

THE THREE R's

RATIONALIZATION RETRENCHMENT REORIENTATION

The Newfoundland and Labrador Fishery after the MOU

BY TOM CLIFT AND DR TOM COOPER

The Newfoundland and Labrador commercial seafood industry has been widely perceived as an industry that has limited opportunities and part of the province's past rather than its future. To ensure its continued success, careful planning is needed to address future critical business and policy issues.

In 2009, the provincial government commissioned a report by Professor Tom Clift called the MOU process to review the industry and make recommendations on the restructuring of the processing, harvest and sales/marketing sectors. Although widely praised by industry insiders on both the harvester and processing sectors of the industry, the report was rejected by the provincial government. In this essay, the MOU report's author and Dr Tom Cooper, who was engaged in a number of facilitation sessions in the MOU process, review the industry since the dismissal of the report.

Retrenchment – The Newfoundland and Labrador Fishery since the MOU Process

In the time that has transpired since the completion of the report of the Independent Chair of the MOU Steering Committee there have been a number of positive developments in the Newfoundland and Labrador fishing industry. The total value of production in the provincial fishery has increased by 8 per cent to 1.05 billion \$CDN; this growth has been driven by higher than average prices for shrimp and crab.

However, while the value of wild fish exports is up, this is almost entirely a function of the higher than average prices for shellfish species relative to landings. To some degree this serves to mask the underlying

problem; relatively little growth in the volume of production in a number of key species. And while price levels are high, they are lower than peak levels (2012) and also serve to over-inflate the real value of the wild fish industry.

The industry continues to remain heavily reliant on the sale of high value species such as shrimp and crab. The longer term prospects for these species suggest that quota restrictions and supply challenges are imminent. Landings of shellfish have declined by 7.5 per cent in 2013-2014 and new quota reductions that have been issued by DFO will have a significant impact. The total allowable catch (TAC) for shrimp has been reduced by as much as 38 per cent (12,000 tonnes) in some areas (SFA 7) and while crab landings continue to be strong, currently accounting for 35 per cent of the value of the NL wild fishery, the crab TAC has declined 0.4 per cent overall and by as much as 10 per cent in some areas.¹

Moreover, in the four years since the analytical work associated with the MOU report has been completed, industry employment levels have decreased by 8 per cent in both harvesting and processing. This represents a 25 per cent drop in the numbers employed in the NL wild fishery since the release of the report.²

Demographic analysis of the NL wild fishery work

force during the MOU process suggested that the harvesting and processing workforces would decline by approximately 4 per cent each year for the next 10 years. The real rate has essentially doubled; from the predicted rate of 4 per cent to an actual rate of 8 per cent. This represents a reduction of 6 per cent in the rural workforce in NL over the past 3 years.

Aquaculture has been pointed to as a means to reverse this trend in the rural workforce. But the growth in aquaculture, while encouraging, may not necessarily be the solution. While the overall value of the aquaculture industry has risen in recent years, total industry employment has remained stable, in spite of the significant investment relative to the wild fishery.

Overall, the combined forces of high global prices for select species and a re-orientation towards aquaculture have served to mask the systemic problems which continue to influence the wild fishery in this province. What has emerged is a process of retrenchment and rationalization in the Newfoundland and Labrador wild fishery.

The Current Pace of Rationalization

Since the MOU report, there has been some movement in the area of rationalization on the processing side of the industry. A number of the major processing firms have made strategic decisions to reduce the number of plants which they operate. However, most processing firms have not been able to achieve the production efficiencies (economies of scale) that were advocated for in the MOU report and which have already been met by their counterparts in the other fish processing provinces in Canada. For perspective, it is worth noting that the average gross margin on sales for NL-based fish processing firms is the lowest in Canada; currently at 10 per cent. This compares to the Canadian fish processing industry as a whole, with an average gross margin of 15 per cent, and the wider Canadian food processing sector which reports average gross margin performance at or near 20 per cent.

Some progress has been made with respect to the achievement of scale economies, notably in the shrimp sector, where the number of plants that are currently operational has dropped from 13 to 9. The same cannot be said for the critically important snow crab sector, where 35 plants are currently operational and controlled by 25 different (arm's length) processing firms.

Not surprisingly, the return on equity (ROE) and

return on capital employed (ROCE) numbers for NL-based fish processing operations reflects the inability of processors to achieve scale economies or reasonable profit margins. In fact, ROE and ROCE numbers for fish processing enterprises are also significantly lower than those of their counterparts in other parts of the Canadian fish processing industry. In simple terms, the number of players currently sharing the increasingly scarce amount of available resource continues to marginalize the industry.

Restructuring – The Strategic Impact

In 2011, the MOU report suggested that “in order to deal with the cyclical nature of prices and resource shortages, rationalization is required.” The MOU Report noted that a 30 per cent rationalization of the processing capacity, primarily in the shrimp and crab processing sectors, would improve the amount of the available supply (on a per plant basis) for those plants that remained. In addition, an associated reduction in the number of required sales and marketing agents would serve to lower the overall sales and general administrative costs associated with the sale of these products. This would strengthen gross margins and the return on invested capital for those remaining processors.

Since the MOU report, there has been some reduction in the number of plants that are currently operational—from 102 in 2010 to 86 in 2014. Some of this attrition can be attributed to the strategic consolidation initiatives of selected processing firms, as noted above. The remaining rationalization has occurred as a function of attrition, as a provincial government rule which requires the surrendering of one's processing license if it has not been used in two consecutive fishing seasons has also served to reduce the total number of processing plants in this province.

Unfortunately, restructuring at this pace is insufficient to allow the industry to achieve the type of production efficiencies and financial performance that is required to allow it to remain competitive in the international marketplace. The industry has managed to achieve a 16 per cent reduction in the total number of processing plants that are currently operational, however the MOU report suggested that a 30 per cent cut in the number of shrimp and crab plants (alone) would be required to achieve close to the national industry average gross margin of 15 per cent, while also serving to improve operational production efficiencies. Still, the industry

is chasing operational efficiency levels that remain far behind those of major direct competitors in Iceland and Norway. As a result, we must look elsewhere and contemplate a more integrative and strategic approach to industry renewal.

In the summer of 2014, Gail Shea, the Federal Minister of Fisheries and Oceans (DFO), when questioned as to the impact of shrimp quota cutbacks on the Newfoundland and Labrador fish processing sector, noted that the real problem in the wild fishery today was that provincial Department of Fisheries and Aquaculture (DFA) had been slow to react when asked by DFO to rationalize the fish processing sector in NL. Our analysis suggests that the minister was perhaps only partially correct.

The minister noted that the achievement of economies of scale in production, gained through increased rationalization, would serve to make the industry more viable and less susceptible to the type of quota reductions announced recently by her office. While that is certainly true, it is also correct to say that effective market-based rationalization has been a slow process. Under the current NL processing regulations, it may be years before we achieve the level that was either advocated for in the MOU or suggested by the current Federal Minister of Fisheries.³

Reorientation – Required Enhancements in International Sales and Marketing:

Given that the financial performance gap in the Newfoundland and Labrador fish processing industry is too wide to be bridged solely by the achievement of production efficiencies, strategists on all sides will have to take their lead from those industries that have moved past the strategic thinking of the 1970s and 1980s. Discussions changed during this time from the achievement of economies of scale to more contemporary strategic business models founded on tactics that include (and have at their core) concepts such as continuous improvement and supply chain efficiency. These ideas are central to the implementation of the enhanced product quality, secure and reliable supply chains that now form the basis of any long term supply agreements in the global fishing industry.

In order to reach these strategic goals, the Newfoundland and Labrador seafood processing industry will have to reorient sales and marketing initiatives that are more customer and supply chain

WEEDING

A weed is a plant that grows in the wrong place.
Dictionary definition

I am the unskilled labour in my wife's garden:
neither planter nor designer, but weeder
(and financier). I don't pretend to know
the names of all the living plants

but keep them safe with my clumsy hands.
I move silently among the leaves and petals
like an Elizabethan fixer, Walsingham
rooting out Catholic conspiracies, to keep

Elizabeth breathing, or a Borgia *consigliere*
unafraid to dirty his hands in a Roman alleyway.
The earth sticks to my palms the way blood drips
off the hero in a Shakespearean tragedy.

Burdock, thistle, crabgrass, ragweed keep coming
like the unnamed villains in a samurai movie
or an uppity peasant rebellion against the feudal order
that must be put down, village by village, without mercy.

As a husband I tend quietly to us, bent on
culling overgrown emotions or out-of-control
resentments. Wild insults fertilized in fatigue
must be removed or suffocate the rose.

As a poet I don't plant seeds or order metaphors
neatly in rows, but sense a flower swamped
by dandelion spores, yank out wilderness,
and reshape the landscape in my image.

Weeding is a labour that never ends,
like punishment in a Greek myth. A weed
condemns a garden's rhythm. Growing
out of place, a word sentences a poem.

—Daniel Goodwin

Daniel Goodwin's poetry has appeared in several Canadian journals, including Literary Review of Canada, The Antigonish Review, and The Dalhousie Review. His first novel, Sons and Fathers, will be published in September. His first book of poems, Catullus' Soldiers, will be released in 2015.

centric. Notable examples include those processing firms that have partnered with international seafood exporters to fulfill these aims and those independent fish processing firms who now have sufficient production volumes to justify the internalization of this highly specialized aspect of international sales and marketing.

Unfortunately, recent estimates suggest that at the present time only 60 per cent of our Newfoundland processed fish production is marketed through one of these two types of marketing channels. The remaining processors, with some notable exceptions, continue to engage in marketing and sales activities that are more closely associated with commodity-like pricing (transaction based selling) rather than longer-term supply chain or customer centric sales and marketing activities. Too often these firms are selling undifferentiated product into major fish markets in a manner that is virtually guaranteed to yield a lower than average price. As a result, the aforementioned challenges associated with gross margin enhancement, margin protection, and financial performance will continue.

In 2011, the Independent Chair of the MOU Committee, in conjunction with the Marketing Working Group and with the support of the Fish Food and Allied Workers Union, advocated for the establishment of a seafood marketing council. This council was to have a mandate to gather and disseminate market intelligence, enhance the image of NL seafood in the international marketplace, engage in long range planning initiatives, coordinate marketing and production information, and, most importantly, establish a number of sales consortia to help facilitate the orderly and profitable sales of NL processed seafood in the international marketplace.

To date, industry has been unable to establish such an entity. This may suggest that individual processors have been unable to find an efficient mechanism to bring this to fruition or that perhaps some key players may have moved forward on their own, thereby making it more challenging for those who remained to complete the project. A simpler conclusion might be that those processing operations that have been unable to make enhancements to their sales and marketing functions may be so preoccupied with their day-to-day operational challenges that they have been unable to contemplate, or afford, the type of improvements to their sales and marketing efforts that have been advocated for here

and in the MOU report. In such situations there may be a role for government to play in a seafood marketing council.

The Future

While some positive steps have been made in recent years in the Newfoundland and Labrador fishery, particularly on the processing side, there is much left to be done. The current pace of rationalization and restructuring is insufficient to allow local processing firms to compete more effectively against the well financed, vertically integrated seafood companies that operate in western Europe. At the same time global supply chain practices and expectations have become increasingly more demanding, placing additional pressure on those Newfoundland and Labrador processing firms that remain.

The recently announced CETA agreement and associated funding available from the Government of Canada presents the provincial fish processing industry, in particular, with an excellent opportunity to move forward with some of the marketing and sales initiatives that were outlined in the MOU process. The additional funds that may become available to NL processors to enhance their product development and sales and marketing capacity will be an important element of the next phase of strategic renewal for this industry.

If this does not happen, then we expect that more rationalization and restructuring will occur with a need for a future strategic reorientation in the province's fishing industry. **NQ**

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1 Province of Newfoundland and Labrador, Department of Fisheries and Aquaculture, *Seafood Industry Year in Review*, 2013.

2 *Report of the Independent Chair: MOU Steering Committee*, Newfoundland and Labrador, 2011

3 *The Telegram*, July 23, 2014.