

SECTION 2

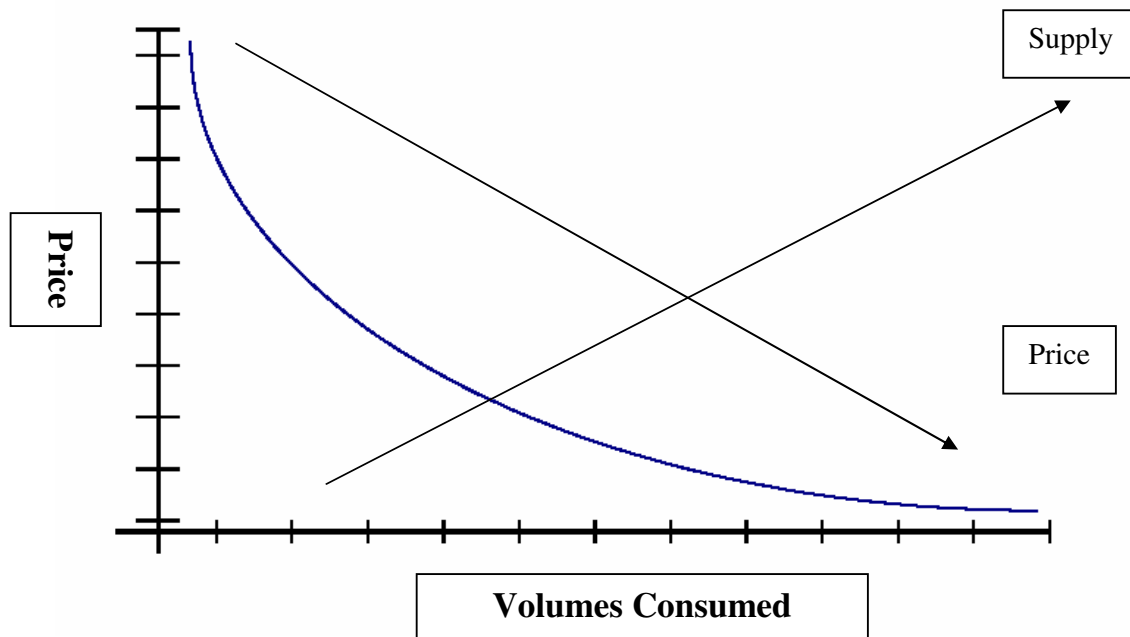
MARKETING INSTRUMENTS AND THE MARKETING MIX

2.1. The Price

The price is always king in developed markets - however we try and analyze consumer behavior, this in the present times is the key factor influencing buying.

The price is normally a function of supply versus demand. The greater the quantity available - the lower the price - unless demand increases at the same rate. The reverse is also true where demand increases but supply does not: prices will increase until an equilibrium is reached, where the price is equal to demand. Nearly all of the major farmed species have seen this trend over the last ten years (salmon, sea bass & sea bream, etc.) – only farmed shrimp had remained relatively stable, but here the market supply has now reached 4.6 million tonnes (up 1 million tonnes in the last decade) and with recent anti-dumping legislation in the USA and other factors affecting economies, prices have fallen.

Price Trends



The basic principles of supply, demand and price: The more product that is available the lower the price, but more product is consumed as it becomes affordable.



On the plus side of declining prices has been the cause for the surge in consumption of most fish – salmon is now affordable for most people, not a luxury. Fishermen have always known that good weather leads to heavy landings, and lower prices.

In the case study section it is useful to review [supply and demand – the sea bass and sea bream story](#); [salmon - the trendsetter with maturity](#); and [shrimp – small but tasty, but a billion dollar industry](#). All these studies consider the affects of supply and demand and the affects on price in major aquaculture products. The trends in these industries reflect the ideas in the proceeding diagram on supply, demand and price.

However, planning is needed in production costs that allow a company to not be adversely affected by market prices declining. In a feasibility study the cash flow is always most sensitive to lower market prices than increased capital or production costs. Can your proposed project influence the market by creating demand, or controlling supply? - Probably not, unless the market is a specialized niche market. This is a function of the other six areas, but it can be designed by a marketing strategy that includes new products at competitive prices for sale in new markets.

A **pricing policy** usually encompasses the following key areas:

- It considers the margins required by each link in the supply chain (a typical product supply chain in perishable foods will see a 300% mark-up from producer to end user) – the shorter the chain (e.g. producer packing and processing to sell directly to major retail outlets rather than using wholesalers) increases the returns to all parties involved in the supply chain. This is a growing trend in aquaculture where production can be managed to guarantee product quality and continuity to the retailer. However, the producer must be large enough to be able to handle the demand of the retailer, and this market is dominated by a few supermarket chains – in the UK, 70% of the grocery market is supplied by Sainsbury's and Tesco's.
- The existence of market/consumer price barriers, over which a consumer will not buy. In German markets it can be said that a consumer will not purchase a frozen individual portion for more than €3.00. E.g. a 120g fillet suitable for one person, including packaging, distribution, promotion, etc – must retail at under this price barrier.
- Discounts for products, especially for new products or companies entering the market. This is a dangerous practice and can quickly lead to a trend of expectation by consumers of lower prices and drive existing prices down. Samples are one area that lower than average prices are acceptable, but there should be a clear understanding between the producer and buyer which safeguards the future trading relationship



- Financing (of the price) is often a hidden cost which has to be considered, especially where dealing with large retailers who expect long credit terms. The market prices may be better, or the market volume greater and more stable, but the producer will have to factor in this credit period and make financial provisions for this period. A new project is always vulnerable at this point, as all of the investment has been made and all of the long-term financing is in place – this “credit lag” needs to be financed by short-term (overdraft) facilities.
- The price also has to include and consider the complexity of the product and the supply chain costs of packaging; transportation; insurance; tariffs and other factors related just to getting it on to the market. The price has to cover all of these issues if the product is going to generate profits for the company.

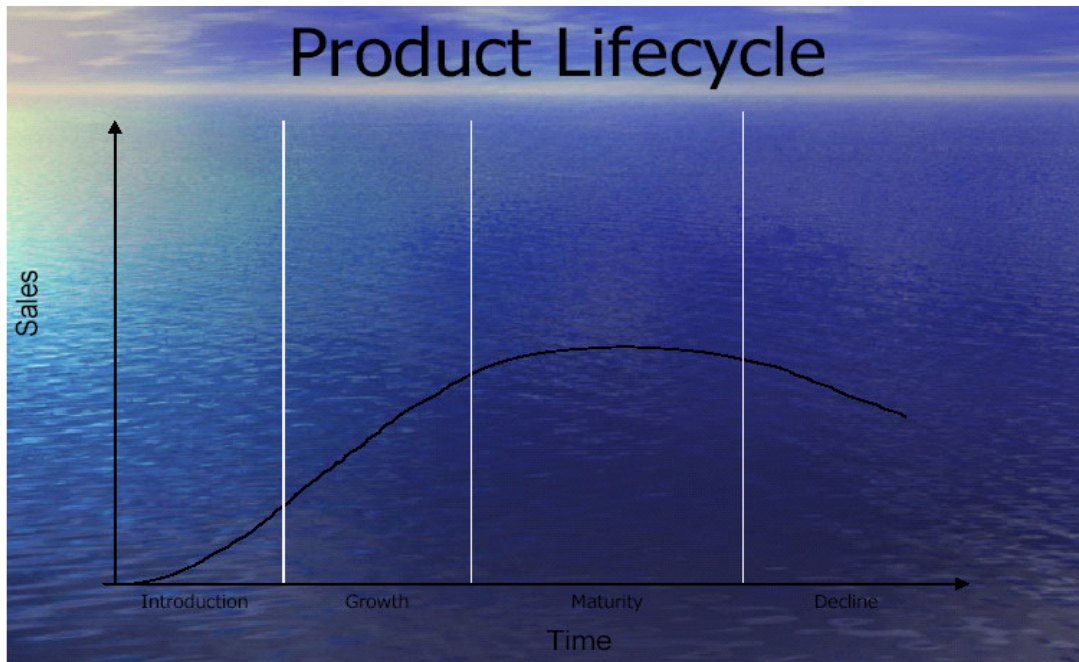
It is also useful to consider the pricing policy in reverse using the case study seen in [distributor margins and internal marketing](#). In many cases prices paid by different levels in the distribution chain (**see also section 6 on distribution channels**) are very different as each seeks to make a margin. The case study based on the shrimp industry identifies each cost element, and the potential market price that may be obtainable at the end. Where market prices are difficult to obtain, market outlets can be used and then back calculated to arrive at a potential price ex-farm, which can be compared to the production price calculation – do you have a margin?

At the end of the day, it is the maximization of profits that will determine the desired mix of product and the range of prices obtainable. It must also be assumed that for nearly all fish products there is a price barrier to which prices will fall when aquaculture production reaches a commercial scale. Consumers are unwilling to cross the €3.00 per portion barrier en-mass, and the producer must be targeting production costs to be able to supply the market at this price. With this aim, the producer can then make substantial profits in the first years, and remain profitable when the market matures.

However it is also worth considering the pricing policies of the producer. When a producer is launching a brand, a unique selling point (USP) or entering a market for the first time, prices may be set artificially low to encourage sales of the product. This will often be accompanied by a promotional campaign, but emphasis must be made if this is an introductory offer price. Failure to do so will result in the consumer’s expectation that the price will always be low, removing the producers option to raise prices to a normal level after the introduction. Another risk is that the competition will decrease prices to maintain their market position so deflating prices for the product later.

The only cases where this is not a factor is in niche markets, special products, or the launch of a specific brand with USP characteristics which can not be easily substituted by consumers or copied by the competition.

2.2. The Product



The typical expected product life cycle – this is not always true for fish products or other foods, but where fashions and fads in value added products are considered, life cycles do become more important. The idea of sales needs to be compared with price.

The product is what can realistically be produced – consider what raw materials are available, how best to utilize them and what consumer demand there is for the product. Salmon are potentially the most mature product from the aquaculture sector and the reader is directed to the case study [Salmon – the trend setter with maturity](#) to compare the above figure with potential product development. To analyze the product it is necessary to consider the following:

- The product mix – is the analysis of all of the products which are already on the market including substitute products, other types of products, and potential new products that may enter the market mix. The problem with fish is the number of species available, and the lack of differentiation – a white fish fillet can come from so many different sources (Alaskan pollock, cod, tilapia, turbot, grouper, etc) and consumer are not always aware of the difference (only the price). Consumers are aware of major differences in tuna to salmon, and seasonal products and why they are buying – taste, texture,



freshness/frozen, ready meals, convenience, etc., but not always the quality.

- The word quality is now being linked with food safety. All products imported to the EU or the USA, have to meet stringent hygiene standards (HACCP) and as of next year will require full traceability to ensure product quality. This “pond to plate” scenario will mean detailed records of the fish’s genetics, feeds, additives, medications (if any) harvest procedures, etc. and these will be supplied to the trader to guarantee quality of the product. However the consumer does not want to pay for this service. Only Eco-labels (which account for only 3% of the market) are ensured of the consumer paying more for quality assurance. (see also 10 points salmon and consumer concern)
- Packaging and design of the product used to appear as part of the product in the marketing mix, but in recent years it has been allocated a separate section. The design of the product however is increasingly important. Products are no longer a simple piece of fish – products are now being designed in a project from day one. A new initiative, especially with our ability to transport fresh products around the world in a matter of hours, is the development of outsourced designer products. Complete meals with sauce; presented in attractive forms, a complete recipe with vegetables for the microwave, and still fresh are the new forms of products being developed in low cost countries to supply developed markets. The days of simple fish fillets are over in the mass markets.

The product mix is increasingly complex, and often is influenced by the demographics of the consumer markets. The typical fish monger customer is over 45, and eating fish for health reasons. The “Grey Market” is influential, has higher levels of disposable income and time to prepare the product. Younger people and singles prefer not to cook fish in the house as it smells, takes time and is more complicated than meat. A recent survey in Germany showed that over 70% of fish products are consumed in restaurants, and that the fresh fish market is declining at about 10% per annum. The supermarkets only offer ready to eat fish products, and many have removed their fresh fish sales outlets – fresh fish is the domain of the small fishmonger. In Mediterranean markets a different picture emerges, where family orientated eating is more common, and fresh fish is still very much on the menu. Per capita expenditure on food is also considerably higher – Germany sees 8% of income spent on food, while Greece the typical spend is 37% of income (this also reflects actual wage differences). The design of the product must be influenced by the target market, and the costs of accessing this market with the costs of producing the product.

The real skill is developing a product that satisfies a market, preferably a niche market. In the case studies the simple development of fillets and portions in Romania – [Value adding to a product](#) – is an excellent example of creating a product which meets market needs, and fills a niche previously not exploited. The development of “label rouge” (see case study – [France](#) – is



also an example of more complex product development in response to market niche demand.

2.3. The Place

The place is not only the outlet where your products are sold (the outlet), but also the issues involved in getting it there and how best to optimize these systems (**see also distribution chains in section 6**). The key points are:

- Channels of distribution - should aim to get the product from the producer to the point of sale as efficiently as possible to maximize the return to the project. A point of sale may be from the “farm gate” to the end user, or maybe be very complex involving local/international transport, clearing agents, customs, importers, land/sea/ freight companies, specialized packing and shipping containers, sales personnel, service personnel, wholesalers and retailers. All of these links have a cost, and are working with margins for their respective businesses. These links need careful costing is assessing the price and place where the project can optimize its’ returns. Maybe the local market will give the project the best returns – not in terms of the highest price, but in significant savings from logistic costs i.e. the best margins to the project.
- Wholesalers - and wholesale markets are a theme which is said to be decline, but which for small producers is still often the only way to sell their products on the market. Wholesale markets still function as major clearing houses for fish products and are often major distributors to the catering trade (hotels, restaurants, etc.), but of course do not offer the top market prices. They are able to receive and place fish under most market conditions and increasingly they are dealing with partial or completely prepared products, not only fresh fish. They also undertake value adding by preparing fillets/steaks, etc. for the retail/catering trade.
- Wholesale/retail outlets - can also be important in supplying the catering sector. In Germany a major chain exists (Metro) where only persons with a registered business can purchase a wide range of goods, including fresh, frozen and prepared fish products – often in catering packs, rather than individual customer packs. The advantage of catering packs is the lack of packaging required, and the sophistication of the packaging can also be reduced – thus saving costs. In a recent market survey it appeared that the Metro chain had in excess of 30% of the sea bass and sea bream market in Germany, and this type of outlet is gaining in strength in the fish business, especially when most fish is being consumed in restaurants. However, dealing with these large organizations is difficult and requires financial planning as previously discussed.
- Retailers - are increasingly dominant in the grocery markets, and in the sale of fish. The presentation of fish in these outlets varies greatly from



country to country i.e. some have a true fresh fish counter with trained staff able to fillet/steak the fish and offer customer support, to those that only offer ready meal products from frozen/chilled cabinets. In the latter, branding (in-house or private labels) and excellent packaging is essential to catch the eye and establish repeat buying. In every country there are household names Tesco, Sainsbury, Aldi, Edeka, Carrefour, Coop, Walmart, etc. and grouped together in developed market they are a major force. The problem with dealing with them is that they normally have a central buying policy, which then distributes the required products to the individual stores. This requires volume, continuity, quality and financing, which is often above many smaller aquaculture producers. It is only by grouping many producers together that these retailers can be serviced, and this has been a reason for problems of aquaculture companies not being able to directly access these traders. There has been a need for middlemen to do this work, and this has cost the industry.

Until smaller producers unite as associations or consolidate their marketing activities, the major retailers will remain out of reach and products will have to be channeled through local retailers and wholesalers. Only significant producers can really take on direct sales to multiple retail outlets and supermarkets.

2.4. Promotion

Promotion is becoming an increasingly important area in the marketing of fish products worldwide, and in recent years there have been many innovative promotion techniques used. Fish and fish products in general have received a great deal of interest from the media, partially as a result of the intensifying political and environmental debates on a once plentiful resource, but also as health issues have gained consumer attention. Both are indirect forms of advertising, but the industry (both aquaculture and fishing) has taken steps to promote the eating of fish, as healthy and environmentally friendly as in the case of aquaculture. Fish sales have also benefited from free advertising in the form of cookery programs on television, recipe cards in supermarkets, cooking magazines with recipes and health awareness campaigns. A recent TV program on tuna in Germany featuring recipe ideas caused a sudden, short-term 20% increase in tuna loin sales; and in the 1980s "Floyd on Fish" on the BBC created significant awareness of fish and potential serving suggestions.

However, recently media has also hammered fish products - in particular aquaculture over many issues in particular antibiotics, use of fish to feed fish, and effects on the environment. The problem with a fragmented industry is that communication and promotional activities are expensive when it comes to the mass media, and the industry cannot defend or promote itself in this arena.



The industry can only respond and promote products on a major scale if it receives support from producer and government sources in preparing new campaigns to enhance sales from the sector and their members. Branding under a producer organization e.g. the Blue Ribbon of Scottish Quality Salmon, Label Rouge ([see case study on France](#)), or creating an Eco-label (Vietnam shrimp) can be used to good effect and create the right image, personalizing the product to the consumer.

Packaging is also a promotional tool which creates brand awareness, with photographs showing the final product (ready meal) complete with serving suggestions. As we all know the fresh product is often ugly and unpleasant to touch, so promotion of finished, well packaged products is essential. DeutscheSee, a major retailer in Germany goes one step further by offering fresh fish which is sold whole, then filleted while you wait, emphasizing the freshness and sold as a complete product where the offer includes a packet of sauce. The offer is promoted on “this weeks’ special” board, and normally has a special price.

The greatest problem facing the industry is the cost of promotion. Promotion is often left to the retailer and the producer has very little influence in what is chosen for promotion, unless the producer is sufficiently large enough or part of a trade association. This lack of promotion, coupled with increasing production has in many cases led to price declines. The promotion of salmon as previously mentioned by the NSEC has dramatically increased salmon consumption worldwide and without this effort it can be said that there would have been many more company failures due to prices being even lower. Promotion is a difficult area for most producers to operate, with low-key efforts often resulting in little impact. Consolidation and association building will be the way forward in the future for the sector to promote the products.

The European Seafood Exhibition in Brussels or the Boston Seafood Show etc. are all windows for promotion, but these trade shows are almost exclusively attended by the industry. This is important for sales, but even operating a stand, unless done by a major producer or a regional association is costly. The general public and our end users rarely see or enter this arena, so the promotion to end users is generally weak from the industry’s point of view and is left to the retailers to undertake.

3.5. Phasing

One of the “new Ps”, phasing is increasingly important to the marketing mix. Aquaculture has the ability through technology to provide products almost whenever the market demands. In the sea bass and sea bream industry in the Mediterranean, the use of photoperiod control, temperature controls, etc. to extend the normal breeding cycle has seen the production period for these species be extended to all year. By manipulating and stocking a selective times in the year, phasing production can be achieved to target special



markets which have higher prices i.e. Christmas and Easter; the summer grill market, etc.

Analysis of the climatic conditions affecting the production area will also identify optimum growth periods, which will result in better feed conversion ratios, lowering production costs and increasing potential margins. Phasing the production cycle to meet optimum production costs, with best market prices is essential in the ever competitive world.

Of course it is not that simple as our clients and customers are becoming used to having products available throughout the year, even out of season. This is due in a large part to the globalization of trade and the movement of species to other hemispheres to provide year round production e.g. Atlantic salmon in Norway, Scotland, Chile and New Zealand. Each hemisphere has optimum phasing conditions that can enhance the market returns. Phasing will increasingly play an important part in the profitability of a project.

2.6. Packaging

Packaging is becoming ever more complex in the world of fish products. It not only makes the product more attractive to the consumer, but extends self life, provides better and easier hygiene standards, and presents an otherwise difficult product in a form that is easy for the consumer to handle, store and prepare.

Most products in the major retailers are now packaged. Fish is one product that lends itself perfectly to all packaging forms easily, which enhances its sale-ability and food safety.



A marketing matrix which looks at the affects of packaging, presentation and price influences – AquaTT Workshop, Glasgow, 2004 – John Dallimore

But packaging and packaging equipment come at a cost. The analysis of the markets will begin to define to packaging required, or in demand from consumers and the prices paid for packaged products in these markets for the final product. It is all a question of investment cost, operation cost verses the price received for the product.

In developed markets canned products are reserved for tuna and other oily fishes, but in developing countries the ability to buy canned fish is a major market as refrigeration at home and during transit is limited. In tropical countries refrigeration is also expensive and a different form of packaging, preservation and storage is desirable e.g. drying or curing.

Value adding, normally by product processing and packaging is becoming a major consideration in project assessment in the developing world, as long as the processing facility meets the required HACCP standards. Why not process, prepare and pack products at the project where labor costs are considerably less than in the target market? There is also a potential benefit in terms of transport costs – a fillet is normally less than 40% of the full fish weight, so processing and packaging can reduce transport costs, and provide



additional value. However, not all is so easy. There is still some consumer resistance to products process in developing countries and there is mistrust that quality can be maintained.

An example of this trade is where brown shrimp caught in the North Sea is cooked on-board ship, before being frozen and shipped to Morocco for peeling and packing before being re-exported to the German consumers. The packaging states that this is a German product, caught in German waters and distributed by a German company. Many of the major fish producing companies have detailed quality control systems which fully trace the product life cycle, and when operating this type of “off-shore” processing this is essential. ([see case study on Nutreco](#))

And this leads on to the new labeling laws that are now in-force and part of the traceability system. The packaging of the product must clearly show on the label:

- The trade name and the scientific species name
- The country of origin
- Name of fish producer
- Fish is from farmed or wild origin
- Net quantity of product in package
- Date of minimum durability “best before”
- Special storage instructions “keep refrigerated”

Commission Regulation (EC) No 2065/2001 – requiring on labels under 104/2000 that production method was identified e.g. capture fishery or aquaculture

In the labeling business the brand or eco-label is also part of the packaging concept. Color, photographs, images are all part of the packaging which creates customer awareness – the first part in buying behavior;

- **A wareness** - leads to;
- **I nterest** – creates;
- **D esire** – ends in;
- **A ction**

- Or the sale of the products.

Packaging also provides a base for information on cooking, recipes, environmental sensitivity, product from a sustainable fishery (Marine Stewardship Council) or other information which is of consumer interest. ([see case study on consumer concerns](#))



The limits to what packaging can do for promotion are limitless. As was discussed in the promotion section, advertising as such is expensive, but branding and advertising by packaging can be a cost effective tool to promote the product. It all comes down to cost and penetrating a market so that a project is profitable. Images on packaging vary with culture and target market – compare Japanese images to European and the difference is clear. What colors are fashionable to 20-30 year old consumers, and what are interesting colors to 40-50 years old consumers? Look at the color of their cars. What colors are associated with fresh fish, quality and good taste? – all can be incorporated into packaging to stimulate buying – a tuna loin treated with tasteless smoke has a much better color than a fresh untreated loin which tends to go brown. Both are packed in vacuum bags with a label, but which product has the better consumer appeal?

Market acceptability has a cost, but is the cost able to support the price that the market will pay, and is there a margin to the producer? Packaging has firstly to provide protection to the product, and ensure the product reaches the buyer in an optimum condition without any contamination. Any other issues should be aimed at increasing sales and margins.

2.7. People

The last P is a less well defined marketing tool – however there is a well proven fact that “people buy people first”. From the producer selling to the wholesaler, from the wholesaler to the retailer, from the retailer to the consumer, people are buying the person to person experience, and this is very difficult to put a cost or value on. ([see case study on consumer concerns](#))

A recent survey put the question – you have to buy a new computer so you go to your local computer dealer where you receive information and helpful service and the computer will cost €1,200. You then go the superstore and ask a salesperson for the computers – you receive no information, no help, and no personal service. The same product cost €1,000. Which do you buy, and how important is the service and the follow-up business? In the fish trade, repeat business and trust are essential – we are not involved in a one-off-sale, or a sale every two years. The personal factor in all parts of the distribution chain is essential, and needed to develop lasting client relationships. Price is one thing, but service also has a price which consumers are willing to consider, it is up to the project to try and factor this in to the pricing matrix. Consumers now expect quality with transparency and traceability to all of the persons involved in providing a product from the producer to the seller.