



So You Want To Be A Seafood Dealer



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SO YOU WANT TO BE A SEAFOOD DEALER

by

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So You Want To Be A Seafood Dealer

The future for seafood sales in this country has never looked better. The health benefits of eating seafood have been well-publicized, and eating seafood has even become fashionable. The mark of a gourmet is now a knowledge of seafoods, including how to select, prepare, and consume them.

This trend is of special interest to Louisiana, which is the largest producer of fishery products in the United States. Additionally, there is strong national interest in Cajun and Creole foods, which depend heavily on seafoods as ingredients. Louisiana's position as a major seafood producer and the home of Cajun and Creole cooking has awakened the interest of investors and businessmen, who see the marketing of seafood as a profit opportunity.

Though there is certainly a potential for profit in marketing seafood, the business is not without its pitfalls and problems. The key is to plan well, proceeding only when you have developed an understanding of supply, market, and capital needed. This publication is designed to help potential investors make the decision whether to establish a seafood business.

Is It For Me?

Selling seafood demands a large investment of time, knowledge, and money. Time is certainly the most important initial investment. The potential investor must have the time to learn the kinds, seasons, and availability of seafood products in the state. He must also know where and to whom he is going to sell the product. The typical newcomer to the seafood business wants to sell all kinds of seafood all over the country, but this "shotgun approach" is the wrong way to start a seafood business. Louisiana commonly produces more than 40 popular edible species and almost that many lesser known fish and shellfish. Most of these species are available in at least three (and sometimes as many as ten) product forms. With the many species and product forms available and the diverse food preferences in different regions of the country, it is clear that the potential investor must narrow his approach. Doing a good job with a few products is generally a much better approach than doing a poor job with many species or products.

Doing business in one area, state or city has advantages over shipping throughout the U. S., at least in the initial stages of building a business. By specializing in one geographical area, regional preferences for seafood are easier to learn and serve, and frequently multiple shipments can be combined to improve rates.

Usually seafood businesses are not part-time operations. Obtaining seafood, especially during seasonal shortages, is a full-time occupation and once the product is located, it must be packaged and shipped and payment must be obtained. Plan to devote many long days to developing your business.

The final ingredient, money, is of course important to all businesses. Lack of capital is the most frequent reason for the failure of small businesses today. Money is necessary during the planning stages of the business, when the investor must take the time to learn the industry and plan the business. Adequate capital must also be on hand so that the investor can keep operating through periods of slow debt collection, of high investment in inventory, and losses because of product spoilage.

Where Do I Start?

The first step in planning a seafood business is to learn which fisheries species are produced in Louisiana, which seasons they are available, where in Louisiana they are produced, and which forms of these products are available. A good place to start is consultation with a Louisiana Cooperative Extension Service/Sea Grant marine advisory agent or specialist. This individual can brief a potential investor on Louisiana's production and provide valuable marketing information about trade publications and magazines, consultants, and industry associations and contacts.

Particular attention should be paid to some of the lesser known species produced in the state. Frequently, potential investors are attracted to Louisiana's major fisheries commodities, not because of opportunity but because of their glamour and large landing figures. In spite of large landings, however, competition among docks is very strong. Competition when selling these products may also be very strong.

The lesser known species of seafood often fit the smaller marketing niches available. Buyers serving ethnic groups and communities are an example. Usually, these species and products are less expensive and therefore demand less working capital. Competition at the dock for available supplies may not be as strong. This reduction in competition may also be an advantage in marketing the product as well.

A good source of information about Louisiana fisheries is the National Marine Fisheries Service (NMFS). The NMFS Statistics Section, a branch of the U. S. Department of Commerce, keeps monthly and yearly landing statistics on fisheries production in Louisiana, and these figures provide useful background knowledge about fisheries production trends. The Market News Section of the National Marine Fisheries Service also publishes the "Fisheries Market News Report," a triweekly report that provides up-to-date information on fisheries landings and prices from selected ports throughout the Gulf of Mexico. Yearly subscriptions are available at a nominal rate. Similar market news reports are available for New York, California, Seattle, and Boston.

Another source of valuable fisheries marketing information is the Louisiana Seafood Promotion and Marketing Board, an agency of the Louisiana Department of Wildlife and Fisheries. This industry-funded board provides promotional literature and sales leads generated through national advertising and trade shows. These valuable trade leads are available on a free subscription basis.

The Gulf and South Atlantic Fisheries Development Foundation, supported and funded by industry, is actively involved in fisheries development in the area between Virginia and Texas. Like the Seafood Promotion and Marketing Board, this group provides sales leads and promotional material. Additionally, it is a reliable source of information on new fisheries development and research findings on developing fisheries.

Where Do I Sell?

Seafood in some form is consumed in all parts of the United States. Very few new companies, however, have the capital, personnel, and organization to sell and ship seafood to all parts of the country. Initial concentration of sales effort in one geographical area of the country is a wise move for many reasons.

Many food preferences are regional. It is much easier to learn these preferences for one area than for the whole country. Selling in one area of the country also allows a dealer to handle fewer products, which both decreases the time he must spend in product procurement and increases his buying power. Accounts are easier to service and sales calls are easier to make when customers are not spread over a large area.

Finally, transportation problems are eased by geographical specialization because the same trucking company or air carrier can be used. Using one carrier also reduces the number of delivery trips to the airport, and shipments to several customers may be combined.

Though seafood consumption is rising everywhere, people in coastal areas have traditionally eaten more seafood than people located inland. When planning your marketing strategy, however, it is important to remember that while per capita seafood consumption is greater in coastal areas, so is competition from other seafood suppliers. The same holds true for urban and rural markets. Surveys show that people in cities eat more seafood, and certainly more people reside in cities than in rural areas, but competition in that market may also be stronger.

The best rule to follow when selecting the area in which you will concentrate your effort is to choose a city, state, or region with which you are somewhat familiar or in which you have contacts.

To Whom Do I Sell?

Once the investor decides where he wants to sell, he must identify and contact potential buyers. While anyone who consumes or sells seafood is a potential customer, it is useful to break the market into four distinct groups.

1. Wholesale dealers and distributors
2. Retail markets and stores
3. Restaurants
4. Consumers

There are advantages and disadvantages in dealing with each group. The new seafood dealer's primary market will depend largely upon how he structures his business and where he finds opportunity. Identifying potential customers and making market contacts is done most effectively in person. The investor should visit his targeted area and make personal contact with potential customers in the four groups. These sales calls will play a strong part in determining where the investor will concentrate his effort.

Wholesale Dealers and Distributors

Although this group can be subdivided into many different types of buyers, the most important for the new seafood dealer are the wholesale seafood dealer and the food service distributor. Selling to wholesale seafood dealers has many pluses and one minus. Wholesale seafood dealers are already in the seafood business and often know a great deal about seafood quality and the merits of the products you are selling. This significantly reduces the educational effort that you have to put forth to sell your product.

Seafood wholesalers buy products in larger quantities than individual retailers and restaurateurs. They are responsible for breaking down the order to resell the products and will also arrange for payment from the many individual buyers, freeing you from that responsibility. A final advantage in dealing with seafood wholesalers is that they often have the capability to process the product into the form needed by the customer. This relieves you from the responsibility of having to process products yourself or to find already processed products.

The main disadvantage in dealing with wholesalers is the reduced profit margin. The wholesaler is a middleman who must make a profit. For that profit, he is responsible for product

distribution, customer service, and money collection. He may also process your delivery in order to meet customer needs.

Food service distributors are not seafood dealers in the strictest sense of the word, but they do handle large amounts of seafood along with other foods. They also serve the same type of customer as the seafood wholesaler does. The major difference between the two is that food service distributors handle a wide variety of foods and demand a processed, frozen product.

Retail Markets and Stores

Retail businesses range from individually owned "mom and pop" seafood specialty markets to major grocery store chains. Specialty seafood markets, because of their size, usually order seafood in smaller quantities than do retail grocery chains. Specialty markets, like some grocery chains that have full-service display cases, frequently order unprocessed products. For example, these buyers order fish "in the round" rather than filleted. Whole products display better and these markets are prepared to cut to the customer's order at the point of purchase. Grocery stores with self-service cases, on the other hand, often want all products processed and in some cases already packaged. One major difference between grocery store chains and specialty seafood markets is terms of payment. Unlike many specialty markets, which pay COD, most grocery chains expect 14 days or longer to pay. This point is very important for the new, often poorly capitalized seafood dealer to consider in planning sales strategy.

Restaurants

The demand for seafood in restaurants is growing annually. Surveys consistently show that many Americans prefer to eat their seafood in restaurants. Restaurants range in variety from expensive "white tablecloth" establishments to neighborhood taverns. Their needs therefore vary from fresh fish, which requires custom preparation, to the drop-in-the-fryer type of processed product. The restaurant association in the state(s) of interest to your company may have a restaurant directory.

With some exceptions, such as shrimp, the restaurant demand is increasingly for fresh rather than frozen products. This is particularly true for finfish. Although profit margins may be high in selling directly to restaurants, the demand upon the seafood purveyor to deliver small quantities of high-quality seafood to scattered locations may also be difficult and costly.

Selling Directly to Consumers

Selling directly to the consumer, thus bypassing the middleman, may increase profits. Frequently, however, selling directly to consumers is not free of problems. Most towns and counties have laws regulating direct sales and peddling, requirements for occupational permits, zoning restrictions, and regulations pertaining to perishable food sales. Parking a truckload of seafood on an empty lot or street corner in a strange town arouses the ire of local merchants who may file a complaint. If this form of direct sale is chosen, you must check into all local requirements as well as state laws.

An additional problem with selling directly to consumers is the high risk of loss. The direct seller must purchase all of his seafood in anticipation of making sales because he has no advance orders. If for some reason sales are poorer than expected and the products cannot be sold before they spoil, the seller suffers the entire loss.

One other form of direct sale that should be mentioned is the mail-order retail business. This type of retailing usually relies on attractive advertising brochures and large mail-outs. Usually, only the more popular, expensive seafoods of high quality are sold by mail and the clientele is distinctly upscale. While the markup in this type of sale is high, so are initial expenses. Building a mailing list of customers usually takes several years and a large investment in promotional literature and postage.

What Do I Sell?

You sell what people want to buy. The trick is to learn what they want to buy, and the only way to do this is by direct personal contact.

After the potential investor has determined the part of the country in which he wants to sell his products, he must invest the time with potential buyers in the area to learn the kinds and forms of seafood desired. This requires personal visits to wholesale dealers, stores and markets, and restaurants. The easiest way to find these potential buyers is usually through the yellow pages in the telephone book, grocer directories, and restaurant associations.

The investor must know something about the products that Louisiana produces before making these visits. Much of this information should have been gathered during the consultations held early in the planning stages of the business. A handy guide to what Louisiana produces is the *Louisiana Seafood Products Handbook*, published by the Louisiana Seafood Promotion and Marketing Board. This 91-page booklet describes all of the species of commercial seafood produced in Louisiana, their product forms, their seasonal availability, and other notes of interest.

Not all products that are legal to produce and market in Louisiana are legal to sell elsewhere. For example, a species of fish that is classed as a commercial fish in Louisiana may be a game fish in another state and its sale may be prohibited or tightly regulated. Another example is alligator meat. There is a legal harvest of alligators in Louisiana, even though the animal is listed as "threatened" under the Endangered Species Act. Some states prohibit the sale of any part of an animal listed under this act. After you select the species that you want to market, call the fish and game agency of the state in which you will be selling to check on legal aspects of sale.

How Do I Get Started?

While Louisiana is the leading seafood producer in the United States, obtaining a regular supply of high-quality seafood products is certainly one of the biggest obstacles that a marketer faces. For many reasons, including the biology of the animals, weather conditions, and harvesting seasons set by legislation and regulations, almost all seafood products are seasonal.

Seafood products are available from many sources, and the most efficient purchasing strategy of most marketers will involve buying from more than one kind of supplier.

Commercial Fishermen

Seafood can be purchased directly from commercial fishermen in some instances. Prices are usually somewhat lower. However, just as you expect a bargain when buying directly, the fisherman expects a price higher than typical at the dock. In addition, supplies may be erratic as fishermen change species and locations seasonally.

Dockside Buyers

Dockside buyers buy from fishermen and sell to processors and other users. Since the dockside buyer deals with many fishermen, continuity of supply is more assured. Typically, the product is in an unprocessed form. Since dockside buyers usually specialize in one type of seafood, variety is somewhat limited.

Processors

Seafood processors take a raw seafood product and process it into a more easily used or salable product. Typically, processors specialize in one variety of seafood, but usually have it in dependable supply because they buy from several sources.

General Seafood Wholesalers

General wholesalers do little or no processing, but rather are geared to supplying buyers with many kinds of processed and unprocessed products. Prices are higher than at the processor's level, but the diversity of products is greater.

Processor/General Seafood Wholesaler

This type of firm attempts to combine the strong points of both processor and general wholesaler. Like the processor, this dealer typically processes only one variety of seafood, but sells a broad variety of other seafood items.

How To Ship

Except in mail-order retail, seafood is usually shipped to the purchaser by common carrier or by vehicles owned or leased by the seller's company. Owning or leasing delivery trucks allows the seller complete control over deliveries, but unless large quantities of seafood are delivered and the truck can be kept busy, higher transportation expenses can result. Owning delivery vehicles also demands a high initial capital expenditure. Vehicle licensing and permitting requirements are the responsibility of the owner.

Seafood shipped by common carrier usually goes by truck or air freight. The choice of air or truck delivery depends on the kinds of seafood shipped, the quantities shipped, the destination, and, to a lesser degree, the preferences of the buyer. Live products such as crawfish and crabs almost have to be shipped by air if the destination is more than a few hours away by vehicle. Small shipments of seafood or highly valued products are also shipped commonly by air. Large orders of unprocessed products, heavy and bulky seafoods like oysters, and frozen seafoods are mostly shipped by truck. By and large the selection of shipping method is made by the seller on an order-by-order basis.

Methods of packaging seafood for shipment are determined by the requirements of the buyer and the common carrier's specifications. Airlines have very specific rules on the use of ice, dry ice, packaging types, and weight per box. Each airline is prepared to advise shippers on its requirements.

When deciding between common carriers and company-owned vehicles, it is important to consider the licenses and permits required. Some states require the drivers of company-owned vehicles making deliveries to have a seafood seller's license in their possession. Usually, however, these licenses are not required of common-carrier drivers. A seafood dealer should check with the fish and game agency and the departments of agriculture and commerce in each destination state for license requirements.

Should I Process?

The decision to process seafood products into more salable or valuable forms is a very important one, requiring careful thought. Properly managed and done, seafood processing and marketing can increase the profits of a business. By processing seafood, the marketer assures himself of a more continuous supply of processed items. A regular supply allows him to serve profitable accounts better.

There are some major pitfalls in establishing a successful seafood processing operation in conjunction with a marketing business. Seafood processing is very technical, demanding a knowledge of efficient techniques. In processing operations, a reduction in yield of one or two percent can result in a financial loss rather than a profit. Additionally, processing must be done to meet strict sanitary codes because processing plants and products are subject to inspection by state and federal health agencies.

This means that skilled and experienced management is needed. People possessing this knowledge are hard to find and hire because their services are in great demand. The manager must also be able to train and supervise employees. Seafood processing is a very labor-intensive business, requiring a payroll increase well over what is needed for a pure marketing business. Along with this come the problems and expenses associated with bookkeeping and payroll deductions.

Another important consideration is the financial investment needed to process seafoods. A larger facility is almost certainly necessary. The added cooling and freezing space and processing equipment are expensive. Utility expenses increase dramatically. Waste disposal can also be very expensive. With some forms of seafood processing, as much as 87 percent of the product will become waste. The proper disposal of the waste takes investment capital and operating expenses.

When deciding whether to process, you should go through the same information-gathering procedure that you did in planning a marketing business. Seafood processing can be a profitable addition to a marketing business, but only if you have the necessary financial and personal resources.

Business Planning

Every business needs a concise, useful plan for selecting a **Product**, developing efficient production techniques, identifying **Sources** of raw material, choosing the markets to be served, hiring **management**, and developing financial statements. New Louisiana seafood dealers too often lack a well-organized business plan that can be used to achieve operating success, tending to view it as useful only for obtaining financial support. While this focus is understandable, a business plan should be as useful in operations as it is in obligating lenders. Your operating plan should demonstrate your understanding of the industry, your firm's competitive situation, how your management procedure will achieve marketing success, and your timetable for results.

The following material suggests components to include in seafood company business plans. Obviously, many reference books can provide valuable detail for anyone interested in a step-by-step process, but at this point it's important to understand the necessity for the development of a plan. If you already have well-developed ideas about the seafood processing business, write them down. In doing this, you will probably discover factors you failed to consider or have analyzed incompletely.

The volatile nature of the seafood industry insures failure if the investor has no clear understanding of what his efforts are to achieve. The beginner must have a clear idea of the kind of performance he wants from his company in a few years. For example, he may want to obtain a 50 percent equity position, or have a net worth of \$500,000, or have retail and restaurant sales yielding 3 percent net profits. Or he may simply want steady employment for himself and his family with a household income of \$100,000 annually.

In addition to the lack of a business plan, the following list identifies other weaknesses common to the intentions of start-up investors:

1. All species to be processed in all market forms--the scattergun approach
2. A single species and product to be processed--the rifle approach
3. The processing of wastes to be a profit center
4. Market level(s) and buyers not identified

5. Inadequate investment capital
6. Working capital insufficient
7. Processing and sales management talent not identified--
the suicide approach
8. Poor financial statement estimates

As a business founder or investor, you must at some point put your ideas on paper to reassure yourself. You should also seek advice from others, but your business plan should not be prepared solely by a consultant. You need to state clearly and concisely:

(a) what the company will be doing; (b) why there is an opportunity; (c) who will manage the business and benefit from the profits associated with this opportunity; (d) how the owners and managers will organize and conduct the operation; and (e) where the business will be located to maximize profit. Do not attempt to impress people with length. Get to the point quickly and back it up with numbers when possible.

Contact Louisiana Cooperative Extension Service specialist Dr. Ken Roberts for a free seafood business plan guide and, if you wish, a review of your ideas.

How Do I Collect My Money?

Poor money management causes more businesses to fail than any other factor in the seafood business. This brochure cannot provide all details on the subject, but the reader should nonetheless be careful. The following aspects of the seafood industry can threaten the capital invested:

1. Seafood generally has a high purchase price per pound.
2. You must get supplies by paying cash.
3. Your customers may pay on terms of up to 30 days with accounts receivable reaching 45-60 days.
4. Paying cash when picking up products but not collecting payment till up to 60 days later means that you need a large amount of operating capital.

5. Seafood is more perishable than other products, so there is no way to recover products from late payers.
6. Most dealers face seasonal variations in supply but have a need for sales throughout the year. Otherwise profits must be made during the period of seasonal fish supply.

Without allowing for operating the business to account for the above matters, a dealer usually has trouble collecting on sales. For example, a dealer with little operating capital is forced to sell to people able to pay COD or within 10 days. Such markets are often small, with low profit margins.

Preventive action is the best approach to collection. For example, you should check on potential buyers. Consider requesting a bank reference. Let your bank commercial loan officer contact the buyer's banker. Be sure to clarify terms of the sale and the specific product to be delivered. Problems that delay collection include the substitution of species, the delivery of a size different from that specified by the agreement, the delivery of thawed products instead of fresh, the delivery of the wrong product form, and improper packaging. Be specific in what you are selling and deliver what you sell. If something changes prior to shipping, call the buyer to suggest adjustments.

As a dealer you will eventually lose a shipment or part of one through error or accident. It's important to have a backup like cargo insurance. It is better to collect from an insurer than to undergo a total loss.

Checks received for payment of your products can be a problem. "Insufficient funds" checks can be handled directly with the customer, through collection agencies, or by legal process. The services of agencies and attorneys are generally too expensive for small sales. Out-of-state bad checks must be handled through that state's attorney general's office.

Sources of Information

Reference material for planning your seafood business can be obtained from the following.

1. Sea Grant and Louisiana Cooperative Extension programs at land-grant universities in coastal states. In Louisiana, call the Sea Grant marine advisory agent at the Cooperative Extension office in your parish or contact the specialists in marine economics and seafood processing technology at LSU (see the following list of addresses).
2. *Fisheries of the United States* is an annual reference volume listing raw material supplies, prices, consumption, etc. It is available in June for the previous calendar year. Write the National Fishery Statistics Program (F/521), National Marine Fisheries Service, NOAA, Washington, D.C. 20235.
3. *Fisheries Statistics of the United States* is also produced by the National Marine Fisheries Service but the latest volume available is about five years old.
4. Up-to-date information can be obtained from market news offices of the National Marine Fisheries Service. There is one in New Orleans in the International Trade Center (504-589-6151).
5. Trade magazines such as *Seafood Leader* and *Seafood Business Report* contain articles essential to informed business decision-making.

Seafood Leader
Waterfront Press Co.
1115 N.W. 46th St.
Seattle, WA 98107

Seafood Business Report
21 Elm Street
Camden, ME 04843

6. There are also a number of market news subscription services. The only Louisiana service is Shrimp Notes, Inc., based in New Orleans.
7. Louisiana Seafood Promotion and Marketing Board
P.O. Box 15570
Baton Rouge, LA 70895
(504) 342-1660

8. Gulf and South Atlantic Fisheries
Development Foundation
5401 West Kennedy Blvd.
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(813) 870-3390

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