



# Global Conference on Aquaculture 2010

Farming the waters for People and Food

22-25 September 2010, Phuket, Thailand

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**Global Conference  
on  
Aquaculture 2010**

**Plenary Lecture IV:**  
**Responding to market requirements  
and challenges: making aquaculture  
a competitive food producing sector**

22–25 September 2010, Phuket, Thailand



## Sustainable Aquaculture

Usually refers to *environmental sustainability*:


- fish meal usage
- environmental impacts

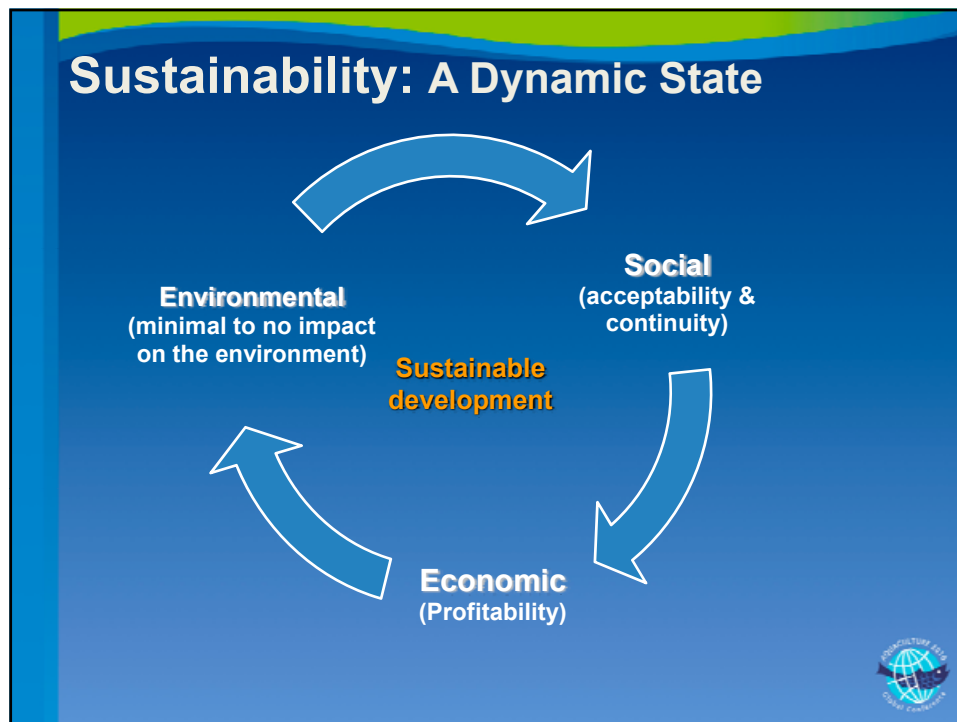
There are very real, quantifiable and scientifically reliable solutions:

- Environmental impact assessment
- Risk Management Analysis
- Environmental monitoring

And considerable research into:

- Alternative, sustainable protein sources,
- Plant based oils which provide the same levels of Omega 3 fats as fish oils,
- Ever more efficient feed conversion rates.





## Economic Sustainability

The economic viability of an enterprise is dependent upon many factors:

- good planning and budgeting
- adequate financing
- well-trained and motivated personnel
- cost effective and productive activity

*Basically...Good Management*

...something that can neither be mandated nor imposed.

## Economic Sustainability

The Industry is plagued by *endemic cyclical*ity:

- social repercussions - job losses, loss of investor confidence and stakeholder credibility
- companies with financial difficulties can rarely afford to be conscious of environmental issues
- the struggle for day-to-day survival can result in a short-term mentality which carries over even in the good times



## The Market

The most well managed, competitive, aggressive and innovative company will fail if it produces something:

- the market doesn't want
- in the wrong form
- at the wrong price
- or in the wrong quantities

It is essential:

- to understand the potential or target market
- to be well positioned to respond to these

It's not only responding to supply and demand factors but also to the desires, needs and concerns of the market, i.e. the consumers:

*addressing the consumer's concerns about environmental or social issues is also in essence a market response*



## Understanding the Market

- Market status
  - Demand
  - Supply
  - Forecast
- Competition
- Customers and Consumers
- Contemporary market trends & Consumer perceptions



## Demand

- Global Population Increase
- Household Purchasing Power Increase
  - North America, Europe (1970-2008)
  - China, India, Brazil (late 1990's +)
- Strong increase in animal-protein consumption
  - Consumers' shift towards more healthy products
  - Increased scientific evidence & marketing of 'seafood' health benefits
  - Consumption of aquatic food in many developed and developing countries is still low compared to other food items



**Aquatic Food Consumption Increase**

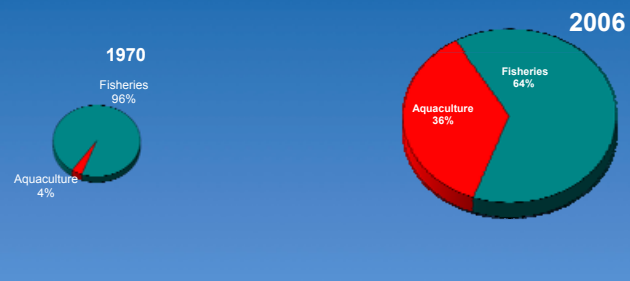


## Demand

- Stagnation/Reduction of Capture Fisheries Landings
  - World catches stagnant at  $\simeq$  1997 level

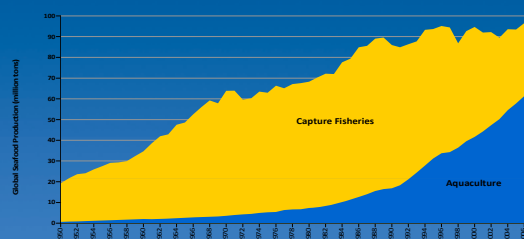


- Increased Market Demand Satisfied largely by **AQUACULTURE**



## Supply

- Global aquatic food production 110 million tonnes
- Apparent per capita consumption 16,7 kg



(Source: SOFIA 2008, FAO)

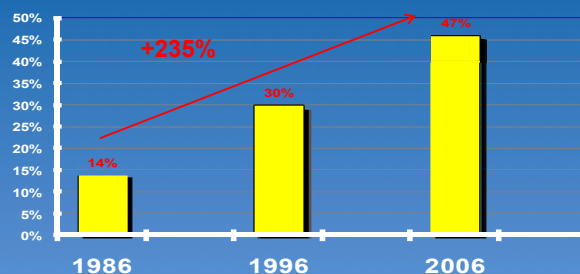
**Aquaculture => 47% of aquatic food for human consumption**



## Supply

- Global aquaculture production 51.7 MT
  - Including plants 66,7 MT
- Global aquaculture value 78.8 Billion USD
  - Including plants 85.9 Billion USD

### ➤ Aquaculture contribution to per capita aquatic food consumption



(Source: SOFIA 2008, FAO)



## Know your market

The general trends in our industry are very attractive:

The industry of the future, a growing population, with growing income and purchasing power, more and more educated and concerned about health, eating more and more seafood, with a finite source of wild fish.

*A magic formula for an ever growing demand.*



## Know Your Market

- 1) What happens in the short and medium term?
- 2) Aquaculture, yes, but what kind?

*What does the market want and are we in a position to provide it?*



## Competition

Within national markets of aquatic food products, as part of  
imported **VS** nationally produced products

Within the aquatic food market, as part of  
farmed **VS** captured  
(*fresh/chilled (whole)* **VS** *processed, value-added etc*)

Within the global food market, as part of  
'aquatic food' supply **VS** 'other food protein' supply

VS

**alternative food offerings**





## Identify Consumers

*It's important not to confuse customers with consumers. They are both important but with distinctly different:*

- Needs
- Wants
- Perceptions
- Roles



## Identify Customers

- Consumer
- Household purchaser



- Wholesalers – Retailers
- HoReCa industry
- Processing industry



## Identify *Customers* and their Needs

- **Consumer**
- **Household purchaser**



- ✓ *Accessibility*
- ✓ *Affordable/ reasonable price*
- ✓ *Safe (healthy) products*
- ✓ *Environmentally friendly/ sustainable (etc)*
- ✓ *"Quality"*

- ✓ *'Competitive' prices*  
*(very high bargaining power)*
- ✓ *Constant & Regular supplies*
- ✓ *Adequate logistics ensuring freshness*
- ✓ *Consistent quality (often certified)*
- ✓ *Environmental & Social Responsibility requirements*



- **Wholesalers – Retailers**
- **HoReCa industry**
- **Processing industry**



## Contemporary market trends & Consumer perceptions

- Large retailers increase in market share
- Demand for added-value fish-food products
- Growing importance of the HoReCa sector
- Consumer health concerns
- Consumer environmental (and social) concerns
- Consumer quality concerns and requirements



# Market Segmentation

**Target market = wider food market**

Consumers = not homogenous

Consumer groups:

- geographical location (*culture, traditions etc*)
- age
- gender
- family size
- education
- income
- other

Differentiating factors:

- consumption *per capita*
- local favorite species
- geographical origin of imports
- away-from-home consumption
- market share per retail channel



# Certification & Labeling

**Labeling:** All information placed on the package or on the label accompanying a product.

- ✓ Business to Client
- ✓ Business to Business

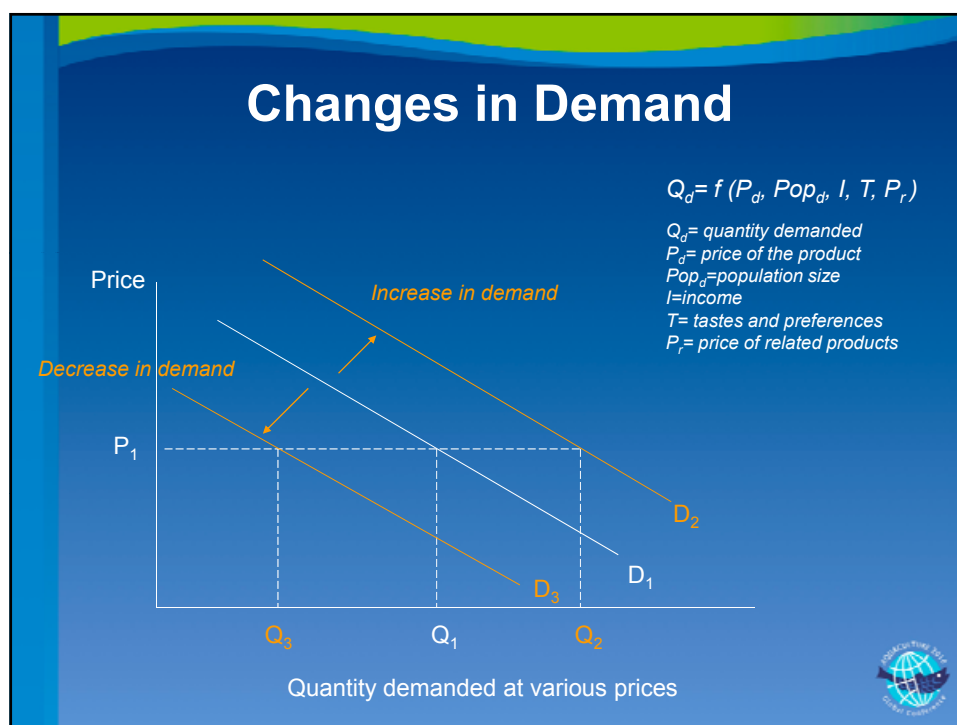
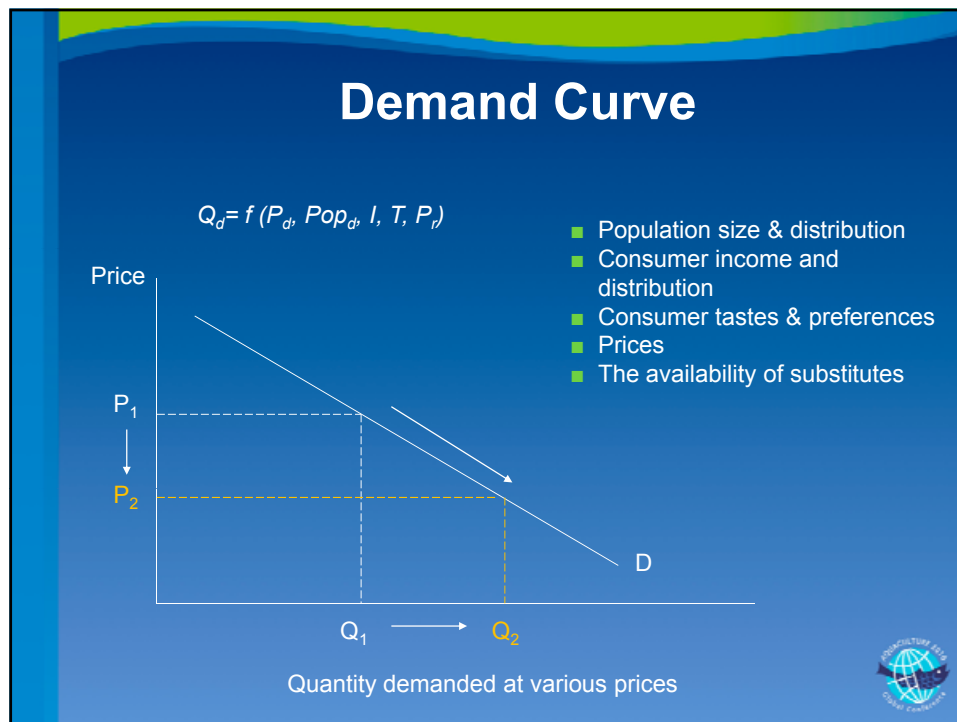
✓ Legally compulsory information (*weight, nutritional value, exp. date etc*)

(Fish: *species name, catch area, production method*)

✓ Specific labels (seals)

- *Environmental*
- *Quality*
- *Social*
- *Other*





## Supply & Demand

Moving down along the demand curve is not necessarily bad if:

- It is accompanied by ever decreasing costs and productivity increases
- It is part of a strategy to gain market share by pricing competitors out of the market, in the short term.

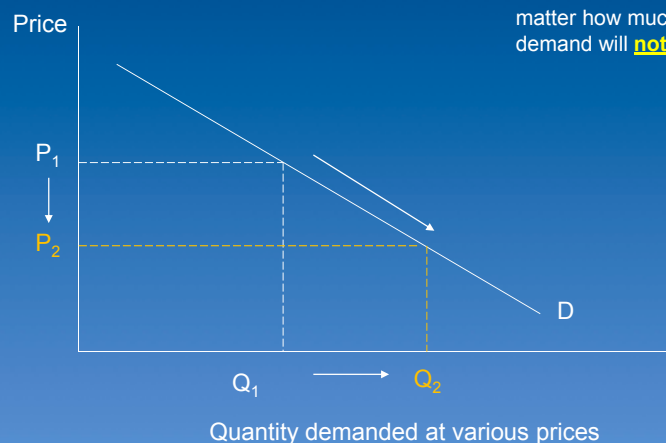
*An aggressive pricing strategy can expand consumer demand, eliminate competitors and then move the curve out again with a greater demand at each price point.*



## Price Elasticity

$$E_d = \frac{\% \text{ change in } Q_d}{\% \text{ change in } P}$$

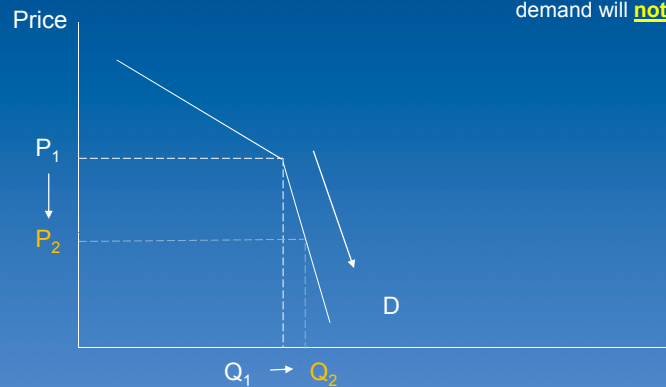
Moving down the curve, price elasticity of demand becomes inelastic. There is a point at which no matter how much price decreases demand will not increase.



## Price Elasticity

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Quantity demanded at various prices



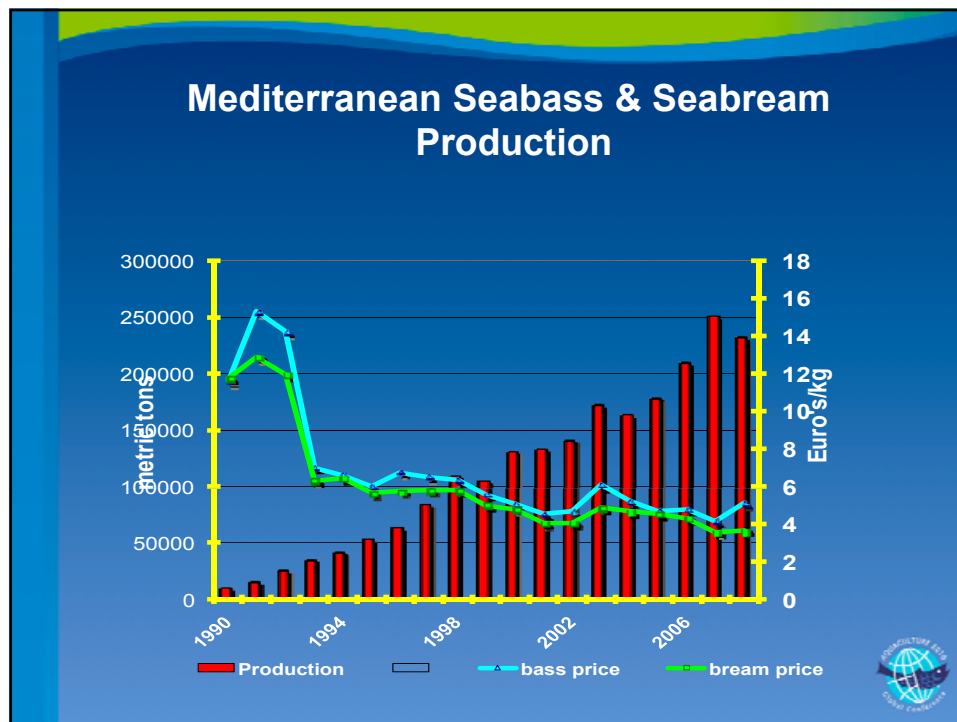
## Pricing

Pricing a normal good lower and lower can have the effect of “degrading it” to a lesser status in consumer’s eyes.

Facilitating the entry of substitutes with very different cost structures and perhaps other advantages (in presentation, cooking convenience etc) that are all of a sudden requirements for our products.

Maintaining artificially low (i.e. below cost but subsidized through financing) **prices can lead to a shift in perception of the product from a superior to an inferior good.** An inferior good being one whose demand goes down with increases in income.





### Price Elasticity

Increased demand can only occur with a rightward shift in the curve:

- a change in product attributes,
- form,
- added-value,
- perceived health benefits
- *other*

## Mediterranean Sea bass & Sea bream Industry



## Market Principles

**Product** = set of characteristics (*actual & perceived*)

**Each characteristic =>**

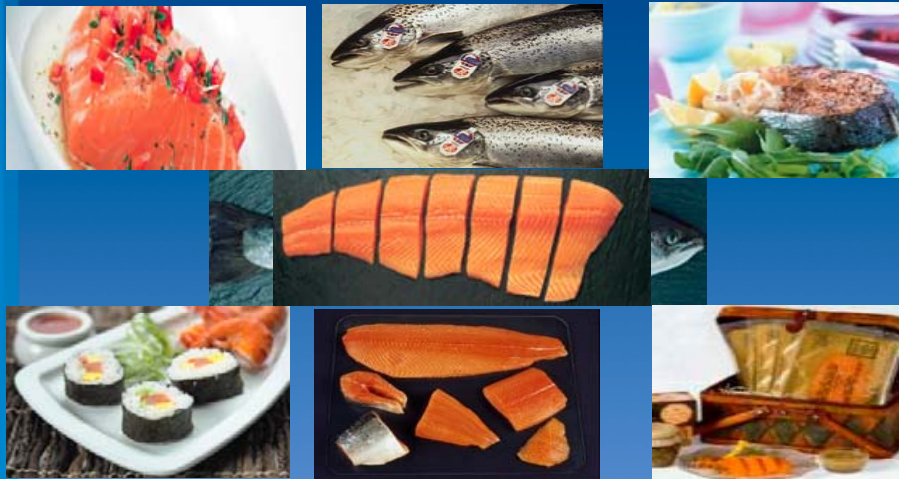
one /more consumer groups

*The modification of a product is often easier than the modification of the consumer needs and requirements*





## Salmon Presentation



## Market Positioning

2 directions, 2 strategies, both are equally valid:

- producing a mass-market product and competing on price  
appropriate technology, cost structure and sales methods  
mass production=mass sales
- focus on a higher-end market requires important investment in  
quality, targeted marketing and customer service and tailored in  
logistics and distribution.

These higher costs have to be justified a clear understanding of the  
targeted market:

- Size
- Characteristics
- Growth potential

## Information

*The basic precondition, however, to the correct functioning of the market economy is the free flow of information.*

It is essential to have:

- timely collection and analysis of market data
- production data
- in-depth knowledge of consumer preferences



## Market Structure

- commodity market characterized by stiff competition and price volatility.
- SME's with limited resources to invest in the promotion of their products.
- The market is dominated by a few, large retail chains with demands for compliance to their own quality labels while paying ever decreasing prices that are not passed on to the consumer.
- Few collective marketing efforts have been made for promoting the health and nutritional benefits to consumers.



## Possible Solutions: Concentration?

Since the 1980's the global agricultural industry as a whole and livestock production in particular has been marked by a great degree of concentration and vertical integration.

This same trend has occurred in the processing, wholesaling and retailing sector.

*Concentration, however, is effective only if it leads to:*

- greater cost efficiency,
- better production planning (i.e. production coordinated with demand)
- better negotiation power vis a vis the market channels



## ...and Cooperation

PRODUCERS' ORGANIZATIONS  
COOPERATIVES  
CONTRACT FARMING

Allow small to medium-sized farmers to:

- pool sales and input purchases
- to jointly promote their products
- establish a quality brand or label
- invest in the production of added-value products
- gather market data for better production planning

They are a means of achieving concentration of the offer without financial consolidation, allowing smaller, family owned farms to retain their independence.



## Concentration *and* Cooperation

The commonality to these modes of organization is:

- *The willingness to forego some future upside profit potential in order to guarantee a reasonable (viable) minimum price.*
- *The willingness to submit to a certain discipline in production planning.*



## Concentration *and* Cooperation

For Scale in marketing...

Whether through concentration, cooperation or a combination of the two, scale allows for the pooling of resources to perform essential market tasks which cannot be done by individual farmers or companies.

Facilitate the provision of accurate and timely information on:

- production volumes
- trade movements
- socio-economic issues
- market trends
- consumer preferences

With pooled resources a cooperative can provide better market information and data for use in management decisions, it can serve as a clearinghouse for trade information, promote the product both domestically and abroad, and even enforce production standards to ensure a level playing field.



## Concentration *and* Cooperation

And Chain Formation in Marketing and Distribution...

Achieving better coordination between the links in the marketing and distribution chain can help to systematically utilize the information on the dynamics of the markets.

Getting closer to the final consumer by establishing alliances farther “down” the marketing and distribution chain allows producers to better understand their markets, the supply and demand and to be better able to respond to needs for new products.

The goal is reduce dependence on open market transactions and trading on a spot market basis to longer-term trading relationships:

- Forward contracts
- Production and marketing contracts (contract farming)
- Marketing agreements
- Downwards Vertical integration



## Know your Market

*Know your market and let your market know you.*

Information is key to sustainability: for planning and producing what the market and the consumer wants not the other way around.


Marketing is nothing more than the acquisition, proper interpretation and use of market information.

All too often data is poor and analysis is vague...





**Easy in *Theory*...**  
**hard in *Practice* ?**



## Kefalonia Fisheries S.A.

Founded in 1981 on the Island of Kefalonia, the largest island in the Ionian Sea, between Italy and Greece.

The nature of the island is spectacular, with mountains covered in cypress forests that go straight down to the shore, and deep, clear and cool sea waters.



## Kefalonia Fisheries S.A.

First Aquaculture Company in Greece – 1981

First Hatchery and a pioneer in R&D into new species and technology.

Innovation leaders – for production...

**Many firsts...**

**that almost became lasts...**



## It's not the big that eat the small...

*"It's not the big that eat the small...it's the fast that eat the slow"*

*Jason Jennings & Laurence Haughton*

The ability to correctly identify market trends and quickly adapt to them which represents true competitive advantage in today's market.



## ...it's the fast that eat the slow.

- The nature of our production makes our industry highly inflexible and highly capital intensive
- Growth in our industry requires a very high fixed investment —→ hence the very high leverage in aquaculture and consolidation does not guarantee economies of scale.
- The ROI expected for high capital investments, relative inflexibility, and high risk are difficult to achieve with what is essentially a commodity product with the resulting small margins





## Speed & Flexibility

- Flexibility in a highly inflexible industry represents a true competitive advantage:
  - investment in management
  - marketing and branding
  - and research into market trends
- Selling and meeting the customer's needs comes first.
- Focus on quality and niche markets.



## Data

- Information gathering:
- Who are we? —→ Corporate Identity
- What is our **real** core competence?
- What is it that makes us special?

*"If there is nothing special or unique about your work, no matter how hard you apply yourself, you won't get noticed and increasingly that means you won't get paid much either."*

Michael Goldhaber, *Wired*



## Quantitative vs. Qualitative Data

### Quantitative Market Surveys:

- Expensive
- General Trends
- Growing Population
- Growing Income
- Growing interest in Health
- Growing Concern about food quality & hygiene



## Quantitative vs. Qualitative Data

### Qualitative Market Surveys:

- Focus Groups
- Targeted
- Who is your consumer?
- What do they really think, fear, love and want?

*Helps to build your story and make it coherent.*



## Advertising vs. Communicating

- The key to effective brand-building is communication of a story
- Every product and every brand has a story
- Communication forces us to focus on what makes us different, newsworthy and 'talk-worthy'



## Advertising vs. Communicating

- Address concerns of your potential consumers: we might have the product which solves your problem/addresses your concern.
- Reinforce the purchasing decision of your consumer and your clients.
- **Form partnerships**. Be willing to forego some upside potential to build a long-term relationship.



## Trends

### Tie in to Emerging Trends

- Think like a journalist
- Green + Sustainability
- Authenticity + Sense of Place
- Healthful
- “Artisan Farmers”



## Results...

- Authentic, artisanal products
- Sustainable, environmentally friendly products

*At Kefalonia Fisheries we are passionate about creating the finest foods using traditional methods. Our aim is to preserve the heritage, purity and unique flavor of the Mediterranean.*

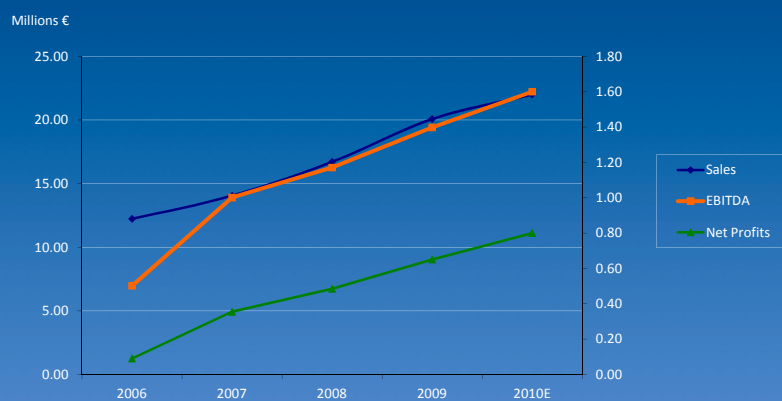


## Results...



## Results...

Kefalonia Fisheries S.A. in Numbers



## Results !

- Strong Growth despite Crisis:

### Average Growth Rate 2006-2010E

Sales	16%
EBITDA	38%
Net Profits	97%



## Conclusion

***You can never make it too easy to do business with you or too easy to write and talk about your company.***

