

Shetland Seafood Industry Review Key Findings

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How did this study come about, and what is it for?

Seafish carried out research for Shetland Islands Council looking into strategic capabilities and options for Shetland seafood businesses and this short report summarises the key findings of the research. The full report describes aspects of the Shetland seafood industry which will influence choice of strategic direction, and draws conclusions about what options might be open to businesses in the Shetland seafood industry. This short report gives the highlights of factors that should be considered when evaluating strategic choices for individual businesses or groups of businesses.

Shetland Islands Council wants these findings to underpin further work to help Shetland seafood businesses decide whether and how they could work together to achieve sustained success.

Shetland Islands Council has the support of the Shetland Development Trust, Shetland Enterprise, the North Atlantic Fisheries College, and the major seafood industry representative bodies, including Seafood Shetland, Shetland Fish Producers Organisation, Shetland Fishermen's Association and Shetland Aquaculture (formerly Shetland Salmon Farmers' Association).

How does this project fit into the strategic management process?

Strategic management is an ongoing process because strategies must suit what is going on in the outside world, the intentions and preferences of the business owners, and the resources available to the business – and these things change over time. The framework illustrated in Figure 1 below shows the approach taken in this project to cover the strategic analysis required before choices regarding strategy can safely be made.

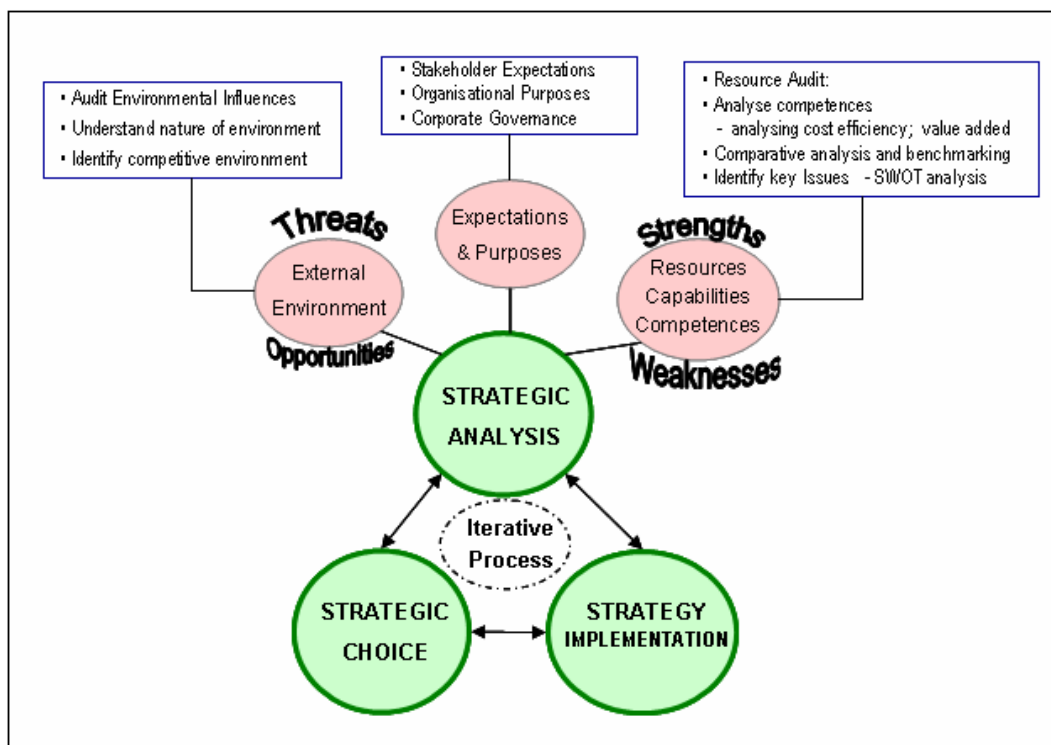


Figure 1. Framework for strategic management, based on Exploring Corporate Strategy. After Johnson & Scholes, Exploring Corporate Strategy.

What gives Shetland seafood businesses advantages or disadvantages?

All of the elements in this strategic analysis project were examined in terms of whether each factor gave Shetland businesses an advantage over competitors, a disadvantage, or neither.

Interviews in early 2005 with all types of Shetland seafood business managers generated information for a description and analysis of the current state of affairs. External information was collected relating to the markets in which Shetland businesses operate.

To help understand strategic capability, the inherent strengths of the resource base available to Shetland seafood businesses were assessed, including the quantity and nature of resources, and the extent to which the resources are unique or difficult to imitate. Resources do not necessarily have to be assets owned by the businesses.

The success, skills and abilities of people working in Shetland seafood businesses are also assessed since advantage over competitors is also due to the skills that people in the businesses apply to resources available to them. Disadvantages resulting from poor skills could be tackled.

Shetland in a UK and Global context – what impacts on strategic choices?

Within the UK, Shetland is a significant producer of pelagic fish, particularly mackerel. In the pelagic trade, Shetland's industry is competing in a highly globalised export market. While quality standards and specifications continue to improve, the emphasis is still very much on volume and price, rather than on added value, although Shetland's pelagic industry performs well in some of the more quality oriented markets for herring and mackerel compared with its other UK competitors.

Shetland contributes significantly to the UK's overall production of farmed salmon. Not only has the salmon industry in Shetland grown faster than the rest of Scotland since 1995, but Shetland salmon appears to have unique, marketable characteristics that can be used to differentiate it.

On a global scale, Shetland's white fish industry, although highly important to the local economy, does not produce highly significant quantities of product. In addition, landings of white fish into Shetland have declined in line with the rest of Scotland. At present, this fish is shipped to the mainland where it provides a portion of the raw material requirements of processors in the north of Scotland, and sometimes further south. There is little distinction between Shetland white fish and other Scottish white fish, except that occasionally, buyers state a preference for Shetland's superior quality. This may indicate where the Shetland industry needs to continue to focus its efforts.

Similarly, Shetland's shellfish does not produce significant quantities of shellfish on a global scale. It does contribute to UK production, and again, its shellfish has a good reputation for quality.

What do traders and processors in the UK think of Shetland seafood?

Trade market research was carried out to find out the views of businesses which do, or could, purchase Shetland seafood, including perceived strengths and weaknesses of Shetland seafood.

A point of difference with certain Shetland seafood products

It appears that many Shetland products benefit from the recognition of higher quality over other sources of product in the UK. This may be of particular relevance to farmed salmon, mussels, scallops and sea trout. Feedback regarding the quality of demersal fish was in most cases also positive, but in some cases, no difference from other sources was reported.

Superior quality could therefore be used as a point of difference on which to promote Shetland's fish and seafood, subject to being able to justify the claims. Several cases were identified where this was already taking place.

To market quality on a wider scale might require some independent confirmation of the claim to better quality. There are several different quality awards available to seafood companies and many of the Shetland companies do not have any such award. This area warrants more detailed examination in phase two of the Shetland project.

A generic Shetland brand would probably not suit different niche markets

If Shetland's seafood producers focus on lower volume, high value markets, then a generic brand would not suit all of these niche markets. Consumer awareness of Shetland is extremely low and so Shetland branding would have little association with seafood.

Potential to promote Shetland seafood to the trade

Within the trade, there is further potential to promote Shetland seafood, and raise awareness amongst wholesalers, of its availability and unique selling points. This could be done through promotional literature, trade publications, and organised trade visits to inland wholesale markets such as Billingsgate. In addition, organising "meet the buyer" seminars with multiple retailers and food service representatives are proven methods to improve market links further down the supply chain. An increased dialogue with mainland purchasers of Shetland product may also help to address the perceived transportation problem from Shetland. These are things that could be led by Shetland Islands Council on a collective basis.

Potential to support existing Shetland brands with tailored assistance

It may be effective for the council and local enterprise company to provide assistance to companies that wish to promote their own unique Shetland brand. This would allow for a targeted and individual approach, which could be tailored to suit individual companies and their customers, and also ensure that individual companies were engaged in the process.

Consult with businesses further down the chain

It is vital that there is more consultation with businesses further down the distribution chain, such as UK multiple retailers and food service distributors. Given the concentration of buying power in the UK food retail market, it is very important to consult multiple retailers if companies are to succeed with sales, marketing or branding initiatives. Feedback from multiple retailers suggests there is a benefit in the Shetland name, but how it is promoted would ultimately be controlled by them.

What did customers in a London Tesco think about Shetland?

Fifty shoppers at a London Tesco supermarket were interviewed and their answers highlight some opportunities for branding and marketing of Shetland seafood.

Implications for the use of labels of origin

The use of label of origin on fish and seafood products could be an effective tool under the following circumstances:

- The product is of equal or superior quality to other available alternatives
- The label of origin was associated with an area where seafood was produced. In the UK, the most predominant area mentioned in the study was Scotland.
- Effective and attractive packaging must be used, that differentiates the product and adds intrinsic value to the product.

These findings are supported by recent Seafish research¹ into the importance of region of origin to consumers, which interviewed a sample of 1,000 shoppers from around the UK. The study found that region of origin is only one of several key factors that shoppers consider when buying fish, and quality and price are key factors. Shoppers were asked about seafood from named areas (unlike in this study where no prompting was given in relation to regions for the first two questions) and the most popular choice was Scotland, which was significantly favoured over other regions of the UK.

Implications for branding of Shetland product at consumer level

On the basis of this research, it has been concluded that in the south of England, large scale branding of Shetland seafood at consumer level has very limited potential. This is because:

- Consumers in southern England do not associate Shetland with fish or seafood. They do however, associate Scotland with seafood, and particularly salmon. It might be possible to combine Shetland with Scotland to benefit from existing recognition of Scotland as a source of quality seafood.
- It can be presumed that consumer awareness of Shetland is lower in foreign export markets.
- Consumers have very little existing awareness or knowledge of Shetland, and need to be educated from a very basic level. This would probably require investment in a large scale, long term media campaign that may not be cost effective.
- Consumer advertising in export markets would probably involve similar levels of investment, within markets with even less consumer awareness.
- Promotion of individual company brands which use or incorporate Shetland might be a more effective route to increase overall recognition of Shetland as a source of quality seafood.

How much competition is there among Shetland seafood businesses?

The degree of competition within an industry can be a strong factor in determining which strategies are possible and which are more likely to fail. Michael Porter's framework is used to help consider the elements behind competition in different sectors of industry and a summary of the analysis is shown in Figure 2 below.

¹ Importance of region of origin. Seafish, 2004

	Whitefish	Shellfish	Salmon	Pelagic
New Entrants	Threat from new entrants in the EU is low. Growth in entrants from developing countries is expected, increasing the need to differentiate product to maintain retail price	New entrants expected to be farmers, from South America and south east Asia. Will compete by supplying consistent, quality product, with reliable availability, at stable, low prices.	Expect more new entrants from Chile in next five years, and increased global production, pressure on prices for undifferentiated product. Not much European threat from new entrants.	High start-up costs are a barrier to entry, and so is the uncertainty of securing a supply of raw material. The threat from new entrants is low
Bargaining Power of Suppliers	Smaller vessels must land into Shetland but high quality so some bargaining power. Larger boats fishing near Shetland can land there but may consign their fish to mainland markets.	Suppliers have weakened bargaining power due to perishability of product, and the need to sell it quickly. This is offset by a relatively high number of processors, competing for their product.	Bargaining power of suppliers limited when product is largely undifferentiated.	Pelagic vessels can land elsewhere for higher prices. Supplier power high and competition for raw materials intense.
Bargaining Power of Customers	Increasing bargaining power, due to alternative white fish products available. Value added processors use cheaper white fish. Cheap frozen imported fillets now common in supermarkets UK and Europe-wide	Shellfish is highly regarded, higher value market, product can command a good price. Seasonal fluctuations in supply and demand determine the balance of power between supplier and buyer.	Customers' have choice of alternative sources of Atlantic Salmon. In addition, emerging producer nations can offer quality product at very attractive price.	Pelagic fish is a global commodity, so customers do have bargaining power. However, global consumer demand for mackerel is good, with strong prices, reducing customer bargaining power.
Threat of Substitutes	Threat of substitutes is high, as fish can be rapidly transported worldwide, and cheaper costs of competitors in developing countries. Must differentiate whole gutted fish, or fresh fillets.	Threat of substitutes is high, given growth in lower priced scallops and warm water prawns. In Europe, shellfish is often sold fresh, giving European suppliers an advantage.	Threats from substitute products such as Coho, King, and Chum salmon. These are cheaper, usually wild caught. Canadian and Alaskan Salmon preferred in Japan and North America.	Threat of substitutes at consumer level is high, many product alternatives, and different species of mackerel. Price sensitivity increases threat of substitute products.
Rivalry Amongst Existing Firms	Rivalry amongst existing firms high, many competitors. Multiple retail chains prepared to look at worldwide alternatives. Product differentiation in order to maintain price premiums is one way to remain competitive.	Rivalry amongst existing firms largely about limited availability of raw material, and the need to be price competitive against potential substitute products. Ability to supply differentiated product through marketing and product development could maintain competitiveness.	Rivalry amongst existing firms is high due to new entrants from Chile, and increase in worldwide production. Price of salmon fallen over past 10 years. Companies must compete by reducing costs through consolidation, and differentiate products to maintain prices.	Rivalry amongst existing processing firms highest when competing for share of raw materials from the pelagic vessels.

Figure 2. Summary of Porter's Five Forces Analysis for Shetland seafood industry

What do Shetland business owners expect from their investment?

Business interviewed in Shetland revealed a wide range of business types and styles in terms of size, ownership and structure. Some foreign-owned businesses exist partly to link in with strategies of the parent company but will be expected to deliver given levels of financial return on money invested. A processing company part-owned by vessel companies is expected to find good markets for the raw material from the vessels, ensuring that the vessels get a good return on investment, as well as the investment in the processing company itself. Smaller, family-owned businesses may exist in order to provide a certain style of life to the owner, who is often the manager. They may not be interested in raising capital and debt and expanding beyond their current size.

There are some groups of businesses which are similar in terms of owners' expectations and purposes, and it is possible that some of these businesses might benefit from working together to achieve strategic aims. However, because of the wide range of reasons for being in business, and expected or required outcomes for investments made in Shetland businesses, it is likely that some strategies may have to be aimed at growth and risk whereas others may be more about protecting an existing position and keeping risks low.

Which Strengths and Weaknesses impact on strategic advantage?

Analysis of resources and capabilities revealed the strengths in the following tables, which can be the basis for a competitive advantage and a choice of strategy should be based on these. The weaknesses are sometimes outside the power of the businesses to address, but some of them could be tackled and, if tackled successfully, could be turned into advantages. These areas are where the public agencies might be able to take action to assist businesses in overcoming the weaknesses that are restricting their success.

Catching Sector Businesses

The key strengths and weaknesses of the catching sector overall are summarised in Figure 3.

Within the catching sector there are very clear differences within the different segments of the fleet, with the pelagic sector in a much stronger position overall than whitefish and shell fish.

White fish sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Proximity to fishing grounds ○ Can weigh and grade at sea or onshore ○ Knowledgeable and experienced fishermen ○ Unparalleled fishing infrastructure ○ Stable crews (low turnover) ○ Shetland Development Trust has shown itself willing to invest in white fish catching ○ Quality assessment scheme operating at Lerwick and Scalloway markets. (Shetland Seafood Quality Control) ○ Quality improvement ethos among the fleet. ○ Electronic market at Lerwick with possibility of remote bidding ○ Virtually no blackfish landings ○ Access to shared quota resource 	<ul style="list-style-type: none"> ○ Distance from onward markets ○ No or little contact with customers down the supply chain ○ Operations subject to weather - supply of product is sometimes irregular ○ High debt levels – inability to raise further capital by debt. Less attractive to potential equity investors. ○ Low profitability – low retained profits to reinvest into the business ○ Inability to re-invest in the business ○ Dependency on quota and days at sea limits ○ Rest of UK blackfish landings leading to over-supply and depressed market prices ○ Older vessels ○ Most vessels not profitable enough ○ Poor business management skills ○ High fuel costs

Shell fish sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Close to fishing grounds ○ Quality of catch ○ Knowledgeable and experienced fishermen ○ Sound fishing infrastructure ○ Adaptable to catch white fish (although currently not permitted) ○ Regulating order set up to protect stocks within 6 mile limit 	<ul style="list-style-type: none"> ○ Distance from onward markets ○ High debt levels ○ Low ability to re-invest ○ Current low stock levels some species ○ Poor business management skills ○ Difficult to develop markets due to unstructured nature of the sector ○ Lack of power to enforce regulating order

Pelagic sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Proximity to fishing grounds ○ Stocks generally in good condition ○ Modern, high quality vessels ○ Large catching capacity ○ Quality of catch ○ Knowledgeable and experienced fishermen ○ Good onshore infrastructure ○ Links to customers ○ Shetland is base for one third of UK pelagic fleet ○ Highly profitable ○ Access to capital to reinvest ○ Access to adequate quota ○ Stocks available for catching on seasonal basis provide stability for sector 	<ul style="list-style-type: none"> ○ Highly dependent on fuel ○ Possible damaged image due to illegal landings court case ○ Highly dependent on a limited number of stocks (particularly mackerel)

Figure 3. Key strengths and weaknesses of the catching sector

Aquaculture businesses

The key strengths and weaknesses of the sector overall can be summarised as shown in Figure 4. Within the aquaculture sector there are very clear differences within the different fish types, with mussel farming looking fairly promising at present while salmon farming has been struggling recently. Whitefish farming is just getting underway with a promising future.

Salmon sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Experience in aquaculture farming ○ Number of existing aquaculture sites within Shetland ○ Experienced workforce ○ Has combination of big and small producers ○ Ideal growing conditions for salmon: coastline, temperature profile, salinity. ○ Well developed infrastructure – shore bases, piers, ferries, roads etc ○ Established companies, many with 12 to 15+ years experience. ○ High standard of basic equipment, designed to cope with the elements. ○ Good boats and skilled boatmen. ○ Access to parent-company capital for foreign-owned companies 	<ul style="list-style-type: none"> ○ Financially inefficient companies ○ Access to further capital for locally owned companies ○ Distance from market, unreliable transport links to mainland for fresh product ○ High cost of production ○ Price taker in global market ○ High labour costs ○ Poor marketing, branding ○ Dependent on imported smolts ○ Disconnected from the market – overuse of sales agents, poor marketing ○ Proximity of sites means higher impact of disease control regulations ○ High number of companies means inability to coordinate activities ○ Overall business management skills

White fish sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Unique product ○ First mover advantage ○ Highly skilled workforce ○ Marketing skills ○ Access to capital for expansion ○ Ideal natural environment ○ Onshore infrastructure ○ Business management skills 	<ul style="list-style-type: none"> ○ Few suppliers of juveniles ○ Processes relatively new and untried ○ Staff have to transfer skills from salmon farming ○ Routes to market unproven for volume ○ Some businesses not yet at production stage ○ Marketing and branding not yet developed

Shell fish sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Ideal environment for high quality product ○ Some good routes to market ○ Sales prices good compared to Ireland ○ Well established onshore infrastructure ○ Access to skilled staff 	<ul style="list-style-type: none"> ○ Temperature too low for rapid growth ○ Overall business management skills ○ Access to capital ○ High wage rates ○ Marketing and branding

Figure 4. Key strengths and weaknesses of the aquaculture sector

Processing sector businesses

The key strengths and weaknesses of the sector overall can be summarised as shown in Figure 5.

Salmon sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Access to local raw material, continuity of supply ○ Range of routes to market ○ Experienced staff ○ Established connections with customers and suppliers 	<ul style="list-style-type: none"> ○ Financial constraints ○ Financial performance ○ Distance from market ○ High labour costs ○ Difficulty in keeping skilled workers

White fish sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Fresh local product ○ Quality control system for vessels 	<ul style="list-style-type: none"> ○ Cost of transport to mainland ○ Disconnected from final markets ○ Unreliability of supply ○ Low volume of supply ○ Financial performance ○ Difficulty in getting skilled filleters ○ Marketing skills

Pelagic sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ○ Modern efficient factories ○ Access to staff ○ Supply of good raw material ○ Marketing and branding ○ Business management skills ○ Financial success 	<ul style="list-style-type: none"> ○ Seasonality of supply

Figure 5. Key strengths and weaknesses of the three main segments of the processing sector

What do these findings mean for the route to success for Shetland seafood?

There are some clear bases of competitive advantage within some sectors, such as the pelagic fish natural resource in proximity to Shetland and the high volume, high quality onshore handling facilities, support from Shetland Quality Seafood Control for quality standards within the whitefish catching sector, some successful branding strategies and the naturally favourable conditions for the production of high quality rope-grown mussels. These strengths can be built on and further developed to ensure that the businesses stay ahead of the competition and continue to be flexible to the changing demands of customers and the vagaries of the supply of raw material and labour.

The range of types of business in the Shetland seafood sector, could in itself be considered a strength of the sector, especially if combined with the breadth and quality of the onshore infrastructure support, and brought to bear in a co-ordinated marketing approach by a group of businesses working together to offer a range of products with a Shetland identity.

This survey revealed a wide range of different key strengths and weaknesses among Shetland seafood businesses, not just between sectors but within each sector, and therefore it is not likely that a single vision and strategy for all of the businesses will be appropriate.

Some of the key weaknesses identified during this research (and already apparent to many local observers) mean that certain strategies or business directions for some sectors can already be classed as unlikely to succeed. For instance, it appears to be unlikely, due to the volume and reliability of supply requirements of processors, that Shetland can support a successful medium or large sized white fish processor. There are no other economical sources of supply that a Shetland processor can turn to when the local supply is not enough to fill the order book. The majority of Shetland white fish is traded on to mainland businesses and this may be the most profitable route to market for Shetland vessels. There may be scope within the trading businesses to try to differentiate the fish as coming from Shetland vessels, but non-Shetland vessels land in Shetland and the definition of Shetland fish may become blurred for the purposes of marketing. The positive response from downstream businesses to Shetland fish is worthy of further consideration.

Some weaknesses could be addressed in part by public agencies in Shetland. An overall lack of broad business management skills, particularly in marketing, finance and strategy, could be tackled as part of phase two of this work. For example, for business managers unfamiliar in dealing with the requirements of raising finance through city investors, the task might appear to be intimidating and this might be an area in which the public agencies in Shetland could assist. Disconnection from businesses further down the supply chain and from the final consumer, could be addressed by a facilitated scheme to encourage businesses to improve their contacts, which could lead to improved understanding of customer needs, marketing opportunities and possibly opportunities to raise investment capital from businesses which wish to secure supplies from a Shetland business.

A high-profile minority of businesses already have a well-defined strategy, brand and route to market, and are succeeding in achieving their own vision. This means they know which customer group they are targeting and with what product and they understand why their product offers better value than competing products to those target customers. Other businesses are less clear about where the advantage of their product lies and are less well-connected to the consumer end of the supply chain. This is a key issue that must not be underestimated by public agencies in their efforts to help businesses improve their success in the Shetland seafood industry.

A route via which public agencies might help to improve the business performance of the seafood sector in Shetland, could involve supporting overall business management capabilities – helping Shetland seafood businesses to identify a clear customer group and organise their resources and activities to ensure that they deliver value-for-money products in an efficient manner to their chosen customer group. Improving overall business management skills, especially marketing and strategic management, might enable more businesses to develop and deliver their own successful strategies. It might be more productive to focus on the resources and skills being applied, so that businesses are better equipped to understand, plan and implement their own strategies for success. It could also be worth looking at which resources could be supported in common by public agencies which could then form the base of a range of successful strategies by different businesses.

For any business, a successful performance is based on choosing a customer group which will particularly value the product (and every aspect of how it reaches them, such as timing, price, location, image, credit terms, etc). It involves also deciding who is not the customer. Then, the organisation of all the resources and activities of the business have to be aimed at providing that value-for-money product to the chosen customers in an efficient way. The business must also stay abreast of changing customer needs and changing possibilities in production. In the fish industry, there are also the difficulties caused by limitations being placed on volume of output of some species, which must be overcome to remain successful. This means that flexibility and adaptability are key requirements of management in fish industry businesses.

The full report, [Shetland Seafood Industry Review](#),
can be viewed at www.shetland.gov.uk

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