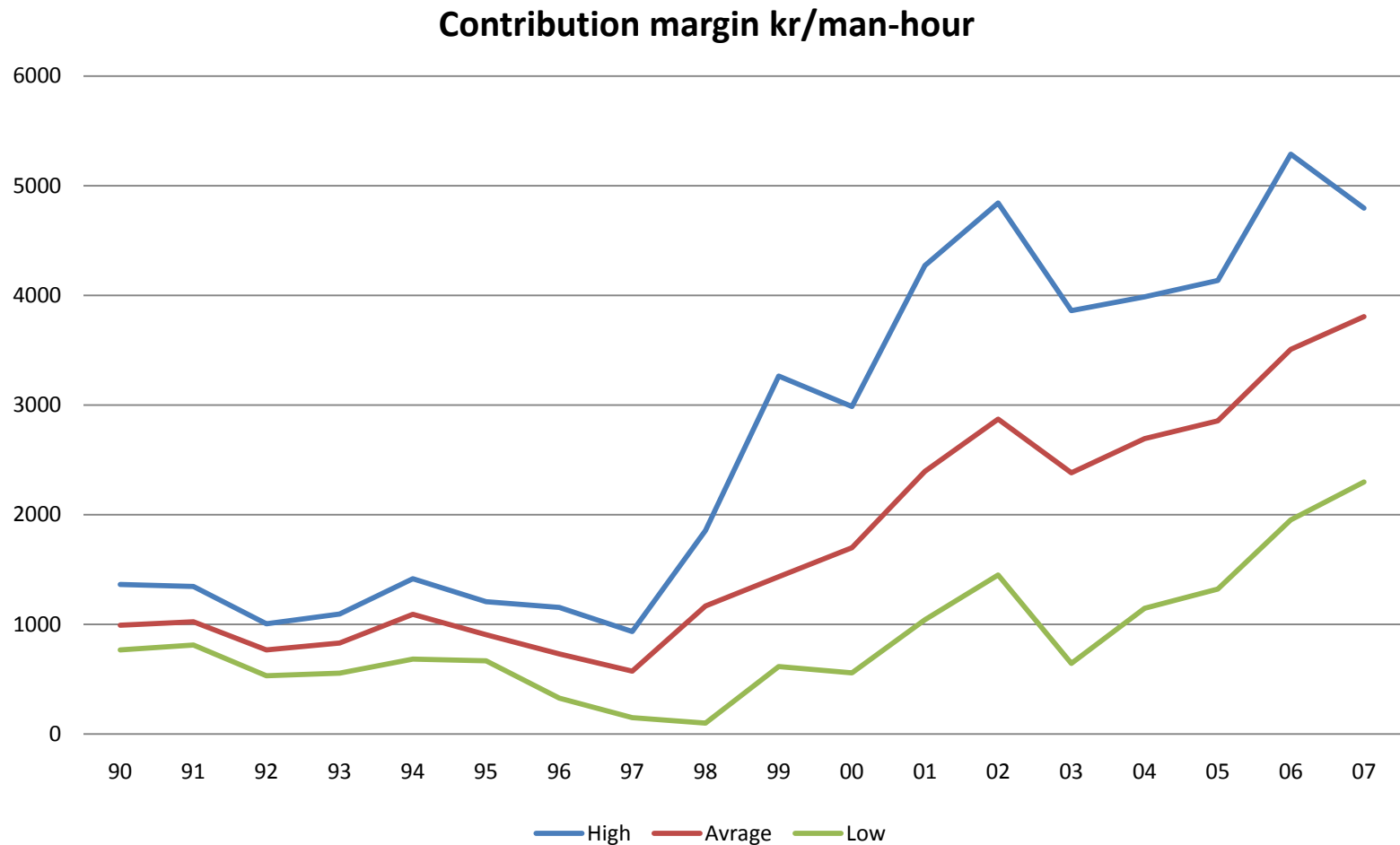
Contribution margin – kg. of raw material of cod

Information from the Association of Icelandic fish producers 2009

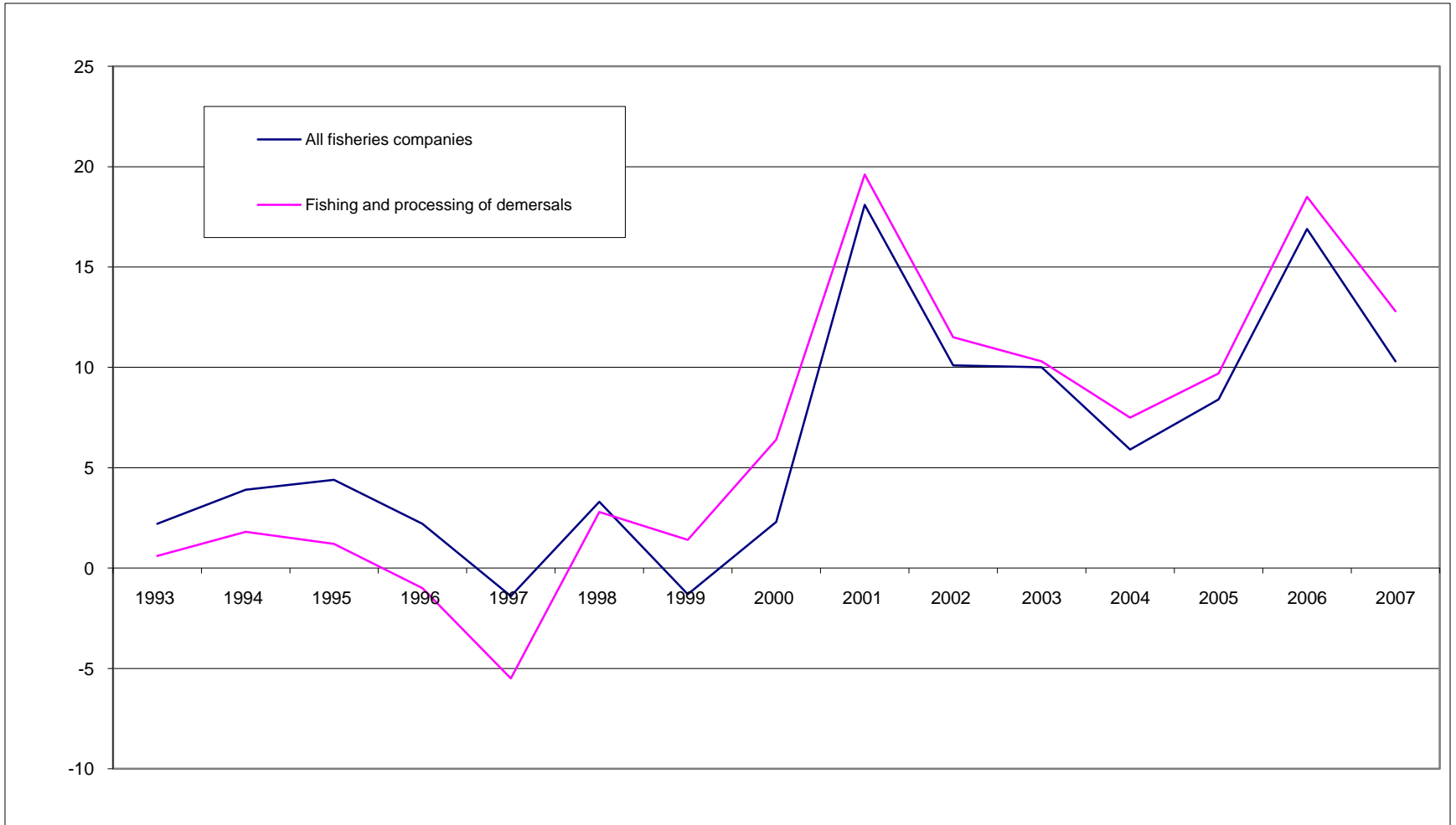


Contribution margin IKK/man hour - cod

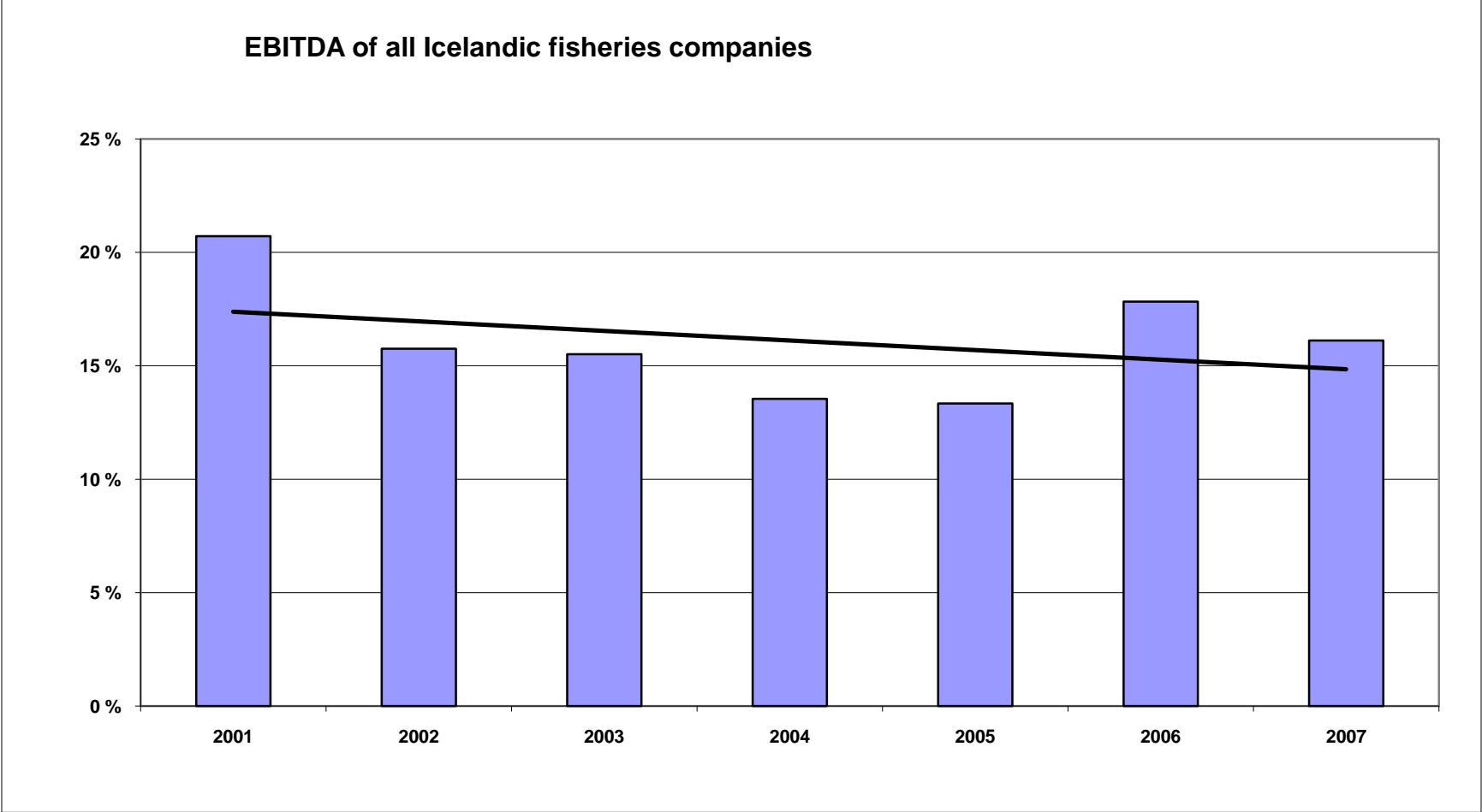
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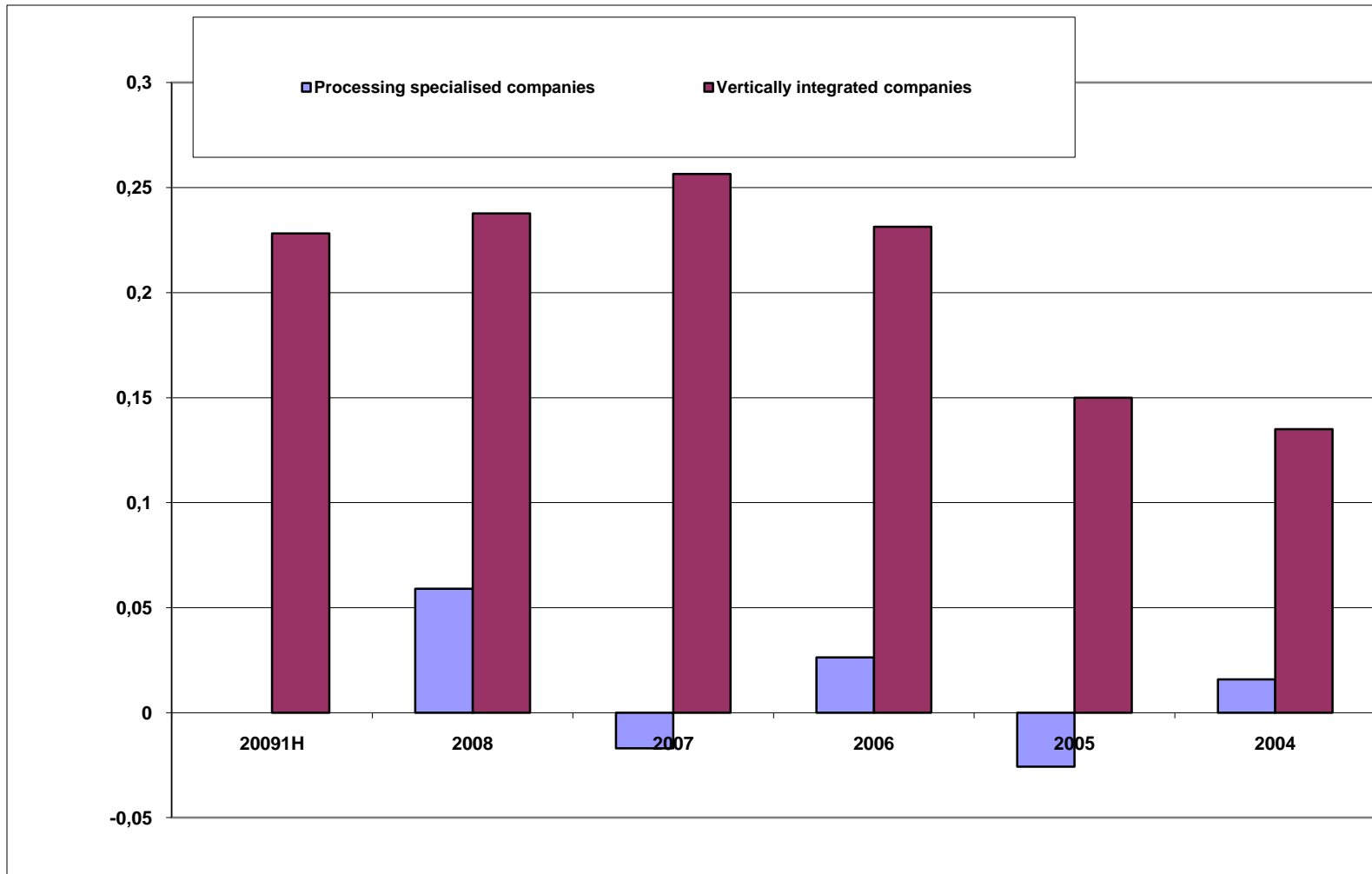
Profitability



EBITDA of all Icelandic fisheries companies



Average EBITDA



Conclusions

- After the demise of the three sales organisations a temporary trend in spot market sales emerged. In the last few years this has changed so that today the spot market sales are avoided when possible. Instead cooperation flourishes with emphasis on trust and long term relationships.
- Two key factors for an efficient effective market driven value chain are
 - the coordination of harvesting, production and marketing of a vertically integrated company through a pull from its international buyers and
 - the possibility of specialisation and stability through the operations of fish markets

Conclusions cont.

- Direct contact between producers and retailers in the global value chain seems to have created additional value. This is in accordance with the results of a previous studies on the cooperation in the value chain
- For the IFi's value chain the key success factors are reliability, quality, stability and efficiency, where companies are able to bring the right quality raw material through high tech processes with world class yield to deliver top products up to buyers fullest wishes in the right markets

Challenges

- Are the changes in the structure increasing value creation in Iceland?
- Are the Icelandic fish industry systematically working towards product development and increased value creation?
- Or are we just chasing the markets demands?

Thank You!

