



# TRADEX

## **WEATHERING THE RECESSION – Strategies for Seafood Wholesalers**

**Market Analysis**

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## **PREAMBLE**

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## WEATHERING THE RECESSION

### ***Introduction***

The current global economic downturn will inevitably affect most, if not all industries. Therefore seafood wholesalers need not ask if the recession in the USA will affect them – likely it has already – but rather how. Which products will consumers forsake and which ones will they continue to buy? What prices and margins can we hope to earn?

As important as identifying recessionary trends is how seafood wholesalers can respond to them. To this end, Tradex has composed a list of some major trends affecting seafood wholesalers during this recession and some strategies to address them.

We must remember that consumers make their decisions according to a price-value equation and not price alone. When different products offer the same perceived value to consumers, or when the consumer places a low value on a product's attributes, price is the dominant differentiator. But even in difficult economic times consumers will choose more expensive products whose value proposition speaks to them.

Therefore we begin with price-related trends, but have included value-related trends as well.

Also, consumers do not buy seafood in isolation of other protein choices. Therefore if seafood prices rise, substitution will not just occur between seafood species and products, but consumers may also abandon seafood in favor of beef, chicken or pork. Therefore we must consider the wider meat market in this analysis.

### ***Price-related trends***

1. Consumers will buy less protein overall. Meat and seafood will give way to staple items when budgets are tight. The meat industry estimates a per capita consumption of 218 pounds (lbs) in 2008, the lowest level since 1982 and a drop from the record figure of 221lbs in 2007. They expect this figure to plumb new depths in 2009 and 2010.

Consumption of seafood began to dip one year earlier: the National Marine Fisheries Service (NMFS) estimates US per capita seafood consumption at 16.3 lbs in 2007, down slightly from 16.5 lbs in 2006 and from its record of 16.6 lbs in 2004. It will likely fall further in 2008-2009.

2. Of the protein they buy, consumers will favor inexpensive choices such as chicken and pork over more expensive ones such as turkey, veal, seafood and especially beef.

Although it still has the largest market share, beef's share of the total protein market was declining long before this current recession: per capita

beef consumption in the USA is at its lowest point since the 1950s. Even during the relative boom in the protein market over the last few years, chicken sales have been steadily closing the gap with beef sales. Likely the recession will continue and even accelerate this trend.

3. During the bull years from 2003-2007, demand and prices for beef were high and farms expanded considerably. Now that prices have fallen and demand is evaporating, there is a lot of beef on the market and in the pipeline. As a result consumers will likely find excellent deals on beef in the short term. If consumers are able to buy this traditionally expensive protein at bargain prices, this will pressure suppliers of other expensive proteins such as seafood to lower their prices.

As with meats, the per capita consumption of seafood rose in the economic boom years of 2003-2007. Unlike meats, seafood production is relatively fixed. There are only so many fish to catch on the capture side and aquaculture production is not yet as industrialized, scalable and reactive to market forces as is meat production. Therefore seafood producers are more susceptible to losses when prices fall than are their meat counterparts.

4. When consumers review their budgets during difficult economic times, one of the first items they discard is restaurant meals. More so than the other protein choices, seafood is predominantly consumed in restaurants, so a decline in restaurant business will hit seafood disproportionately hard.

In place of restaurant meals, consumers will cook more meals at home, creating opportunities for retail protein sales. This includes seafood, although its retail market is less developed than that of other protein choices. For example there are fewer fish counters than meat ones and consumer studies routinely show consumers are less confident cooking fish at home than beef, chicken or pork.

Even as total sales decline, the share of retail products as a percentage of total protein sales will rise.

5. Apart from the marketing differences, retail purchases have less wastage factored into them than do restaurant purchases. Restaurants trash a significant proportion of their ingredients in the form of unfinished meals and wastage in the kitchen. For example for every 10 pounds of seafood sales to a restaurant, one-two pounds may end up as waste.

By contrast, consumers waste little when cooking at home.

This is not to judge one distribution channel from the other, but simply to say that a restaurant purchase of 10 pounds of seafood is closer to, for example, eight pounds bought for home consumption. As more of the market shifts to the retail channel, reduced wastage will trim sales figures.

6. Of the restaurant consumption that remains, there may be some substitution on the menu. Once a chef removes a poor selling protein

entrée (e.g. the lobster was too expensive) from the menu, he will not reinsert it for a while, if ever. Even if economic times improve and prices become manageable once again, lobster sales at that restaurant will remain zero until the chef reinserts it on the menu.

Seafood wholesalers must therefore not only focus on their overall sales, but also on preserving product penetration at their individual restaurant accounts. Absorbing losses in the short term will improve the chances that their products will be on more menus when the good times return.

7. For each protein type, cost-conscious consumers will favor its inexpensive products. In the beef market this trend has been around longer than the current recession, as every year consumers buy more chuck and rump cuts and fewer expensive cuts.

With seafood, this means consumers who buy loins may switch to fillets, those who buy fillets may switch to loinless fillets and so on. It will also likely mean a greater demand for frozen products relative to fresh ones.

8. Within the seafood category, substituting species is not as straightforward as substituting products. For example consumers choose halibut for its mild flavor and excellent flake, so even if its price becomes prohibitive, it is unlikely a cheaper whitefish such as sole or Pacific hake will assume its place on consumers' plates, as the eating quality of these fish does not compare to halibut.

Where substitution is possible, it will be more probable for species whose catches will fall in 2009, likely including halibut, Pacific cod, sockeye salmon and pollock. Species whose catches will rise in 2009 are Pacific soles and flounders and pink salmon.

### ***Value-related trends***

9. Sales of branded products have risen steadily in recent years, a trend that will likely continue in the current recession. A brand tells a story about quality, value and other less tangible characteristics. If the consumer trusts the brand to deliver on its story, he will return to it rather than risk ending up with a low value product from a supplier he trusts less. In some cases brands can differentiate their trustworthiness enough to earn a premium on their product.
10. Alternative branding strategies have thrived in recent years, securing demand for features such as:
  - Regional excellence, for example Kobe beef or Copper River salmon
  - Additive-free products
  - New cuts
  - Case-ready packaging

These alternative branding strategies create followings on their own, but are especially beneficial when combined with a company's own branding. If the consumer responds to the company's branding and to the alternative branding of the products it carries, the combination can create a tighter bond between consumer and supplier that has a better chance of surviving economic difficulties.

11. One successful alternative branding strategy deserves its own category: "natural" products. Sales of products with "natural" branding have jumped in recent years as consumers have identified with lifestyle, ecological or ethical benefits offered by these brands. The descriptors include:
- Organic
  - Natural
  - Free-range or cage-free chicken
  - Grass-fed beef
  - Humanely raised veal
  - Crate-free pork

So long as consumers continue to identify with these descriptors, "natural" branded products will attract a more loyal consumer base than products that sell purely on commodity attributes (mainly price).

## **Summary**

Seafood wholesalers can best weather the current economic downturn and position themselves well for the eventual recovery by:

- ✓ Develop a marketing strategy that stresses growth and margins from the retail sector and preserving product penetration at individual accounts in the restaurant sector.
- ✓ Similarly, the marketing strategy should use branding to preserve margins on more price-elastic products (e.g. organic, grass-fed beef or troll-caught chinook salmon), balanced by pragmatic losses on commodity items to preserve individual accounts.
- ✓ Where possible, promote brand attributes as solutions to the economic uncertainty faced by consumers.
- ✓ Reinforce this branding message with alternative branding attributes such as regional excellence, "additive-free" and "natural."
- ✓ If, for whatever reason, the retail marketing strategy is lacking: upgrade the branding, expand the distribution and sharpen the pricing. Do what is necessary to be competitive.