



SECTION 6

CHANNELS OF DISTRIBUTION

Successful distribution channels are essential to the prosperity of a project. Being able to deliver to a market on time, at high quality and safe food at the right price are the prime ingredients of a successful operation.

The question to be answered is: Which is the most cost effective way to do this?

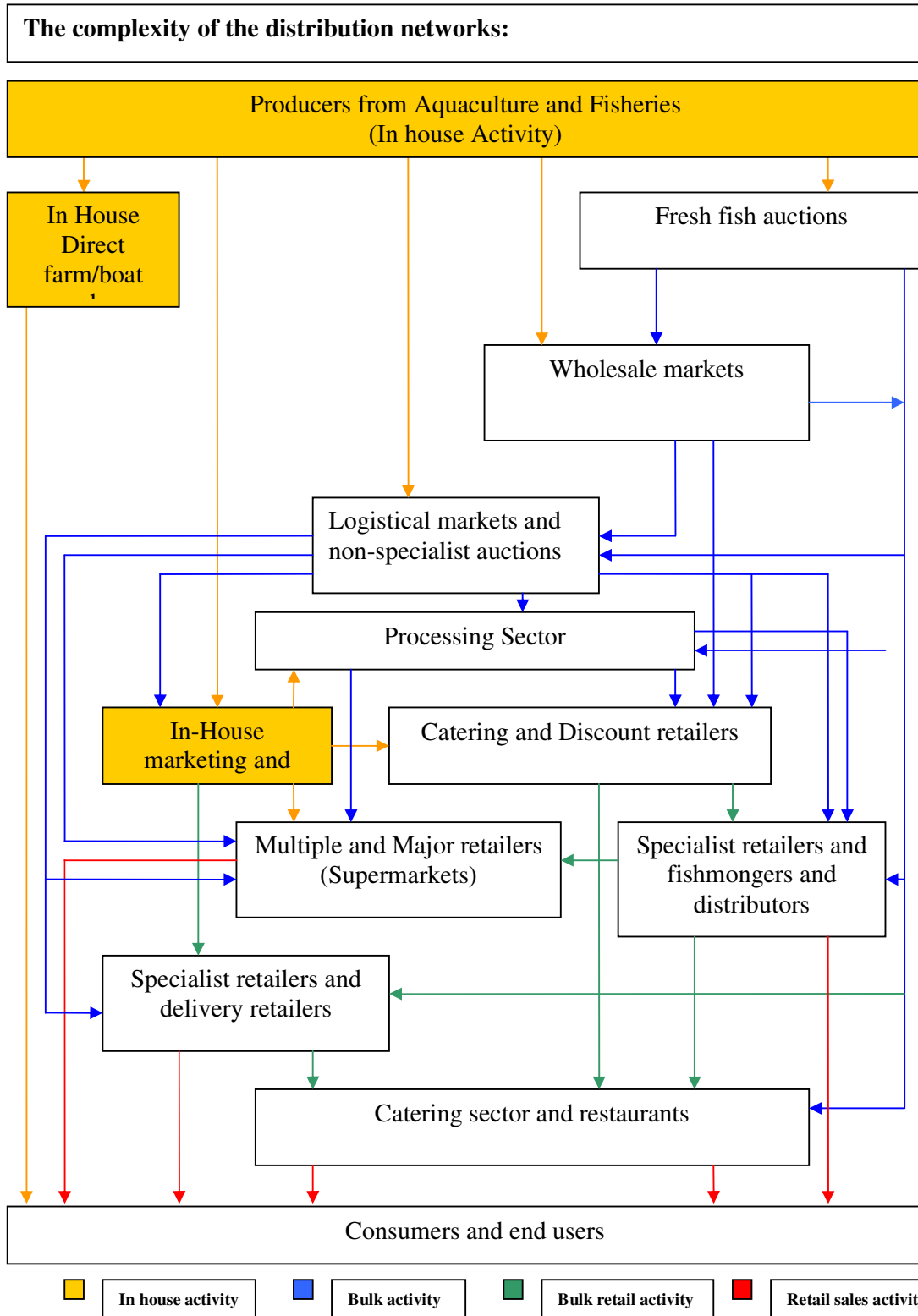
The answer is simple in so much that the less “middle men” that are in the delivery chain the better, as every link has a potential cost, but these traders all contribute their experience and contacts to the successful marketing of the products, and the next question is: - can the project achieve the same results by self marketing?

To analyse the distribution chain it is worth evaluating each of the links to assess their roles in the delivery of fish to the end user:

- **Farm Gate Sales:** These are very profitable when they can be achieved. It gives the consumer freshness and quality and has very low costs unless a delivery service is incorporated. It can be very successful where a farm is located near consumer centres and production is relatively low in comparison to potential market consumption.
- **In house marketing and local agents:** This is a growing trend for medium and large sized producers as it removes the wholesale activity and allows the producer to get much closer to the retail sector. However this has a cost and this must be justified by much higher prices received from the market. Estimates for Europe are currently at €400,000 per annum, but the margin over the wholesaler price is in excess of 36% and it has been shown to work very effectively for companies importing shrimp products into France. Local agents are less expensive as they are not direct company employees, but trust is a large part of this operation. Local agents normally receive 5%-10% of retail sales turnover.
- **Fresh Fish Auctions:** The traditional way of first sales for fish from the fishing industry and not often used by aquaculture producers.
- **Wholesale Markets:** Probably more than 50% of all aquaculture production enters the markets via the whole sale markets e.g. Rungis (France); Billingsgate (UK); etc. The advantage of these markets is they provide a central point where many traders sell under one roof, with fish supplies available from many different producers allowing buyers to be always able to find the fish they need and there are lower risks involved with supply and delivery. The disadvantage is that prices are considerably lower when dealing with the retail trade, but there are more risks and tighter controls on delivery schedules.



- **Logistical markets and non-specialist auctions:** This is a growing sector and in Germany the largest fish market is Frankfurt Airport. These centres have a wide range of facilities which can assist companies using in house marketing or local agents. Here there are specialist companies with clearing agents for imports,





cold-storage and freezing storage systems, logistic transport systems for distribution, and general management and quality control systems. The advantage to fish producers is that even relatively small quantities can be distributed over a large area. The transport system is able to “break” loads and mix deliveries – a pallet of fish may be travelling with meat from Argentina, flowers from Kenya, and pork sausages from Germany, and being delivered to 3 cities in a 50km radius.

- **The Processing Sector:** A major player in the industry which is often difficult for a producer to deal with unless for a small processor e.g. smoking house for salmon. The principle difficulties are due to continuity of quantities to keep processing lines working. Processing can be an in-house activity at the production point, but this is normally limited to first level processing e.g. peeling and freezing of prawns, filleting, etc. With traceability, the complexity of ensuring all materials are traceable when processing to finished products is problematic. Any additions and their ingredients have to be traceable and this is too much for a producer to handle unless they have extensive processing capabilities.
- **The Catering and Discount Retailers:** In the UK often referred to as “cash and carry” as they are predominately supplying the catering, hotel and business sector, and normal consumers are not allowed to buy in these stores. Often fish products are offered at discounts or in larger catering packs not suitable for normal households. However where the catering and restaurant sector is responsible for major fish sales e.g. Europe or USA, they sell a considerable volume of fish products and are an interesting outlet for companies that have sufficient output.
- **Multiple and Major Retailers:** In nearly all markets these large retailers account for over 60% of all grocery sales. In terms of fishery products their impact varies in different countries, as not all chains have fresh fish counters e.g. Germany, relying on frozen and ready meals to supply the consumers fish needs. In France the reverse is true where an estimated 80% of fish sales pass through the major retailers and all have excellent fresh fish counters. It is always difficult to deal with these massive organisations, which have very strict demands on delivery schedules, quality and packing. They also have very long payment terms of typically 90 to 120 days and if proposed as a marketing strategy as this “credit lag” needs to be included in the business plan and cash flow.
- **Specialist Retailers & Fishmongers:** Some say the days of the specialist retailer is over due to the supermarkets, while recent figures suggest that these specialists are on the increase. It depends which country is intended as a market. These outlets vary considerably: in a major city they are often located in a major shopping area, while in a more rural area they are often vehicle based with a regular schedule in local markets and housing areas. As they are predominately dealing with the end consumer, so prices are high but volumes are low. Quality and freshness are very important, and they need delivery and



storage facilities, though they service a necessary gap in the market. An interesting development in this sector has seen specialist retailers offer menu suggestions and “prepare while you wait” meal suggestions where the fish is filleted and then supplied with a ready sauce and cooking instructions.

- **Catering Sector and Restaurants:** Both are major players in the sales of fish products to the end consumer, but they are difficult to supply directly from the producer’s perspective unless based in the local market. The biggest problem is customers requirements vary on a daily basis and they do not want to carry large stocks of fish, so they need the catering retailer or wholesaler to act as a buffer and stock holder.

As can be seen from the diagram and the descriptions of the distribution chain, there are four main categories which identify the volumes handled by each link. These volumes are part of their respective business plans and cannot be altered. As part of the marketing study it is the analysts function to fit the proposed production inside these existing chains to an extent that maximises the return to the project, while minimizing the risks.

6.1. Export Issues

With fish and fish products being so internationally traded, and many of the best markets being outside of the country of production, there is always needed an analysis of export potential, and the regulations that will affect this exportation. In the next section the legislation affecting the major markets is highlighted, but here the hidden issues are discussed as they have production, processing and cost impacts on the marketing side.

To move a product from the point of production to an export market requires transportation, documentation, veterinarian inspection and certification, harbour and handling dues, containerization (probably reefers), shipping documents, customs clearance and taxation, regular internationally connecting shipping lines, insurance, freight charges, and delivery instructions and agents.

To go into all of these issues would entail another manual on its own, however a respected handling or shipping agent will be able to advise and provide details and costs of these services. The local fisheries department will also be able to assist in clarifying the local regulations needed, and normally can develop protocols for the hygiene and food safety legislation for the proposed market. These institutions are normally aware of the necessary legislation that will affect an export and will have copies of the relevant legislation. This information also available from the internet. **(see section 10 on legislation)**



6.2. Local markets and internal trade

In many respects, local markets offer the best solutions for marketing, but are obviously the most volatile when it comes to prices. Due to the limited volumes that can be handled by these markets, any increase in production will often lead to a decrease in price. It is also typical that if one operator is successful and is seen to make money others will try to follow, reducing prices on which a project was designed. There are very few opportunities where a local market is totally stable, even where local production is limited due to site restrictions. The traders will often import cheaper products at the expense of the local production. It will all come down to price.