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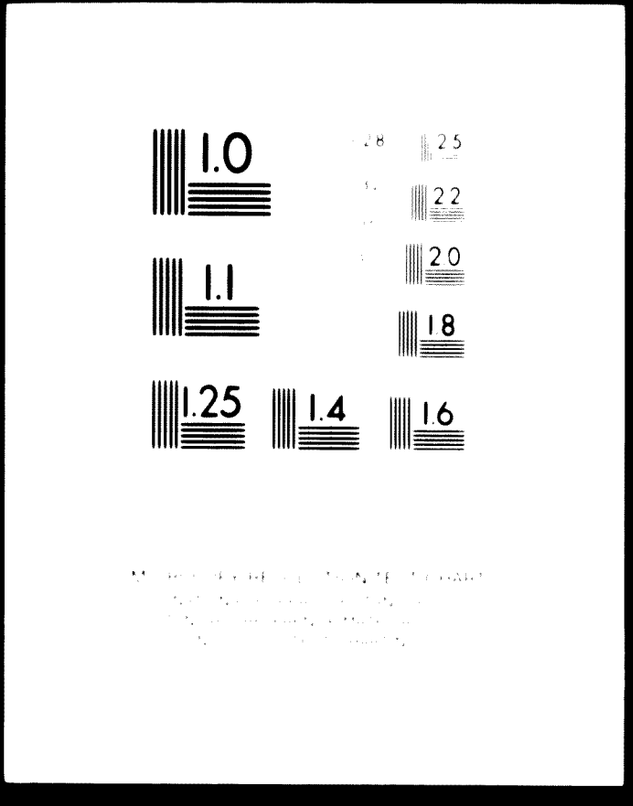
1 OF 3



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project report

project report

SALES PROMOTION OF ICELANDIC FISH PROCESSING INDUSTRY.

VOLUME I

DEVELOPING A MARKET STRATEGY

prepared for:

United Nations Industrial Development Organization,
Vienna, Austria.

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I

INTRODUCTION AND SUMMARY

A. INTRODUCTION

This report represents the conclusion of a seven-month study by Stevenson & Kellogg into the future of the Icelandic Fish Processing Industry. Specifically, we studied the "Sales Promotion of the Integrated Fish Processing Industry in Iceland" according to the terms of a contract between the United Nations Industrial Development Organization and Stevenson & Kellogg (UNIDO Contract # 69/12) .

At the outset of the study the contract terms called for a broad examination of all technical factors affecting the fish industry in Iceland. Following this assessment we were to carry out both statistical and qualitative analyses of all potential markets for Icelandic fish products. The original contract emphasised the promotion of "each variety and form of fish and fish products" in "all important geographic markets for fish and especially those readily accessible to Iceland". In effect, it called for a study of the world market potential of the entire Icelandic fish industry.

In support of such a broad programme it naturally demanded, also, an evaluation of the entire system required to support the market. This included catching, landing, processing, freezing, salting, warehousing and distributing. Operation of the fishing fleet as well as maintenance facilities and supplies were to be covered as were indirect processes such as herring and offal reduction.

On arrival in Iceland we discovered that a different emphasis was expected. Instead of a broad analysis of all facets of the fishing industry the Icelanders were anticipating a detailed study of only one section of the industry -- fish canning. In particular they were expecting a study of the market potential for the products of five

companies constituting the "Associated Canneries Inc." and two other large fish canning companies. Together these seven accounted for 95% of the productive capacity and virtually 100% of current exports.

Accordingly the original contract was amended. It still called for a general initial review of the industry, as in the original contract. However, special emphasis was to be placed on those factors which directly or indirectly affected the seven major processing plants.

B. SUMMARY AND RECOMMENDATIONS

We find that markets do exist for the products of Iceland's fish canning industry. These markets can be entered and exploited profitably. There are no built-in prejudices against Icelandic fish: the greatest obstacle to be overcome is the attitude of the fish industry in Iceland towards its markets. More specifically:

1. The principal markets for Icelandic canned fish and fish products are the U.S.A., U.K., France, and German Federal Republic.

2. The major species and products to be exploited initially in these markets are lumpfish caviar, sild sardines, shrimp, cod roe, brook trout, herring tid-bits and fillets.

3. Within five years of entering all these markets we envisage annual sales of about $10-1/2 million. Of this, almost $7 million is to the U.S.A.

4. Profits realized by the industry at the end of this five year period will approximate $3.3 million annually.

5. This high level of profit can be realized only if the industry is prepared to develop gourmet and value-added products to meet the market's needs. Concentration, as at present, on commodity items will

result in annual sales of about $3 million and profits of only $200,000. We strongly recommend this strategy of developing consumer-oriented value-added product.

6. Developing the products and markets for this consumer-oriented strategy will require outside financing. A maximum loan of $1,750,000 should be adequate. It could be repaid out of earnings (subject to Icelandic taxes) within five years.

7. This financing should be negotiated from two sources. The International Finance Corporation has indicated a provisional willingness to advance $1 million. The balance could be raised from domestic sources, pledging some of the projected $1,500,000 working capital as security.

8. The major constraint on further growth in profits is the availability of raw materials. As further sustainable supplies of lumpfish roe, sardines, shrimp and brook trout are proved, additional markets can be developed.

9. Plant capacity offers no major constraint. Minor investments in plant and equipment, estimated at less than $100,000 will enable the industry to reach the projected sales and profit goals.

10. Funds generated from the basic market strategies should be re-invested in developing other products. The objective should be to sell everything - waste nothing.

11. The major single obstacle to be overcome is the attitude of the industry towards its markets. Traditionally, Icelanders look upon the market as a place to sell what they produce. In future we strongly urge that they attempt to produce what the market wants.

12. This change in attitude should result from a market-oriented organization structure.

Details of the analyses leading to these recommendations follow. In Volume I we present an outline of how we developed the best market strategy. In Volume II, using the results of in-depth market interviews, we show how the Icelandic industry should implement the strategy.

II

ICELANDIC FISHING INDUSTRY IN PERSPECTIVE

In this chapter we review briefly the Icelandic fishing industry, its importance to the economy of the country, and the relative position of the processing industry.

A. THE ECONOMY OF ICELAND IS VERY DEPENDENT ON ITS FISHING INDUSTRY

A review of the economy of Iceland points out two basic facts: the heavy dependence on imports for most necessities, and the predominance of fish as a source of foreign exchange. The increasing standard of living of the Icelandic people depends primarily on maintaining a profitable fish export industry.

Recent statistics show that exports and imports approximate 40% of the Gross National Product. The more important imports include:

- Machinery (19%)
- Textiles (11%)
- Automobiles and Trucks (9%)
- Fuel Oil and Petroleum Products (6%)
- Base Metals (4%)
- Ships (4%)
- Metal Products (4%)
- Food Grains, Cereals, etc. (3%)

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Although over 30% of the population is employed in industry, only fishing and electric power production are large scale activities. The others, which include clothing manufacture, shoe manufacture, boat building and repair, book production and construction are oriented towards meeting domestic needs. Furthermore such manufacturing as does exist is heavily dependent on imported raw materials or semi-manufactured goods.

This heavy dependence on imports places a major burden on the fishing industry -- the prime source of foreign exchange earnings. In 1968 total exports amounted to 4,736 billion Icelandic kronur ($81.5 million U.S. [1]) Of this amount, fish products represented 4,111 billion kronur -- 86.8% of total exports. In the previous year fish exports of 4,716 billion kronur represented 90% of total exports.

Against this background it is apparent that any action by the government, by the industry, or by international agencies which will increase the value of fish exports will produce an immediate benefit to the economy.

B. ICELAND IS NOT A MAJOR FACTOR IN WORLD FISH TRADE

Although the fish industry is extremely important to Iceland's growth, Iceland is a relatively small factor in world trade of fish and fish products. In 1968 the world catch was 64.0 million metric tons, live weight. Of this total, only 600 thousand metric tons -- less than 1% -- was caught in Iceland. Furthermore, this share of world production is declining, due in no small measure to the recent failures of the herring catch. 1958 marked the beginning of

---

[1] Throughout this report we have used the rate of exchange prevailing after the devaluation in October 1968. One of the difficulties in reporting the growth of the economy is the recent devaluations. Prior to November 1967 1 krona was equivalent to $.023 (U.S.) From November 1967 to October 1968 parity was $.0172. Since October 1968 it has been $.0112. This last figure is the basis of our analysis.

the most recent "herring cycle". In that year Iceland's total catch of 580 thousand tons represented almost 1.8% of the world's catch. In 1965, at the height of the herring cycle, Iceland's catch of 1199 thousand tons was 2.25% of the world's catch.

Even among the countries of Western Europe, which represent Iceland's main competition for markets and species, Iceland is not a major factor, representing only 8% of the catch.

TABLE 1

NOMINAL CATCH (LIVE WEIGHT) BY COUNTRIES OF WESTERN EUROPE IN 1968

	Thousand Metric Tons	%
Belgium	68.4	.9
Denmark	1466.8	19.5
Faeroe Islands	166.3	2.2
Federal Republic of Germany	682.3	9.1
Iceland	600.7	8.0
Ireland	53.1	.7
Netherlands	323.3	4.3
Norway	2804.1	37.2
Sweden	315.3	4.2
United Kindgom	1040.3	13.9
TOTAL	7520.6	100.0

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As a result of this position, Iceland is unable, acting alone, to produce major changes in the world fish trade. Instead of leading in the marketing of fish as a commodity, Iceland must respond to changes resulting from the actions of other producers and marketers. The key to successful profitable growth lies in two directions: responding as quickly as possible to market changes and, specializing in certain markets or products where this is practicable.

C. ICELAND'S FISH INDUSTRY HAS DECLINED IN RECENT YEARS

Icelandic fisheries are mainly of two types: demersal or ground fish and herring. The category of ground fish includes cod, haddock, ling, catfish, ocean perch and saithe. However, as shown in Table 2 cod is by far the most important, representing over 62% of the ground-fish catch.

Herring is still the second major species. However the "herring cycle" which began in 1958 when the catch of this species was 107,000 metric tons, appears to be exhausted. At its peak in 1965 the herring catch exceeded 800,000 tons and provided the basis for a profitable reduction industry. The decline began in 1967, accelerated rapidly in 1968 and continued into 1969 although final statistics are not yet available.

During the same period from 1958 the catch of ground fish has declined steadily from over 473,000 tons to 373,000.

Partially offsetting these adverse factors has been the exploiting of other species. Shrimp, which currently commands a high price in world markets, is gaining in importance. Further growth may be expected from discovery of additional shrimping grounds outside the traditional inland waters. Lumpsucker -- the source of lumpsucker (or lumpfish) roe -- is in increasing demand as a source of caviar.

Despite these minor favourable factors the fish industry faces serious problems. Not only has the total catch fallen drastically, but fishing costs have soared. Since 1958 the fishing fleet has

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TABLE 2

TOTAL CATCH - BY SPECIES (LANDED WEIGHT)

	1968 Metric Tons	%	1967 Metric Tons	%
Demersal:				
Cod	234,653	62.8	197,180	60.2
Saithe	38,032	10.2	29,036	8.9
Haddock	34,024	9.2	38,163	11.7
Redfish	30,570	8.2	30,040	9.2
Catfish	8,972	2.4	10,278	3.2
Ling	8,697	2.3	7,533	2.3
Plaice	6,144	1.7	5,657	1.7
Tusk	4,873	1.3	2,722	.8
Halibut	1,053		1,039	
Angler	927		796	
Skate	603		388	
Lemon Sole	497	1.9	348	2.0
Whiting	362		501	
Blue Ling	199		191	
Witch	132		162	
Miscellaneous			2,198	
	373,017	100	326,234	100
Non-Demersal:				
Herring	142,820		461,533	
Capelin	78,167		97,165	
Lobster	2,489		2,731	
Shrimp	2,452		1,508	
Mackerel	352		105	
Lumpsucker	2,064		1,164	
	228,344		564,204	
TOTAL CATCH	601,361		890,438	

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increased by almost 51% -- from 54, 600 tons to 82, 250 tons. Thus the catch per ton, the measure of profitability in fishing, is much smaller than in earlier years. In addition, the costly equipment and machinery on board ship -- intended to increase the catch -- has further reduced profits. Thus the catch per unit of cost has fallen even more drastically than the catch per ton.

Another measure of the problem is seen in the productivity of the fishermen. In 1966 the catch per fisherman exceeded 200 metric tons -- one of the highest in Europe. In 1968 the catch was less than 100 tons. Insofar as fish prices are determined by world markets, little influenced by Icelandic conditions, this drop in the catch gives a clear picture of the reduction in earnings of the fishermen.

The fish processing industry was also hard hit by the lower catch. Of especial concern was the herring meal industry where the supply of raw materials fell from 473, 000 tons in 1967 to 132, 000 tons in 1968. Again the lower level of output does not completely reflect the impact on the economy. Since 1958 the fish meal industry has invested heavily in new plant and equipment. Thus the lower output means an even lower return on capital invested.

D. THE SEASONALITY OF THE CATCH AFFECTS THE DEVELOPMENT OF THE INDUSTRY

Efficient operation of processing plants and maintenance of profitable markets depends on maintaining a steady supply of fish through the system. To the extent that seasonal peaks exist they result in underutilization of resources or in marked fluctuations in prices. Both affect profits adversely.

Fishing takes place both from boats, in inland waters, and trawlers. The latter are mainly active in Icelandic waters but they also fish off Greenland and Newfoundland. Figure 1 shows that the trawler groundfish catch totalling 77, 822 tons in 1968 had relatively minor variations from month to month. The peak month in that year was May in which just over 9000 tons were landed. The low month was October with a catch slightly in excess of 4000 tons.

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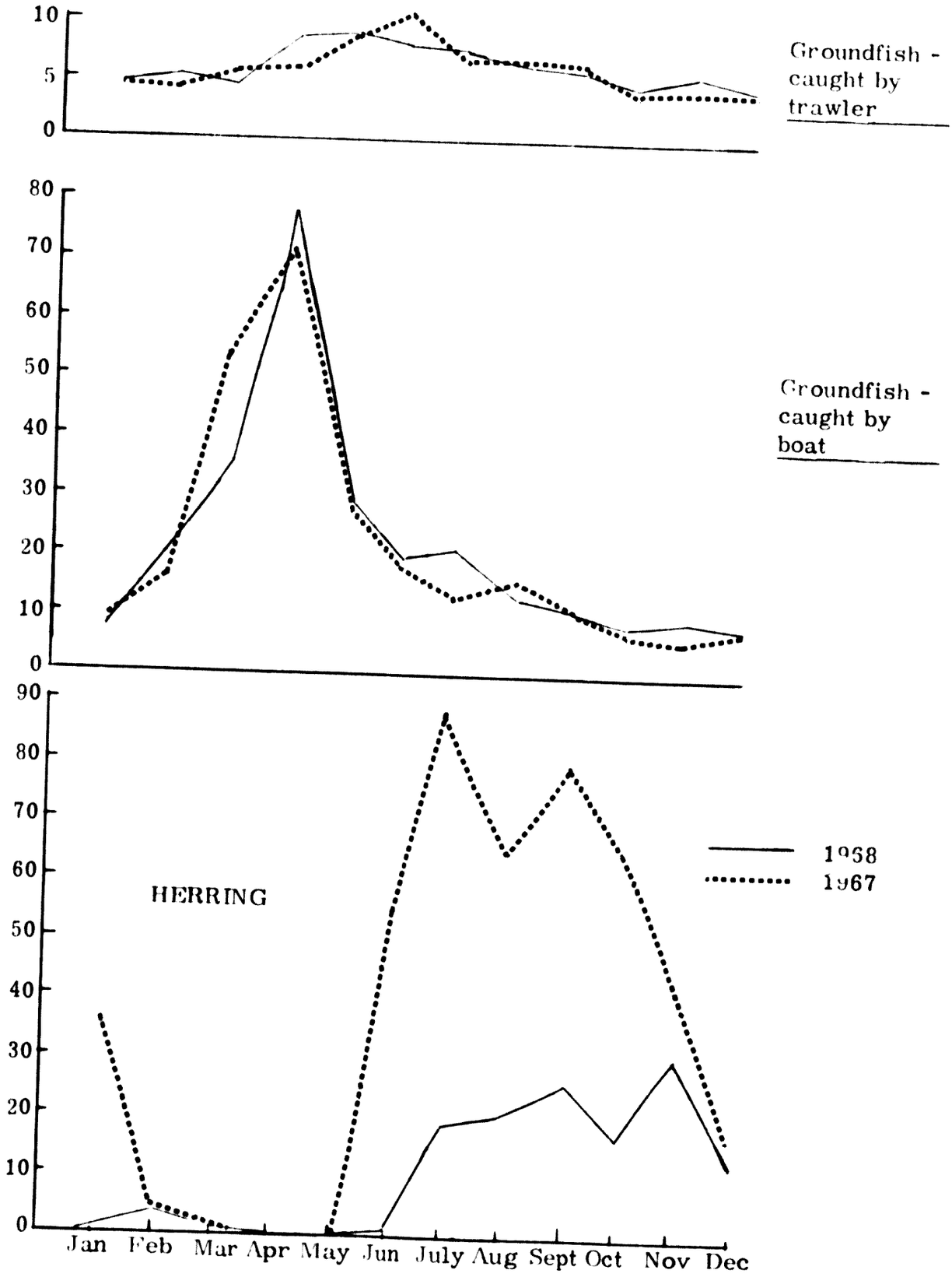
FIGURE 1

MONTHLY VARIATION IN CATCH - METRIC TONS



The trawler catch in 1967, although slightly less at 73,114 tons, showed a similar seasonal pattern.

Most of the catch, however, comes from the boats. Here the groundfish catch is highly seasonal as is seen in the second graph in Figure 1. In 1968 peak landings, in April, were 78,922 metric tons. The entire winter catch from January to May amounted to 187,962 tons -- 64.7% of the total groundfish catch of the boat fleet for the year.

Herring fishing is also highly seasonal. It is confined almost exclusively to the latter half of the year. Shrimp is caught at a fairly uniform rate of about 250 tons per month from October to April. Lobster and Mackerel landings peak during the summer months falling to a negligible quantity between November and April.

This seasonality has encouraged the development of fish freezing and processing. Only in this way can the Icelandic fish industry support its major markets on a year-round basis.

E. THE FISH CANNING INDUSTRY TAKES A SMALL PROPORTION OF THE CATCH

In 1968, over 202,000 tons of groundfish, 54% of the total catch, was frozen (Table 3). Salting, drying and reduction consumed a further 36%. Only 179 tons -- less than one tenth of one percent of the catch went into canning.

The principal uses for herring were reduction to meal and oil, iced, and salting. Canning took 1,266 tons and an additional quantity of salted herring. However in total, only about 4000 tons of the catch (landed weight) are ultimately processed into cans or airtight containers.

This relative unimportance of the fish processing industry is also reflected in the value of exports: approximately $1,110,000 for processed fish products out of total fish exports of $74,300,000 -- barely 15%.

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TABLE 3

ANALYSIS OF CATCH ACCORDING TO USE

	1968 Landed Weight (Metric Tons)	1967 Landed Weight (Metric Tons)
Ground Fish		
Frozen	202,273	159,980
Salted	115,178	70,454
Dried	15,174	59,396
Canned	179	17
Reduction	4,431	2,514
Domestic Consumption	7,003	8,540
Iced	28,812	25,355
Smoked	3	4
	373,017	326,262
Herring and Capelin		
Frozen	9,024	15,735
Salted	28,834	53,469
Canned	1,266	64
Reduction	132,631	473,240
Domestic Cons.	11	8
Iced	49,203	16,165
Smoked	18	15
	220,987	558,698
Lobster and Shrimp		
Frozen	4,825	4,154
Canned	113	83
Domestic Consumption	3	
	4,941	4,238

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TABLE 4

EXPORT VALUE OF FISH PRODUCTS
($, 000)

	1968	1967
Ground Fish		
Iced	3,900	3,170
Salted	12,350	10,439
Dried (Stockfish)	2,955	3,109
Frozen	25,950	20,47
Smoked	43	21
Cod and Redfish Meal	3,040	2,341
Cod and Redfish Oil	950	643
Roes - Salted and Frozen	1,835	1,950
Fresh Fish	10	-
Herring and Capelin		
Salted	10,430	9,134
Iced	798	55
Frozen	621	2,190
Fresh	757	277
Meal	4,150	16,657
Oil	2,432	9,737
Processed Fish & Fish Products	1,110	871
Shrimp and Lobster		
Frozen	2,966	2,945
TOTAL	74,297	

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In relation to the entire fish industry fish processing is insignificant. Even if the output were to increase tenfold it would still represent a small part of the fishing industry. Because of this, we can conclude that the over-all growth and development of the fishing industry will not be influenced by the growth plans of the canning industry. Consequently important facets of the industry such as: catching, storing and transfer at sea, special-purpose vessels, ship design and location, ship and motor repair and maintenance, purchase and supply of spare parts, equipment and gear, and education and training facilities will not be materially affected by the processing industry. We have concluded, therefore, that the catching and landing of fish -- and its delivery to the processing plants will be governed by the primary demands for fish -- freezing and salting.

III

THE ICELANDIC FISH PROCESSING INDUSTRY IN 1969

A. INTRODUCTION

In this chapter we examine in some detail the state of the Icelandic fish processing industry in 1969. Starting with a review of the canning plants and equipment we then examine present products and markets. We conclude by examining those institutional factors which influence the growth and development of the industry. This background material provides the starting point for the growth plans described in subsequent chapters.

B. THE INDUSTRY IS DOMINATED BY FIVE CANNERIES

The fish processing industry comprises sixteen independent canning plants located primarily in the west and north of Iceland, as shown on the accompanying map (Table 5). The largest of these plants, owned by K. Jonsson at Akureyri, is capable of producing 110,000 cans of fish and fish products daily -- on a 10-hour shift[1]. The second largest, in Langeyri, has a capacity of about 77,000, and three others can each produce about 60,000 cans (Table 6). These latter companies are the "North Star" Ltd. in Hafnarfjord, ORA Ltd. in Kopavogur -- both located a few miles south of Reykjavik -- and the Harald Bodvarsson Co. in Akranes, north-west of Reykjavik. These five companies dominate the industry. Together they represent 86.9% of Iceland's processing capacity.

Only two other companies are of real consequence in planning the development of export markets for the industry. Both have a capacity of about 20,000 cans per day. One is the "Arctic" fish processing plant at Akranes. The other is the State Herring Factory in Siglufjord.

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[1] A more detailed discussion of the capacity of each major plant is presented in Chapter VII. The capacity of each plant is determined both by the size of cans and the rate at which the machine fills and/or seals them. The size of cans on which this section is based are listed at the foot of Table 6, page 18.

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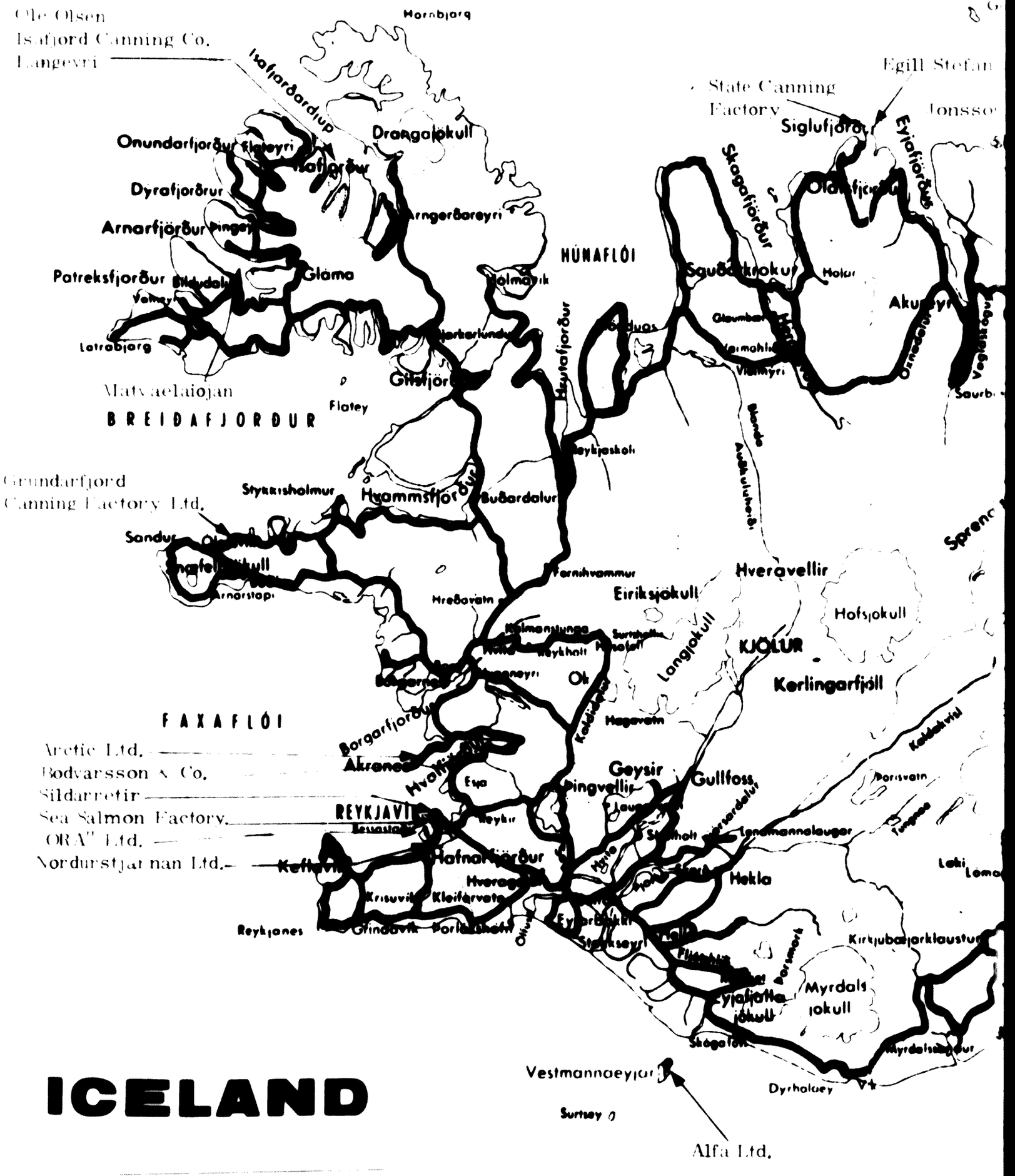

ICELAND

SECTION 1

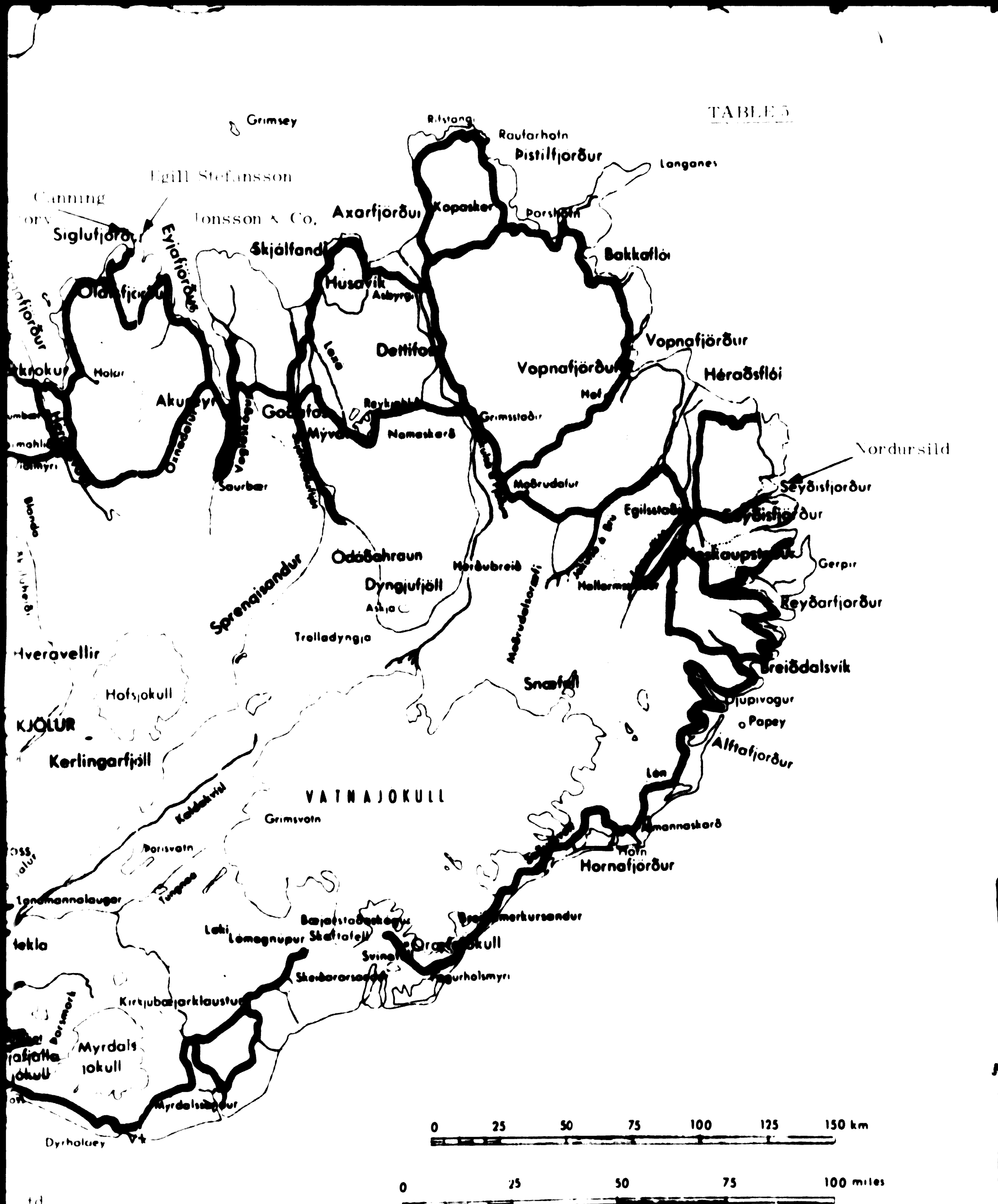
TABLE 5
Grimsey
Raufarhofn
Pistilfjörður
Langanes
Egill Stefansson
Jonsson & Co.
Axarfjörður
Kopasker
Siglufjörður
Eyjafjörður
Skjálfandi
Bakkaflói
Husavik
Dettifoss
Vopnafjörður
Héraðsflói
Holar
Akureyri
Hof
Grimsstaðir
Namaskarð
Nordursild
Saurbær
Moðrudalur
Seyðisfjörður
Gerpir
Reyðarfjörður
Ódáðahraun
Herðubreið
Dyngjufjöll
Sprengisandur
Trolladyngja
Hveravellir
Hofsjokull
Snæfell
Breiðdalsvik
Djupivogur
Papey
KJOLUR
Kerlingarfjöll
Alftafjörður
Lón
VATNAJOKULL
Grimsvotn
Hornafjörður
Landmannalaugar
Hekla
Lómagnupur
Skaftafell
Kirkjubæjarklaustur
Myrdals
jokull
Dyrholaey
0 25 50 75 100 125 150 km
0 25 50 75 100 miles

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SECTION 2

TABLE 6

SUMMARY OF PRODUCTION AND CAPACITY DATA

FOR THE ICELANDIC CANNING INDUSTRY

COMPANY	LOCATION	Cod Roe	Caviar	Shrimp	Cod Liver	Sardines	Tid-Bits	Brook Trout	Kipper Snack	Herring Roe	Fish Balls	Sea Salmon	Prepared Herring	Smoked Fish	Herring Fillets in Wine Sauce	Appertized Products	TOTAL	% of Industry Total	Total Capacity (1000 Units/Day)
North Star Ltd.	Nordurstjarnan								60,000 T/D	60,000 T/D							60,000 T/D	14.0	
ORA" Ltd.	Kopavogur	20,000 T/D					10,000 T/D	10,000 T/D			20,000 T/D					Variable	60,000 T/D	14.0	
Sea-Salmon Factory	Reykjavik											10,000 T/D					10,000 T/D	2.3	10.5
Sildarrettir S. E. F.	Reykjavik												Small	Small			Small		Small
Bodvarsson & Co.	Akranes	15,000 T/D			30,000 T/D						15,000 T/D					Variable	60,000 T/D	14.0	19.1
Arctic Ltd.	Akranes	5,000 T/D	15,000 J/D		Not Proved											Variable	20,000 T/D	4.7	4.7
Grundarfjord Canning Factory Ltd.	Grundarfjord			Not Proved	Not Proved												Not Proved		Not Proved
Matvaelaiojan Ltd.	Bildudal			1,000 KG/D												Variable	1,000 KG/D	0.2	1.0
Ole Olsen	Isafjord			1,000 KG/D												Variable	1,000 KG/D	0.2	1.0
Isafjord Canning Co.	Isafjord			200 KG/D							Small					Small	5,000 T/D	2.0	.2
Langevri	Langevri	10,000 T/D	15,000 J/D	2,400 KG/D	20,000 T/D	30,000 T/D											77,400 T/D	18.1	15.5
State Herring Factory	Siglufjord						10,000 T/D								10,000 T/D		20,000 T/D	4.7	2.1
Egill Stefansson	Siglufjord								Small					Small			5,000 T/D	2.0	.5
Jonsson & Co.	Akureyri					40,000 T/D	40,000 T/D		Not Proved		20,000 T/D	Not Proved			10,000 T/D	Variable	110,000 T/D	25.8	23.7
Nordursild (Not Operating)	Seydisfjord												Not Proved				Not Proved		
"Alfa" Ltd. (Not Operating)	Vestmannaeyjar	Not Proved			Not Proved												Not Proved		
TOTAL		30,000 T/D	30,000 J/D	4,600 KG/D	30,000 T/D	70,000 T/D	60,000 T/D	10,000 T/D	60,000 T/D	60,000 T/D	55,000 T/D	10,000 T/D	Small	Small	20,000 T/D	Variable	429,400 T/D		130.8
% by "ASSOCIATED"		100%	100%	52%	100%	100%	83%	100%	0%	0%	100%	0%	0%	0%	50%	%			64%

TOTAL CAPACITY OF "ASSOCIATED CANNERIES INC." 327,4000 UNITS/DAY
% OF INDUSTRY TOTAL 78%

MEMBERS OF "ASSOCIATED CANNERIES INC."

PRESENT PRODUCTS AND SIZE OF CONTAINERS

Cod Roe	-	21 oz tin	Herring Roe	-	21 oz tin
Caviar	-	100 gram jar	Fish Balls	-	8 oz tin
Cod Liver	-	125 gram tin	Sea Salmon	-	3-3/4 oz tin
Sardines	-	3-3/4 oz tin	Prepared Herring	-	3-3/4 oz tin
Tid-Bits	-	3-3/4 oz tin	Smoked Fish	-	3-3/4 oz tin
Brook Trout	-	10 oz tin	Herring Fillets	-	9 oz tin
Kipper Snacks	-	3-1/4 oz tin			

LEGEND

T/D	Tins Per Day
J/D	Jars Per Day
KG/D	Kilograms Per Day
U/D	Units Per Day

None of the remaining plants has a capacity exceeding 10,000 cans per day. The Sildarrettir plant in Reykjavik is producing prepared herring and smoked fish in consumer packages for the domestic market. The canning factory at Grundarfjord is capable of processing hand-peeled shrimp and cod liver. Because of the current marketing problems its capacity has not yet been tested. However it is believed to approximate 5000 cans. Machine peeled shrimp as well as meat and vegetables are processed at the Matvœlaidjan plant in Bildudal and at the Olsen plant in Isafjord. In both, the maximum output from one shift approaches 1000 kilograms. The Isafjord Canning Company, in the same location as the Olsen plant, processes hand-peeled shrimp as well as fishballs and vegetables on a small scale for the domestic market. Output is limited to 200 kilograms per shift. The only other processing plant in operation -- the Egill Stefansson factory in Siglufjord -- is capable of producing up to 5000 cans daily of kipper snacks and smoked herring.

The two remaining factories: in Seydisfirdi and Vestmannaeyjum are not yet in operation. It is intended that they will produce various herring products and pressed roes respectively.

In projecting the development of the industry we are aware of two dominant characteristics. The first is that, of the sixteen processing plants, seven account for over 95% of capacity. The other is that "ORA" Ltd, Haraldur Bodvarsson Ltd., "Arctic" Ltd., the Langeyri Canning & Freezing Plant and the K. Jonsson Co. in Akureyri propose joining together to form "Associated Canneries Inc". Its stated objective is to market the output of these five companies. However, it has been agreed that any other company could join this group to take advantage of export potential.

The only major companies outside this agreement at present are "North Star" Ltd. and the State Herring-Canning Factory in Siglufjord. The former company has been operating under partial ownership and with a marketing contract with a Norwegian fish processing firm. Consequently there was not the same incentive to associate with other Icelandic firms. The State Canning Factory is prepared to join the Association when markets have been developed. However, because of its dependence on government funds, it is not in a position to participate in the development stage.

C. HERRING TID-BITS AND FILLETS ARE THE MAJOR PRODUCTS

Herring based products: tid-bits, fillets, kippers and herring roes provided the bulk of exports of canned fish in recent years. However sardines, sea salmon, cod roes, cod liver, brook trout, lumpfish caviar and shrimp made important contributions. In addition, although a negligible quantity was produced, the industry is capable of processing fishballs, smoked fish and herring roe.

An analysis of exports, showing this relative importance of herring, is presented in Table 7 below.

TABLE 7

EXPORTS OF PROCESSED FISH IN AIRTIGHT CONTAINERS
(TONS)

Product	1965	1966	1967
Herring Tid-Bits	163	317	355
Herring Fillets	5	11	151
Kippers		173	
Sardines	116	42	
Canned Herring	67	147	
Soft Herring Roe		3	
Sea Salmon	28	11	
Cod Roe	187	238	125
Cod Liver	2		1
Brook Trout	45	43	17
Lumpfish Caviar	15	27	17
Shrimp	57	13	30
TOTAL	685	1025	696

The value of these exports was:

1965:	32,640,000 kr
1966:	45,509,000 kr
1967:	39,128,000 kr

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The detailed analysis of exports in 1968 is not available. However, the total showed a marked increase to 1211 tons. Of this, a major share was again attributable to herring. Lumpfish caviar also showed a considerable increase due to its promotion in France.

Although exports in the last four years show considerable fluctuation, they do, nevertheless show a major gain over previous years. As shown in Figure 2, which portrays the value of these exports, this surge is largely attributable to the boom in canned herring products. Between 1958 and 1965 exports of processed fish in airtight containers (mostly in cans) had fluctuated around 350 tons per year. Before the herring cycle, in the early 1950's, total sales were frequently less than 100 tons per year. In the 1940's, due partly to the war, and also to the previous herring cycle, exports had fluctuated about 400 tons a year. In 1948 they reached a sharp peak of 950 tons which was not surpassed until 1966. Prior to 1940 sales seldom reached 100 tons per year.

D. THE INDUSTRY IS OPERATING MUCH BELOW CAPACITY

The total capacity of the 16 canning plants is estimated to be about 429,000 cans per 10-hour shift. On the conservative assumption that the plants should operate for at least 200 days per year, the capacity of the industry is about 86 million cans per year. This is equivalent to a total annual production of 10,500 tons, product weight. This level may not, in fact, be reached because of a shortage of some raw materials. Nevertheless, it gives a good indication of the present underutilization of plant and equipment. A more detailed discussion of plant capacities and constraints follows in Chapter VII.

E. THE INDUSTRY IS VERY DEPENDENT ON SALES TO THE U.S.S.R.

Increased exports of canned fish and fish products have resulted largely from increased sales of canned herring and herring products to the U.S.S.R. This is reflected in the following table showing the destination of exports from 1965 to 1967.

FIGURE 2

EXPORT TRENDS OF PRESERVED & PREPARED FISH PRODUCTS

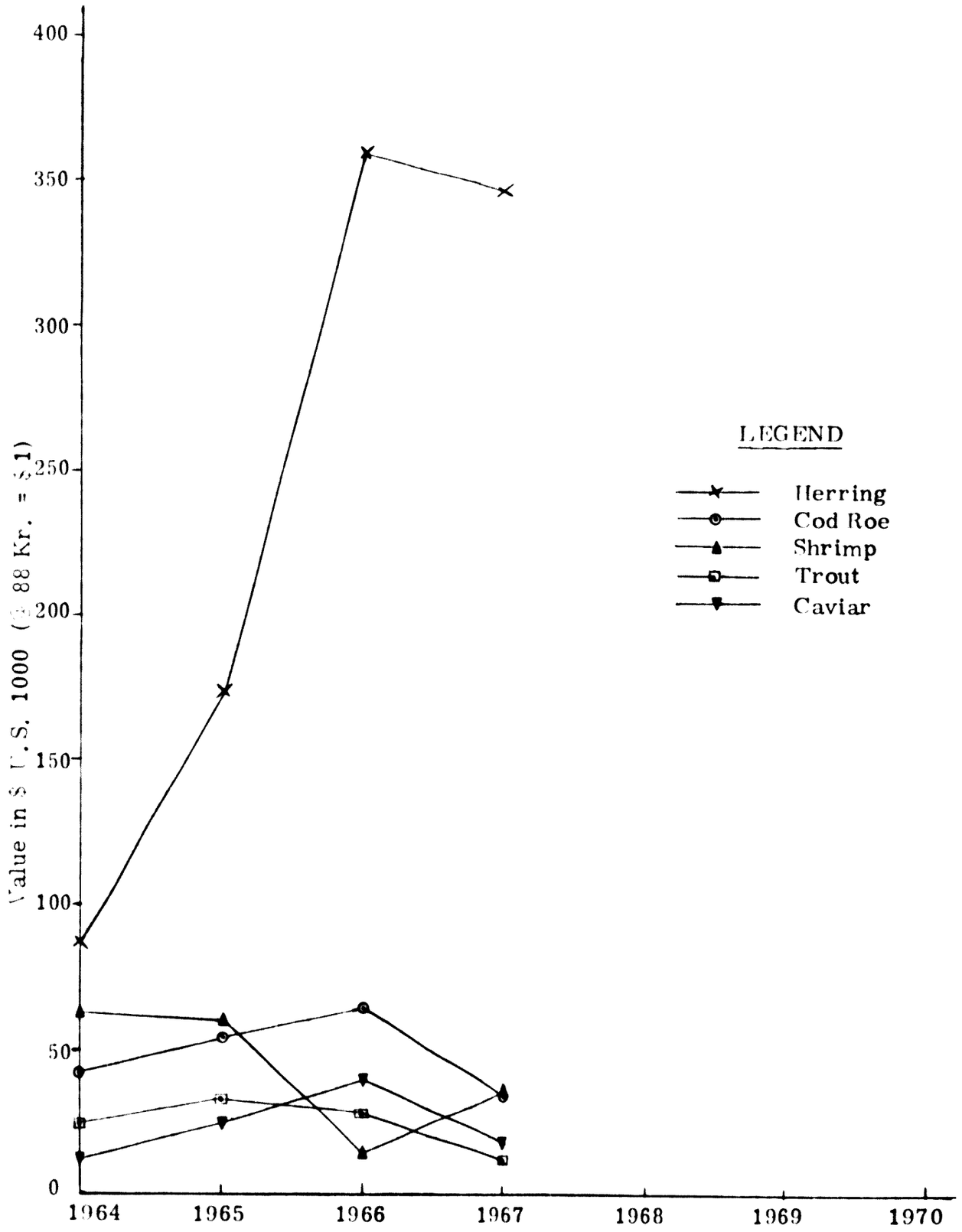

TABLE 8

DESTINATION OF EXPORTS

DESTINATION	QUANTITY - METRIC TONS 1965	1966	1967
Czechoslovakia	27	23	12
Denmark	21	5	4
Finland	26	14	30
France	20	15	11
Federal Republic of Germany	17	14	9
Hungary	4	10	-
Rumania	42	14	-
United Kingdom	191	243	125
U. S. A.	26	211	20
U. S. S. R.	306	470	484
Others	5	6	1
TOTAL	685	1025	696

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The second major market is cod roe in the U.K. These were the only established markets before 1968. Since then, lumpfish caviar has gained a foothold in France.

Dependence on essentially these two products in these two markets has serious implications for the industry. Sales to Russia have been negotiated under the terms of a bilateral trade agreement. Under its terms Iceland and Russia agree to purchase, in total, a certain quantity of goods from each other. However, neither the quantity nor the price of any particular commodity is specified. Consequently it is up to individual companies in Iceland to negotiate with Prodentork - the only Russian agency importing fish. The difference in bargaining strength is extreme: the Icelandic fish canneries must export to survive, Prodentork can purchase fish from any of a number of countries, and from many companies within those countries. The resulting low prices have resulted in only marginal profits and, frequently in a loss.

This is illustrated by the 1969 contract. The negotiated price was $16.20 (U.S.) for 100 3-3/4 ounce cans of herring. On the assumption of a price of $30 per barrel of 100 kilograms (net weight) of headless sugar-cured herring this would have yielded a contribution to profit and overhead of about $2.55. In addition to providing the necessary profit and return on capital this contribution is necessary to cover taxes, benefits, oil, electricity, indirect supplies and materials, interest payments and insurance.

Subsequently, at the time of buying the herring for canning, the price had risen to $70.75 per barrel. Even allowing for the rebate of 12.6% (10.6% export tax, 2% commission for the trade board) this resulted in total direct production costs of $17.85. Thus, not only was there no contribution to profit and overhead, the price did not cover the direct costs of raw material, packaging and labour.

Another major disadvantage in depending so heavily on sales to the U.S.S.R. is the lack of control over the marketing system. Because of this, the Icelanders have no direct influence over the price for which their goods are sold at the retail level. In turn, this means foregoing the higher profits that result from persuading

the customer to pay a higher price for a superior product.[1]

A second implication of this lack of control is the potential loss of the market at any time. Iceland is selling its canned fish to Russia as a commodity. Price is the principal point of negotiation. Consequently a lower-priced supplier might displace Icelandic products at any time. Such lack of control effectively discourages any attempt to plan the growth of the industry.

Dependence on the sale of cod roe to the U.K. also presents a risk. Again the product is sold in a commodity form on the basis of price. In the absence of any control of the market a decision by a U.K. buyer to purchase elsewhere would cripple the industry.

F. MANY FACTORS WITHIN ICELAND AFFECT THE GROWTH OF THE INDUSTRY

The prime purpose of this study was to assess the market potential and develop a marketing strategy. But markets are not the only influence on the growth of the industry. There are other factors within Iceland which must be considered. Some of these are controlled by the Industry or by the Government. Others, such as the "herring cycle" appear both uncontrollable and unpredictable.

1. Availability of Raw Materials

Present exports of the processing plants are based on the catch of herring, sardines, cod, lumpfish, brook trout and shrimp. Other species which might be promoted include clams and (Norway) lobsters.

Many factors affect the availability of each of these species. Herring, as discussed earlier, appears subject to cycles of up to 11 years duration. Quotas and

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[1] The importance of capitalizing on this market potential is explored in Chapter IV.

regulation of the annual catch affect other species. Still others have been subjected to over-fishing, and unless corrective measures are instituted, may not be able to sustain a commercial operation.

An important factor affecting the availability and price of raw materials is the relationship between fishing fleets, the fish processing industry and government. As pointed out earlier, the total catch declined seriously in 1968 and 1969. Naturally this has resulted in a slowdown in the construction of new fishing boats. In 1968 only 8 new vessels were constructed -- a total of 1,472 tons, less than 2% of the total capacity.

Fishing vessels are privately owned. Decisions to invest in additional capacity are based on the economic outlook for the industry. Obviously a decline in the catch, as experienced in recent years, reduces the expected return on investment from new vessels. Construction will slow down. In turn, the number of vessels and crews putting to sea will decrease. As catches increase the cycle will reverse. In turn, under normal economic pressures costs would rise, prices would follow and Iceland's competitive position would be threatened.

The Icelandic government and industry recognizes the danger in permitting such uncontrolled fluctuations. They also recognize the need to keep a steady supply of ships and crews. Accordingly, the price paid to fishermen for the major species is set by an industry board. This price eliminates the unequal bargaining strength of fishermen and processors. In the longer term it ensures an adequate supply of fish for the processors, in the short term it offers a reasonable income to the boat owners and crews.

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Before preparing marketing plans we examined the long-run availability of each species. Our conclusions are based on discussions with knowledgeable people in the Icelandic Government and in the fishing industry. Of especial help was Mr. Mar Elisson, Director of Fisheries in Reykjavik. Our conclusions also reflect our analysis of any available statistics.

Based on this study, we believe that marketing plans should be based on the following guidelines:

a. Herring

An acute shortage of herring hit the canning industry in 1969. In normal years the State Canning Factory would buy about 6000-100 kilogram barrels of headless, sugar cured herring. This year it was able to buy only 2400 barrels -- and at highly inflated prices.

The mainstay of the Icelandic herring industry has been the large fat herring (20-24% fat content) which spawns off the Norwegian coast. Formerly caught in Icelandic waters, this species has virtually vanished from this area.

Icelandic fishermen are now exploring other fishing grounds and, in 1969, enjoyed some success in the North Sea. Despite this move to other waters however, only 500 tons of edible herring was landed in 1969.

The lowest annual catch of herring in recent years was 32,000 tons in 1952. And, much of this was suitable only for reduction. Forecasts for the future are unreliable. However there is a general opinion that the current drop is temporary. The Icelanders are already taking further steps to fish in more remote waters. Seiners are

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being fitted out for long distance fishing trips to the east coast of Canada and U.S.A. and to Spitzbergen. These moves, coupled with the skill of the Icelandic crews and skippers, complemented by a quota of 50,000 tons annual landed weight from inshore waters, should allow a marked increase in herring canning.

Despite these corrective measures there is still some uncertainty about the quantity of raw material that will be available. Furthermore the large fluctuations make precise planning difficult, if not impossible. Our market strategy will reflect this uncertainty.

b. Sardines

Present knowledge and technology indicate that the full development of export markets might be limited by a shortage of sardines.

Until a few years ago the small herring was caught for reduction. No restrictions were imposed. As a result stocks were depleted and the number of herring returning to spawn dropped sharply.

Corrective measures have since been introduced. There is a complete ban on catching small herring, less than 25 cms, except for canning purposes. Also, the Minister has the authority to prohibit all fishing on the sardine spawning grounds during the spawning season. It is felt that when the stocks have been restored to the pre-1966 level they could support an annual catch of at least 2500 tons.

This catch may be increased still further. At the present time sardine fishing is limited to two locations: Sudavik in Isafjord and Akureyri. They are known to exist also in other fjords along the

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northern coast. However, the quantity has not been assessed, nor has the profitability of catching in these other areas and transporting to existing plants. Consequently, at the present time, we will assume a maximum sustainable catch of about 2500 tons once stocks are restored. This is significantly higher than recent year's production:

1963	-	130 tons
1964	-	74 tons
1965	-	160 tons
1966	-	95 tons
1967	-	25 tons
1968	-	50 tons

Consequently any market plan calling for a major increase in sardine production should assume a gradual build-up. This will allow time for the fishing crews and Government officials to respond to any problems which might occur at the higher production levels.

c. Brook Trout

This highly valued species is in very limited supply. The only significant source is Lake Thingvellir. Even here stocks have been severely depleted as a result of an accident when the lake was being dammed.

The Department of Agriculture is exploring ways of increasing stocks. Heating the lake -- using the heat from thermal springs -- is one approach. It should speed up the growth of the trout. Another is the possibility of seeding trout into other lakes with similar characteristics. This is now being tested.

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Despite these moves, it will be some years before there is a marked increase in the sustainable catch. In the meantime we will assume the catch is limited to the present quota of 40 tons annually.

d. Lumpfish Roe

The sustainable production level of lumpfish roe is not known. During the last three years it has been:

1966	-	1000 tons
1967	-	500 tons
1968	-	600 tons

and there is no evidence of any depletion in the number of lumpfish returning to Icelandic waters each year. The high catch in 1966 was attributable to higher world prices. Also, in 1967 and 1968 the lumpfishing was hindered by ice in the northern fjords.

Iceland is thought to be the world's only major source of lumpfish. At the present time annual exports of roe in 100 gram jars amounts to only about 20 tons. The balance -- 400 or 500 tons -- is exported in barrels primarily to Denmark and Germany. If Iceland were in a position to develop a market for caviar in jars the bulk of the annual production -- at least 500 tons on a sustainable basis -- would be available to the Icelandic canning industry.

e. Shrimp

Shrimp fishing is limited at present to a small number of fjords on the north-west coast. In all such areas permits are required which specify the number of fishing days and the maximum weekly catch per boat. No maximum applies to

the number of boats but an agreement with the captains does, in effect, impose a limit. The present limit in the Isafjardardjup (the fjord at Isafjord) is 26.

Under these regulations, the catch in recent years has averaged 2000 tons. Of this total, almost 1500 tons is caught adjacent to the Langeyri plant.

Future sustainable catches are expected to be much greater. Until 1969, the absence of developed markets for Icelandic shrimp had discouraged further exploration. More recently however, boats from Langeyri have successfully caught shrimp in deeper off-shore waters. Also, shrimp and other molluscs are known to exist in other fjords in commercial quantities.

All of the above raw materials can be purchased directly by the canning companies from the boats. Shrimp, sardines and trout especially are delivered fresh to the canners directly from the boats. Lumpfish roe and salted and spiced herring can be bought from the fishing vessels but the largest quantity comes from the processing plants.

Other major products of the canning industry and their respective raw materials are:

Products	Raw Materials
Canned cod roe	Frozen cod roe blocks
Canned kippers	Frozen herring blocks
	Fresh herring fillets
Fishballs, puddings, etc.	Frozen fish blocks
	Fresh fish fillets
	Fresh fish liver

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In all cases the canners buy these raw materials from the fish processing plants.

2. Icelandic Taxes and Tariffs

The Icelandic fish canning industry is, like any industry, subject to a variety of taxes on income, payroll and property. Most of these, with minor exceptions, are quite customary in Western Europe and North America. Consequently they do not place the Icelandic fish processing industry at a serious disadvantage vis-à-vis its major competitors. Details of the more important of these taxes and levies are summarised below.

a. Production Tax

The proceeds of this tax accrue to the municipality where the plant is located. The rate is set by the municipality. Consequently it varies from one location to another. Currently it lies between 0.5% and 1.5%. This tax, "alstaurgeld", is imposed on the resources used by a company. It is assessed as a percentage of -- the total costs of production less any loss incurred by the company. It is levied on all companies as long as the total costs of production exceed any loss which might be incurred.

b. Income Tax

A company is allowed to set aside 25% of its net income for reserves. The remaining 75% is currently taxed at 50%. The "current" rate is stressed in this section because we understand that the Icelandic Government is reviewing its tax regulations, especially those pertaining to depreciation.

c. Import Tax on Machinery

In order to conserve its holdings of foreign exchange, the Government of Iceland has imposed a tax of 25% on imports of machinery. The fishing industry has gained a concession from this high rate: its machinery must bear a tax of only 10%.

d. Import Duties on Production Materials

An importer of materials used in production, e.g. aluminum for cans, pays an import duty of 10% on the value of the imports. To the extent that this material is re-exported the duty is refunded. It is estimated at the present time that 90% of canning materials go into export products. The net import duty paid therefore is only 1%.

As stated earlier, although these taxes are a cost of doing business, their impact on the canning industry is relatively neutral vis-à-vis its foreign competitors. This is not the case however, with the Export Tax which places the Icelandic canning industry at a severe disadvantage. This is examined below.

e. Export Tax

The Act reads essentially as follows:

A levy of kr 1360 per exported ton (metric) nett of quick frozen fillets, processed salt fish, quick frozen roe, salt fish fillets, salted roes, shellfish ---and canned sea products. If this tax exceeds 5% f.o.b. value of the product it can be reduced to the 5% level. To this levy of 1360 kr there is added a further impost of 2.4% on the value (net f.o.b.) of the product.

The proceeds of this tax are used to promote the fish industry: the Fisheries Development Fund, and as a source of loans to boat owners and fish processors.

While we agree that such funds are necessary, and do not strongly question the need to raise them from the fishing industry, we do question the present procedure. The effect of imposing a tax on the f.o.b. price is to increase the dutiable value of Icelandic goods in the major markets. This is especially significant in France where German fish products are duty free. However, in all markets it puts Icelandic goods at a competitive disadvantage. Especially important is the fact that it discourages value-added canned fish products which, as shown in the next chapter, are the key to a profitable industry.

3. Production Costs and Efficiency

We examined in detail the processes at the following six plants:

- The Langeyri Canning and Freezing Plant, Isafjord
- The Food Producing Plant "ORA" Ltd., Kopavogur
- The K. Jonsson & Co. Canning Factory Ltd. Akureyri
- The Canning Factory Haraldur Bodvarsson & Co., Akranes
- The Fish Processing Plant "Arctic" Ltd., Akranes
- Nordurstjarnan, h/f (North Star Ltd.) Hafnarfjord.

A detailed analysis of production costs is presented in a later chapter where we examine the potential

profitability of the industry. In summary however we feel that:

- the technical capabilities of the plants and their management is high;

- productivity is at least equal to, and in many cases much superior to that of other countries;

- the plants have modern machines which have been maintained in excellent condition;

- only one plant has limited space, requiring machines to be rearranged for different products. All others had sufficient space for all current operations and for future expansion to capacity operation.

4. Availability of Personnel

A major factor in planning the growth of the industry is the availability of personnel -- technical, marketing and managerial. Because of its importance we spent considerable time interviewing key people in the Industry. Not only were we gaining their opinions of the availability of personnel to operate the plants. We were even more concerned about their ability to market their products and manage their enterprises. In summary, we reached the following conclusions:

a. Technical

This category includes fishermen, and processing plant personnel. We found them without exception, to be very able. The fishermen are among the most productive in Europe.

In 1966 the catch exceeded 200 tons per fisherman. The decline in 1968 to 100 tons reflected the change in herring habits. Since this decline became evident, fishing crews have taken remedial action. They are exploring more remote waters -- off Greenland, Norway and in the North Sea. They are also test fishing for more valuable species such as shrimps in Icelandic waters. We believe their skill and enterprise will be rewarded.

Fish canning plants are also well run. Productivity of Icelandic personnel is among the highest in the North Atlantic. Furthermore, there is an adequate supply of personnel to meet all probable increases in demand. In fact, more stable employment, coupled with the incentive programme would expand rapidly the available labour supply.

Additional technical facilities are available at the Fisheries Research Institute. They would assist in catching, processing, canning and even recipe-formulation and product development.

b. Marketing

There is marked shortage of marketing skills within the industry. This is the source of most of the industry's problems. This shortage is reflected in the Icelanders' view towards his markets:

- He believes that his better product should automatically displace other products.

- He does not believe in tailoring his product or his approach to suit specific markets.

- He views price as being directly related to cost. He does not see it as reflecting the "value" a potential purchaser puts on the product.

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c. Managerial

The lack of marketing skills and know-how has led to an unbalanced view of the needs of the industry. A shortage of markets was felt to be the result of high prices. In turn this led to major investments in plant and equipment which is -- as pointed out earlier -- largely idle.

Technically the plants are well operated and maintained. In this respect management is capable. On the other hand the willingness to invest several million dollars, without a thorough study of the market, reflects a lack of managerial savoire-faire.

We believe that it is essential to bring in a senior executive from outside the industry -- in fact from outside the country -- to provide the needed marketing skills. If this is done we believe that an Icelander could be found to provide direction to the industry.

5. Availability of Financing

The availability of financing within Iceland reflects the Icelander's concern with production and productive equipment. Substantial funds are available only to finance plant, equipment and inventories. No domestic source exists to supply funds for market development.

Typical of the available financing within Iceland are:

a. Industry Loan Fund - which provides funds for the purchase of buildings and machinery. Loans fall into two categories:

- machinery, for which as much as 60% of the installed value can be borrowed. The loan must be repaid normally over 5 years;

- industrial buildings where the repayment period is 12 years. No fixed percentage of the property value is stipulated. Each case is negotiated according to prevailing conditions.

b. Fisheries Development Fund - advances relatively small grants and loans to develop innovations in the fishing industry. This fund could provide funds for market development but the amounts available are too small for any major venture. Typically, loans from this fund range from $2000 to $4000.

c. Bank Loans - typically must be secured by relatively liquid assets. Consequently they are used extensively to finance inventories, accounts receivable and raw materials. They would not be considered as a source of funds for market research or development.

d. International Agencies - such as the International Finance Corporation are in a position to provide needed funds to the Icelandic fish processing industry. In fact, during this study, we found that negotiations were under way between Associated Canneries Inc. and I.F.C. for a loan of about one million dollars. Although this is smaller than most I.F.C. ventures we understand that this agency is willing to advance funds for the market development of canned fish and fish products.

In conclusion, we believe that the shortage of marketing skills and the need for additional managerial strength are the only factors which will impede the growth of the fish canning industry. The shortage of some species will be a constraint -- it will influence the direction of development. However it is not sufficiently acute that it will prevent the industry from entering a profitable growth period. Consequently we can now examine the market potential for each product.

IV

MARKET POTENTIAL - THE DIRECTION OF GROWTH

A. INTRODUCTION

In this chapter we examine Iceland's position in the world market for canned fish and fish products. Initially we examine the statistical data on the size and profitability of major markets. This analysis suggests a change in the direction of export promotion. We then examine in detail the potential of the four most attractive markets.

B. ICELAND IS NOT A MAJOR FACTOR IN THE WORLD MARKET FOR CANNED FISH

As seen in the last chapter Iceland produces between 600 and 1100 tons of canned fish and crustaceans annually. Furthermore there is no evidence of a marked increase -- exports in 1962 being as high as 800 tons. In the same period, between 1962 and 1967, world production of canned fish, crustaceans and molluscs grew 62% from 1,180,000 to 1,982,000 metric tons.[1]

1. Canned Trout[2]

Iceland's share of world production has ranged between 29% in 1964 to 100% in 1967. However, despite this dominant position, the total movement of less than 50 tons is negligible in global terms.

2. Canned Herring and Sardines

Ranging between 500 tons and 800 tons annually,

[1] Statistical data on major world markets; production imports and exports by species and form are included in Appendix C.

[2] Appendix C Table 1 .

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Iceland's share of world production of canned herring, kippers and sardines has varied between 3/100 of 1% and 13/100 of 1%. This contrasts with her 22% share of world frozen herring markets.

The world's major producers of canned herring and sardines are the Federal Republic of Germany, South-West Africa, Portugal and Morocco. In 1967 the Federal Republic of Germany alone accounted for more than 20% of the world's production.

3. Canned Roes

Iceland is a small factor in the caviar and roe market. In the 1964-1967 period, Iceland accounted for between 1.3% and 2.6% of world production. Tonnage ranged from a low of 14 metric tons to a high of 26 metric tons.

4. Canned Shrimp

World production of canned shrimp increased 28% to 14,000 tons in the 1964-1967 period. Iceland's production decreased 50%. With 1967 production amounting to 30 tons, the country is not a factor.

5. Canned Clams

Iceland is not in this business at present. United States of America consumption of clams increased 3,000 metric tons between 1964 and 1967. In 1967 imports accounted for 12.5% of the total. Our surveys in the United States of America indicated that a market exists for Icelandic clams. Buyers claimed there was a severe shortage. Although we have not studied this market in depth, we believe that it is worth exploring and, based on the findings, test marketing.

6. Canned Fishballs

The F.A.O. does not show Iceland as a producer of canned fishballs in the 1964 - 67 period. This is a relatively small market. 1967 production of 3500 metric tons was only 20% of the previous year's total.

Only in trading with Eastern Europe does Iceland enjoy a strong position. In 1965 it supplied 100% of Russia's herring imports and 20% of its combined imports of herring and sardines. In the same year Rumania imported 7.8% of its needs from Iceland.

Similarly, only herring has significantly and consistently increased its market share although it is still a negligible factor in world trade.

C. ICELAND'S TRADING ABILITY COMPARES UNFAVOURABLY WITH THAT OF ITS COMPETITORS

Although the quality of Iceland's fish and fish products is unequalled, this fact is not reflected in the values received for its exports. Its position vis-a-vis its major competitors is highlighted in Figure 3. The United States of America and Canada should not be compared directly since their major fish product export is canned salmon -- a premium product compared to Iceland's herring. However, the principal products from the Federal Republic of Germany, Norway and Denmark are based on herring. They are in direct competition with Iceland but their price is almost double.

The reason for this marked difference is found in the trading patterns of each country. As pointed out in the last chapter Iceland depends heavily on low profit sales to the U.S.S.R. The other countries direct their sales more towards the consumer-oriented countries of Western Europe and North America. These trading patterns are summarised in Table 9.

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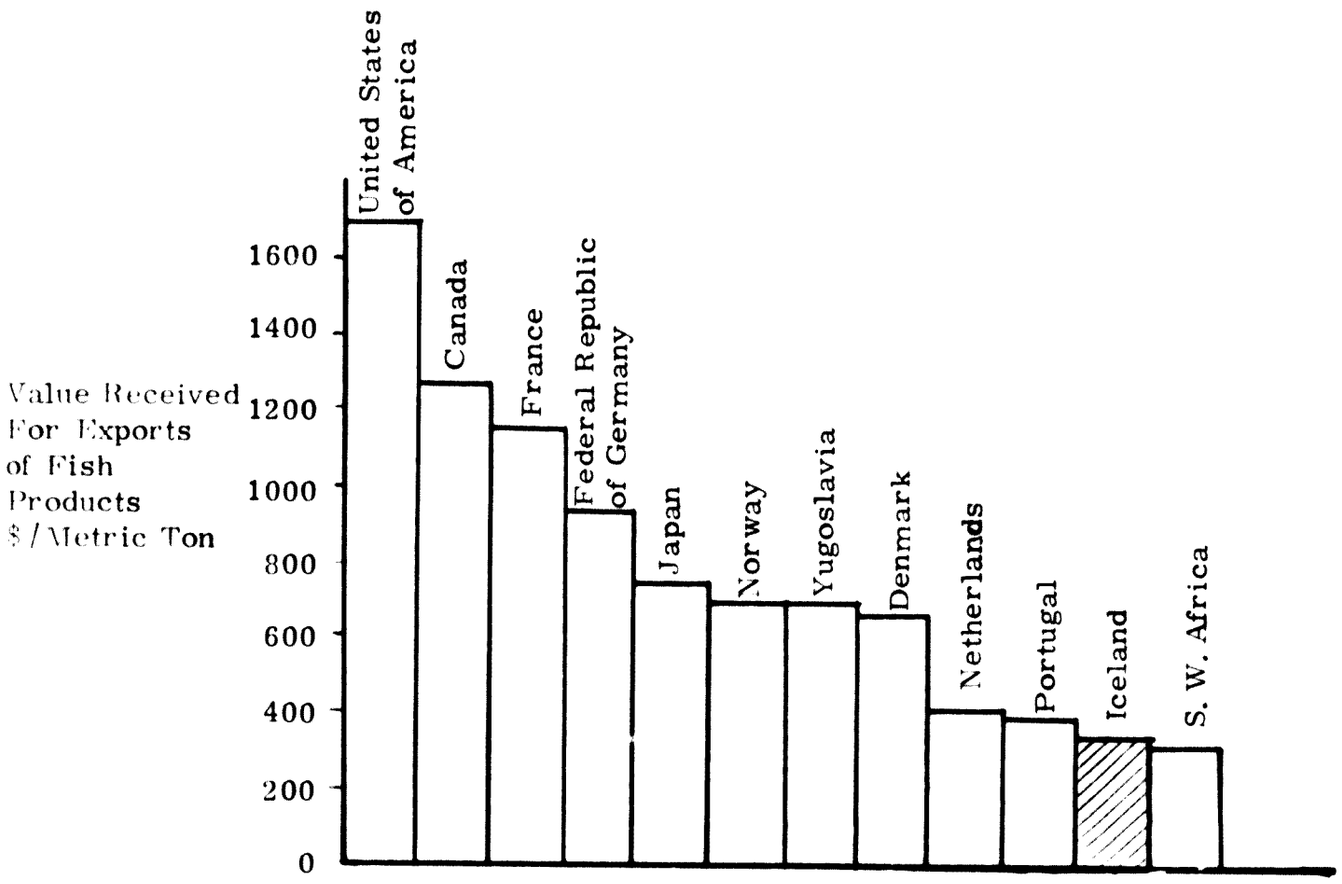
FIGURE 3[1]



[1]Source - F. A. O. Yearbook of Fishery Statistics - 1967.

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TABLE 9

TRADING PATTERNS OF FISH PRODUCT EXPORTERS

EXPORT COUNTRY	PRODUCTS BASED ON	EXPORTED TO
Canada	Herring, Kipper Snacks Herring (young)	United States of America, Jamaica
Federal Republic of Germany	Herring and Sardines	Austria, U.K. France
Norway	Herring in oil Smoked Herring	United States of America, U.K.
Denmark	Herring, Sardines	C.S.S.R. German Democratic Republic
Netherlands	Herring	France

The importance of this difference in the trading pattern is shown in the following section. In it we analyse the value received per metric ton for fish products in each principal market.

D. LARGE MARKETS EXIST WHICH PROMISE A HIGH RETURN FOR ICELAND'S PRODUCTS

As we have seen, Iceland's production, and even potential production, of canned fish and fish products is negligible in relation to the rest of the world. Success therefore depends on concentration: concentration on a few profitable markets.

Two criteria have governed our selection of such markets:

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- Those countries which are the largest importers and consumers of canned fish and fish products. The reason being that it will be relatively easier for Iceland to gain a small market share of a large market than a large share of a small market.

- Those countries generating the greatest revenue per ton for imports of fish and fish products.

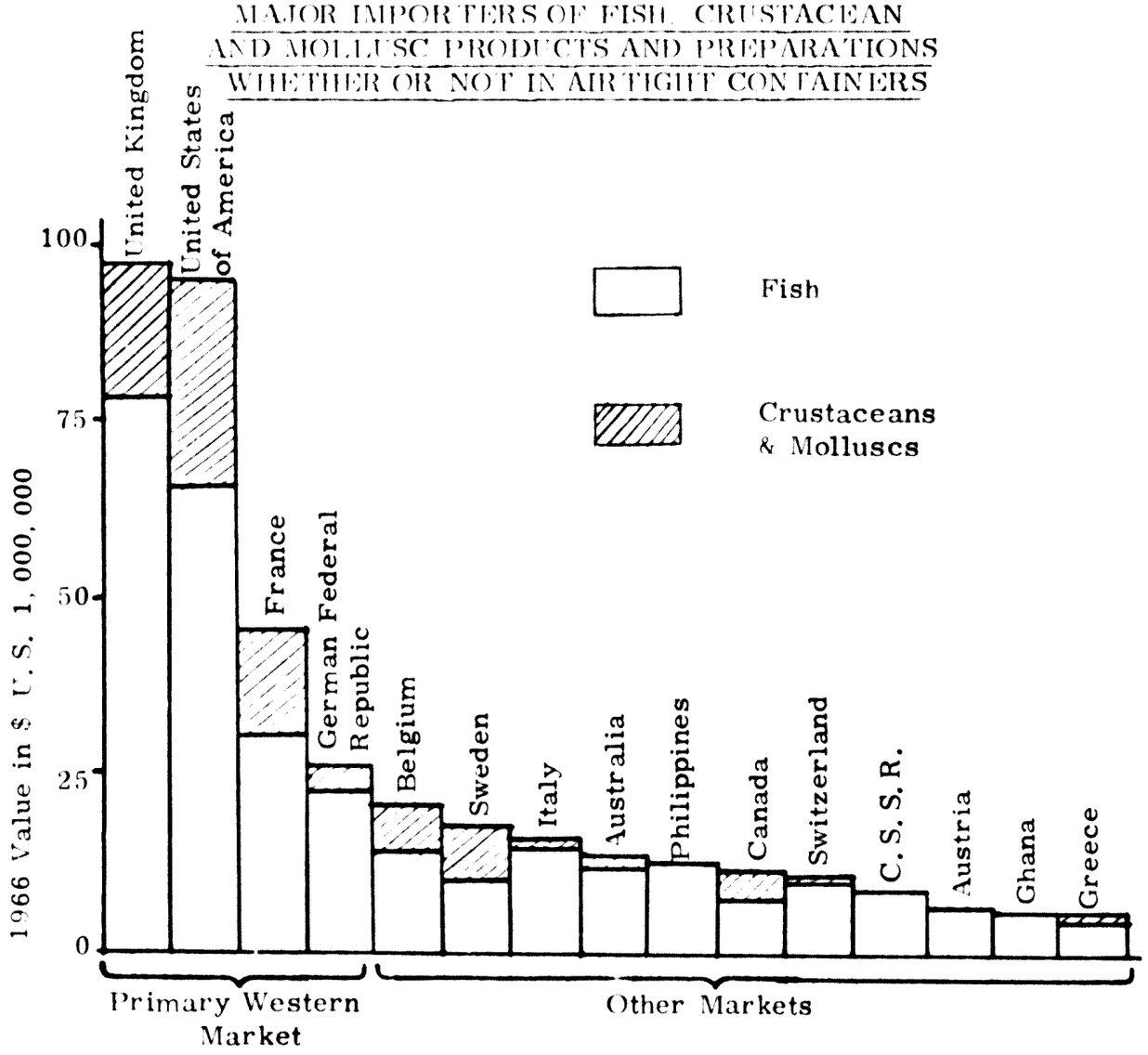
Analysis of trading statistics of fish, crustacean and mollusc products shows that the United Kingdom and the United States of America import substantially more than any other country. In 1966 imports to the U.K. were valued at almost $98 million and to the U.S.A. at about $95.5 million. They are followed by France, at $45 million and the Federal German Republic at almost $27 million. Figure 4 shows the relative importance of these four major importers in comparison with other countries: Belgium, Sweden, Italy, Australia, Philippines -- in order. In comparison the U.S.S.R. is a very small importer.

In terms of product weight the United States of America is the primary importer of fish, crustaceans and molluscs. As shown in Table 2 , Appendix C. 1966 imports amounted to 100,000 tons -- up from 79,300 tons in 1962. On the other hand U.K. imports of fish products have been decreasing slowly. In 1962 they were 77,000 tons, in 1966, 62,800 tons. This was only partly offset by a rise of 5000 tons in mollusc and crustacean imports.

Consumption of canned fish products in all markets has been relatively stable since 1962. Net consumption of fish has ranged between 363,100 metric tons in 1962 and 381,100 metric tons in 1966. Net consumption in the United Kingdom has been declining, dropping to 68,900 tons in 1966 from 82,000 tons in 1962. France's consumption has apparently held steady. We say apparently, since production figures are not available to us for 1966. Imports were up 4,000 tons from 1964 while exports increased just 200 tons. The Federal Republic of Germany's net consumption has varied only slightly. Net consumption varied between 158 and 160,000 metric tons between 1962 and 1966.

FIGURE 4

MAJOR IMPORTERS OF FISH, CRUSTACEAN AND MOLLUSC PRODUCTS AND PREPARATIONS WHETHER OR NOT IN AIRTIGHT CONTAINERS



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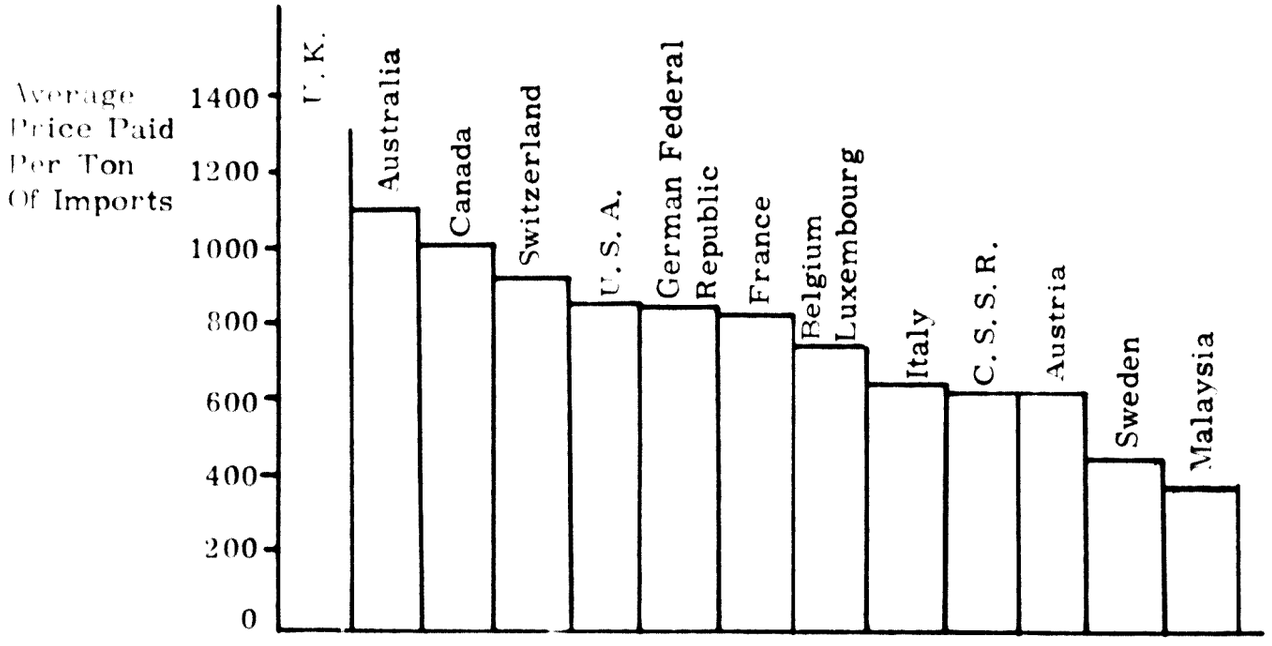
Thus, on the basis of present consumption and the imports of canned fish and fish products, the United States of America, U.K., France and the Federal German Republic would be logical targets for Icelandic marketers.

Are these markets profitable? Again a review of the value received per ton for imports shows them to be among the most profitable of the major importing countries. Data for 1968 reproduced in Figure 5 shows that the United Kingdom, the biggest importer paid an average of $1280 per metric ton of imported fish products. Australia, Canada and Switzerland, three relatively small importers come next at $1090, $990 and $909 respectively. The United States of America and the German Federal Republic were fifth and sixth at approximately $860 per ton. However, it is especially significant that the value of imported fish products into the Federal German Republic has risen from $532 per ton in 1962 to $860 in 1968 whereas the other countries have remained essentially constant. This could point to the Federal German Republic becoming even more profitable in the future.

FIGURE 5

PROFITABILITY OF MARKETS FOR FISH PRODUCTS AND PREPARATIONS



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Another significant feature is the relatively low value received by exporters shipping fish products into Sweden. Although the Swedish market is sixth, in terms of value, among major importers it is relatively unprofitable. This is significant in view of Iceland's entry into the Scandinavian Common Market. Despite the absence of tariff barriers, Sweden does not offer the same promise as the "Big Four" markets -- the U.S.A., U.K., France and the Federal German Republic.

We should point out that these data have been used solely to indicate those markets justifying in-depth study. We recognize that differences in product mix could explain some of the variations. Nevertheless -- from the marketing viewpoint -- large importing countries paying most for imports are the most promising targets.

E. BASED ON STATISTICAL DATA WE CONDUCTED IN-DEPTH MARKET RESEARCH IN THE FOUR MAJOR MARKETS

The U.S.A., U.K., the Federal German Republic and France indicated the greatest potential for Iceland's exports. To test this conclusion, and to develop a market strategy, we carried out a series of in-depth interviews. These interviews were held with important people in the food and fish industry. They did not include consumers. Typical of people contacted were: importers, brokers, buyers for major chains, food editors of newspapers and magazines.

We also covered different markets in each country. In the U.S.A. we identified five major markets each with different characteristics: the North-East, Mid-West, Pacific Coast, South -- Gulf Coast, and South-East. Similar distinctions were made in the U.K., France and German Federal Republic.

Based on these interviews we were able to estimate the total market for Icelandic-type products, and the share which Iceland might enjoy.

F. THE UNITED STATES OF AMERICA, UNITED KINGDOM AND FRANCE ARE THE KEY MARKETS

A forecast of the market for specific products is the basis of a market strategy. In the U. S. A. market data is available and has been collected in terms of consumer-identified products (e.g. Herring Tid-Bits). However, in the other markets, data is not organized in this form. Consequently our estimates of market size and opportunity are subject to greater error than if the statistical data matched consumer needs. However, we believe that our figures are sufficiently valid for planning market strategy. Subsequently -- after the decision to enter a specific market -- the specific tactics should be based on the results of a test market programme. Such a programme would identify the precise form of each product best suited to each market. It would also reduce any error which may be present in our estimates.

1. The Major Markets in Perspective

The United States of America is the primary importer of canned fish, crustaceans and molluscs. In 1966, it imported 82,000 metric tons of canned fish and 18,300 metric tons of crustaceans and molluscs. This is an increase from a combined total for both classes of 79,300 tons in 1962.

While U. S. A. imports have been increasing, the United Kingdom, the second largest importer, has shown a decrease in imports of fish from 77,000 tons in 1962 to 62,800 tons in 1966. Imports of crustaceans and molluscs however showed a healthy growth from 4,100 metric tons to 9,100 metric tons in the same period.

France traded places with the German Federal Republic as it moved into third place in 1966 with combined imports of 45,300 metric tons compared with the German Federal Republic's 30,300 tons. Eastern Europe and the U. S. S. R. combined would be in fifth place.

TABLE 10

PRODUCTION, EXPORTS, IMPORTS & CONSUMPTION OF SELECTED FISH PRODUCTS IN THE U. S. A.

Canned '000 Tons Net Weight

	1962	1963	1964	1965	1966	1967*
PRODUCTION						
Sardines	22.8	17.4	9.2	13.4	14.1	13.3
Shrimps	6.1	7.4	4.7	7.4	6.7	7.8
Lobster	.2	.2	.3	.4	.3	.4
Clams & Clam Products	25.6	27.0	28.8	32.2	33.5	31.6
Fish Roe & Caviar	1.4	1.1	1.4	1.2	1.0	1.2
Fish Pastes, Cakes, Balls, Puddings, etc.	10.6	11.9	11.6	11.4	12.3	11.0
EXPORTS						
Sardines	-	1.6	1.1	1.5	1.6	0.6
Shrimps	1.2	1.5	1.7	2.0	2.0	2.4
IMPORTS						
Sardines	23.8	28.5	26.9	24.3	25.4	23.3
Herring	5.4	5.1	4.6	4.7	4.3	4.2
Shrimp			.5	.7	.7	1.0
Clams	-	-	-	-	.7	.8
Fish Roe & Caviar					.3	.2
Fish Pastes, Cakes, Balls, Pudding, etc.	-	-	-	-	.5	.5
CONSUMPTION						
Sardines	46.6	44.3	35.0	36.2	37.9	36.0
Herring	5.4	5.1	4.6	4.7	4.3	4.2
Shrimp	6.1	7.4	5.2	8.1	7.4	8.8
Clams	25.6	27.0	28.8	32.2	33.5	31.6
Fish Roe & Caviar	1.4	1.1	1.4	1.2	1.3	1.4
Fish Pastes, Cakes, Balls, Puddings, etc.	10.6	11.9	11.6	11.4	12.8	11.5

*Latest year for which detailed statistics are available.

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2. The United States of America

"The Progressive Grocer" accurately captures the development of this market. In its second annual report on grocery product movement it states that canned fish is one of the "top 30 sales gainers". In 1968 canned fish dollar sales increased 11.1% above 1967. The key products contributing to this growth are salmon, sardines (up 10.3%) and shrimp (up 16.5%). Unit sales showed an impressive 7% gain versus an overall store average gain of 5.4%. Ethnic foods have also shown good growth. Oriental foods, for example are up 13.6%, Italian food sauces up 20.2%, frozen Mexican foods up 14.1%, frozen Chinese foods up 24.9%, other nationality frozen foods up 12.4%. The market environment is good for the foreign or ethnic foods producer.

Imports and consumption of the major species (from Iceland's viewpoint) of canned fish and fish products in 1967 are summarised in Table 10.

The figures point out the potential for Icelandic products in the U.S.A. market. Of special significance is the fact that imports of sardines and herrings supply a major portion of the market. Sixty-five percent of canned sardines are imported. Virtually all the canned herring consumed in the U.S. is imported.

Another significant feature is the trend in the consumption of these products. Sardine sales, after declining in the early 1960's, stabilised, and, more recently, have begun to increase. Herring commands a stable market. Shrimp sales have been growing rapidly and were estimated to be close to 10,000 metric tons in 1969. Clams also are gaining rapidly. The growth in both shrimps and clams has been curtailed because of a worldwide shortage of these species.

Based on these figures, complemented by trade interviews we estimate the total market for Icelandic-type products in the U.S.A. to be:

Sardines	-	40,000 metric tons
Herring	-	4,500 metric tons
Shrimp	-	10,000 metric tons
Clams	-	35,00 metric tons
Caviar	-	1,500 metric tons

3. United Kingdom

Consumption of canned fish in the United Kingdom is growing. The 1966 National Food Survey estimates that 67,000 metric tons of canned fish were consumed, up from a low of 60,000 metric tons in 1963. Sardines and sild account for 9% of the total, while cod roe and herring each amount to 1%. Pet foods represent a major marketing opportunity in the U.K. 40% of canned dog food is fish based and 60% of canned cat food is fish based. The market has been compounding its growth at 15% per annum.

Statistics on the import of canned fish (Table 11 shows those species relevent to Iceland) show a strong preponderance of pilchards and salmon. Together they accounted for 54,000 tons of total imports of 77,000 tons. Sardines amounting to 8,200 tons are the only other species of consequence.

Since 1962 imports and consumption of both pilchards and sardines have gained. All other groups have remained static.

In relating these data to Iceland's productive potential the overlap between herring, pilchards and sardines presents some difficulty. We believe that the present market for pilchards in the U.K. represents an opportunity for both Icelandic herring and sardines, especially for the latter.

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TABLE 11

PRODUCTION, EXPORTS, IMPORTS AND CONSUMPTION OF SELECTED CANNED FISH PRODUCTS IN THE U.K.

'000 TONS NET

	1962	1963	1964	1965	1966	1967
PRODUCTION						
Herring	5.9	6.1	4.0	4.2	5.5	4.5
Pilchards	0.9	0.5				
EXPORTS						
Herring	4.2	3.7	4.2	3.3	5.1	3.8
IMPORTS						
Pilchards	11.6	11.6	12.6	11.1	14.3	14.4
Sardines	7.0	5.8	6.7	6.3	6.9	8.2
Shrimps	-	-	2.4	2.5	2.5	2.4
Fish Balls	1.6	1.9	2.2	1.5	2.4	1.9
Puddings, Cakes, etc.						
Roe & Caviar				2.8	2.5	2.0
CONSUMPTION						
Herring	1.7	2.4	-	0.9	.4	.7
Pilchards	12.5	12.1	12.6	11.1	14.3	14.4
Sardines	7.0	5.8	6.7	6.3	6.9	8.2
Shrimps	-	-	2.4	2.5	2.5	2.4
Fish Balls, Cakes, etc.	1.6	1.9	2.2	1.5	2.4	1.9
Roe & Caviar				2.8	2.5	2.0

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Accordingly we see a market potential for Icelandic type products in the United Kingdom of:

Sardines	-	23,000 metric tons
Herring	-	2,000 metric tons
Shrimps	-	2,500 metric tons
Fish Balls, Puddings, Cakes	-	2,200 metric tons
Roe & Caviar	-	2,500 metric tons

4. France

The market for canned fish in France is relatively undeveloped compared with the U.S.A., U.K. and the Federal German Republic. This does not mean that per capita consumption is necessarily lower than in other countries. Rather does it mean that the art of marketing is not as advanced nor sophisticated as in other countries. This has three major implications for Iceland:

- the market potential is much greater than present consumption indicates;
- there is an undeveloped market for more exotic species;
- the potential rewards for the aggressive marketer are higher than present data suggest.

Consumption of canned fish of Icelandic types in recent years has been confined almost exclusively to herring and sardines. Together, in 1968 they accounted for 43,000 metric tons (Table 12). In 1967 they amounted to over 50,000 tons.

Total consumption of canned fish in France has been declining in recent years despite the steady gain by sardines. In 1960 total consumption was over 125,000 tons.

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TABLE 12

PRODUCTION, IMPORTS AND CONSUMPTION OF CANNED HERRING AND SARDINES IN FRANCE '000 TONS NET

HERRING

Year	Production	Net Imports	Consumption
1963	3.6	1.7	5.3
1964	2.6	.9	3.5
1965	2.6	1.5	4.2
1966	1.8	1.4	3.2
1967	1.5	2.9	4.4
1968	1.5	2.9	

SARDINES

Year	Production	Net Imports	Consumption
1963	19.0	13.0	32.0
1964	21.0	16.9	37.9
1965	18.0	12.0	30.0
1966	28.6	17.8	46.4
1967	33.0	16.6	47.9
1968	23.0	15.3	38.2

In 1965 it had dropped to under 90,000 tons. However, it is significant that despite this drop, total imports of about 39,000 tons have held steady.

The difference between total consumption and herring and sardine consumption represents those species not found in Icelandic waters. Traditionally they

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have not been considered part of an Icelandic catch. The two most important species are tuna (18, 000 tons) and mackerel (20, 000 tons). The markets for shrimp and caviar are 6000 tons and 500 tons respectively.

5. Federal German Republic

This country represents a unique challenge. The market for canned herring and sardines is the largest, per capita, in the four countries we examined (Table 13). Product quality and variety is superb. However, domestic production is of superior quality and priced very competitively. Tariffs are on the high side, but not insurmountable.

Most of the increasing demand for canned herring is met from domestic production. On the other hand virtually all sardines are imported. The sardine market peaked in 1965 and has been declining since. Current consumption we estimate at about 8000 metric tons.

This market also depends entirely on imports for shrimp and caviar. The shrimp market is growing steadily. Currently it approximates 4000 tons. The caviar market is still in its infancy. We believe it will reach 800 tons in the early 1970's.

Thus we see the total market for Icelandic type products to be:

Herring	-	120, 000 metric tons
Sardines	-	8, 000 metric tons
Shrimp	-	4, 000 metric tons
Caviar	-	800 metric tons
Saithe	-	4, 000 metric tons

TABLE 13

PRODUCTION, EXPORTS, IMPORTS AND CONSUMPTION OF SELECTED CANNED FISH PRODUCTS IN THE FEDERAL REPUBLIC OF GERMANY

'000 TONS NET

	1962	1963	1964	1965	1966	1967
PRODUCTION						
Herring	100.2	105.4	102.1	113.2	117.3	112.6
Saithe	7.1	7.4	7.9	7.9	8.5	6.7
Shrimp	2.4	4.3	3.4	3.4	4.5	3.4
EXPORTS						
Herring	0	0	0	0	6.0	6.1
Saithe	6.3	5.0	6.4	7.0	2.1	2.1
IMPORTS						
Sardines	14.3	13.4	14.8	20.7	14.1	10.0
Herring	.5	1.8	2.5	2.9	2.3	2.1
Caviar				.3	.3	.5
CONSUMPTION						
Herring	100.7	107.2	104.6	116.1	119.6	114.7
Saithe	.8	2.4	1.5	.9	6.4	4.5
Sardines	14.3	13.4	14.8	20.7	14.1	10.0
Shrimp	2.4	4.3	3.4	3.4	4.5	3.4
Caviar				.3	.3	.5

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G. "VALUE ADDED" PRODUCTS ARE IMPORTANT IN DEVELOPED MARKETS

Our earlier analyses showed that the United States of America, United Kingdom, France and Federal Republic of Germany are potentially the most profitable markets for Icelandic canned fish and fish products. The last section showed the consumption in these markets is sufficiently high that a small share of the market would absorb all Iceland's production.

However the size and profitability of these markets has attracted many suppliers. The result is that they are highly competitive. In order to be successful -- to gain the maximum revenue from these markets -- Icelandic products must be distinguished from their competitors. The degree of sophistication and the need for development differ from one country to another.

In this section, and in our subsequent analyses, we distinguish between three classes of product:

- Commodity, represents the lowest priced product with no additional processing and no added quality. Such products compete on the basis of price alone.

  Value Added products have something added to distinguish them from their competitors. The addition could be a wine sauce (instead of soya or other low cost oils), or it could be additional processing -- such as "smoking".

- Gourmet, normally sold under a National Brand label and supported by advertising and promotional effort. It would represent a superior product in the natural form as well as superior value-added products.

The need for these different grades of product, and an assessment of their economic effect is discussed below in the context of the four major markets.

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1. The United States of America

The United States of America is the key consumer and importer of canned fish products. The market traditionally rewards superior quality products. Further, it has demonstrated its willingness to pay a premium price for a superior product. The U.S. market is affluent, and readily accepts value-added products.

The benefits to be realized from offering the customer greater value are seen in the following comparison:

Product	Class	Description	Size	Price	Price per ounce of fish content
Sardines	Commodity	In Soya Oil	4 oz	$.15	$.0375
	Value Added	In Chili Sauce, Attractive Wrapper	3-3/4 oz	$.45	$.12
	Gourmet	In Olive Oil Skinless & Boneless	3-3/4 oz	$.51	$.136
	Gourmet-Value Added	In Olive Oil with Truffles	4 oz	$.95	$.24
	Value Added	Pate in Tomato	1-1/4 oz	$.25	$.33
Shrimp	Commodity	In Brine	3-1/2 oz	$.59	$.168
	Value Added	Smoked	3-2/3 oz	$.89	$.244
	Gourmet	Pate, Smoked	2-3/4 oz	$.89	$.51

Other examples of adding value include:

- herrings, in mustard sauce, in curry sauce, or in paprika;

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- shrimp, with tomato ketchup, horseradish and lemon juice (shrimp cocktail);

- sardine, with olives, mushrooms, pickles, onions, celery, etc. (antipasto);

- lobster, including lobster meat, lobster liver, lobster roe with milk powder, flour, cheese and spices;

- sardines in mustard sauce and tomato sauce;

- herring tid-bits in wine sauce;

The North American market is well developed. Only by offering the consumer something different, something additional, can Iceland compete and build up a significant volume.

2. United Kingdom

The market for canned fish is underdeveloped. Until recently there was very little promotion or advertising. The need for value added and gourmet items is not as imperative as in North America because competition is less intense. On the other hand, as the British consumer becomes more sophisticated, the profit opportunities for non-commodity items will soar.

3. France

This market is underdeveloped. A major opportunity exists in the metropolitan markets for superior quality, branded products.

4. Federal German Republic

The market is already well supplied with superior value added products. Because of this we feel that

Iceland would be successful in German markets only if its prices were lower than present comparable products. The exception to this might be a few specialty outlets who think that quality and originality of product are the decisive factors. There is a market for caviar and shrimp but the U.S.A. and U.K. can take all the available supply and generate a higher return.

Success in introducing Icelandic canned fish products in Germany will result from:

a. Low prices.

b. Attractive outward appearance.

c. Quality.

Low prices conflict with our goal of producing maximum profit for Iceland. Thus, Germany ranks as a poorer opportunity than the other three markets.

II. NO REGULATIONS EXIST WHICH WILL KEEP ICELANDIC PRODUCTS OUT OF THESE MARKETS

We have studied the regulations governing the import of fish products into each of these markets. In no case will the regulations impede the flow of Icelandic products. However, exporters in Iceland must consciously observe all regulations.

I. A MARKET DOES EXIST FOR ICELANDIC CANNED FISH PRODUCTS

In conclusion we are convinced that a market exists in these key countries for Icelandic canned fish products. The priority should be:

. United States of America

- United Kingdom
- France
- Federal Republic of Germany
- Remainder of Western Europe
- Eastern Europe and the U. S. S. R.

This ranking results from our analysis of net consumption, imports, competition and pricing.

V

PROFIT CONTRIBUTION -- THE BASIS OF A MARKET STRATEGY

A. INTRODUCTION

A market strategy provides answers to the question -- which products should be sold in which markets, at what price? It represents a conscious decision to allocate certain products to specific markets and to withhold them from others. The objective of the strategy is to generate maximum profit to the Icelandic canning industry. A closely related objective is to maximize the earnings of foreign exchange for the Icelandic economy.

The best strategy therefore, is one which maximizes the contribution toward profit and overhead. This economic concept of "contribution" differs from the accounting concept of "profit". Contribution represents the difference between sales revenues and all direct costs incurred in earning those revenues. Profit, however, results from charging and allocating all expenses against revenues. These expenses include cash outlays -- such as payment for direct labour and materials. They also include two classes of expense whose incidence is not affected by the product or market mix. These are the recovery of sunk costs -- such as depreciation -- and overhead.

In this chapter we analyze the contribution made by each product in each of the four major markets.

B. PRICE IS ESTABLISHED BY THE MARKET, NOT BY PRODUCTION COSTS

Traditionally, Icelanders have viewed price as a function of manufacturing costs. This is not unusual in an underdeveloped economy. However it is financially disastrous in sophisticated economies such as the U. S. A. and Western Europe. This approach prevents the

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Icelander from realizing the full market potential from his products. It allows others -- the "middleman", held in contempt by some Icelandic canners -- to reap the full benefit of Iceland's products.

Our approach assumes the price is established by the market. The price will vary. It will be influenced by the nature of the product. It will depend also on the image and social connotations of the product.

The starting point of our analysis, therefore, is the retail price. From this value are deducted retail and wholesale margins and duties. The result is the manufacturer's c.i.f. price. A further deduction of the transportation cost produces the f.o.b. price.*

Subsequent introduction of the variable cost of goods -- raw materials, packing, labour, taxes, etc. -- and marketing costs leaves the contribution to profit and overhead.

We have used various sources of information for these calculations. The shelf price for each item is based on a number of observations in the particular market. We ensured, wherever possible, that the price was truly representative of its class. Margins, allowances and commissions are the result of interviews with members of the trade. Tariffs and duties have been taken from current regulations in each country.

Transportation costs have come from two sources. Wherever possible we used quoted rates. Where they did not exist, or were unreliable, we calculated rates based on volumes, frequencies and distances to markets.

Variable production costs also came from two sources. Initially we used data supplied by the canning industry in Iceland. We then examined, and in many cases revised, these costs in view of our observations of plants, processes, fishing and production methods. Raw material costs were analyzed in a similar manner.

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* Appendix A contains the Profit Contribution Analysis sheets which illustrate the step-by-step approach.

Marketing costs depend on the nature of the product: gourmet, value-added or commodity. In all cases, the marketing cost represents a decision to spend at a certain level for advertising, promotion, etc. It does not result from physically moving goods to the market.

C. F.O.B. IS CALCULATED FROM THE SHELF PRICE

Profits are provided by the ultimate consumer who buys the product, not by the manufacturer. Therefore, analysis of the profitability of each product must start with the retail shelf price, not with the manufacturing price plus a small percentage. Only for commodity products with no marketing margin can profits be estimated from production costs.

In this section we review all those factors between the shelf price and the f.o.b. receipts to the Icelandic producer.

1. Shelf Price

We obtained realistic shelf prices from visits to typical stores in each major market in the four principal countries. In addition we interviewed key brokers, buyers and importers. Again, we paid special attention to the different grades of product notably gourmet, value-added, and commodity. The more important products and prices are listed in Table 14. This list is not all inclusive. We obtained prices for other products and other markets. However, these products and markets should dominate the market strategy for the Icelandic industry.

The importance of "gourmet" grades is obvious. Although the added production cost, as shown in a later section, is negligible the price is substantially higher. Virtually all of the higher price represents added profit.

TABLE 14

TYPICAL SHELF PRICES OF CANNED FISH IN VARIOUS MARKETS (PRICE IN $ U.S. PER CAN)

PRODUCT	SIZE	GRADE	COUNTRY			
			U.S.A.	U.K.	FRANCE	GERMANY
LUMPFISH CAVIAR	2 oz	Gourmet	.69	.75	.89	.59
		Value-Added	.49	.59	.65	.31
SILD SARDINES	3-3/4 oz	Gourmet	.99	.33	.43	.59
		Value-Added	.49	.19	.25	-
		Commodity	.27	.13	.17	.19
HERRING TID-BITS	3-3/4 oz	Gourmet	.55	.43	.47	.63
		Value-Added	.39	.29	.33	.47
		Commodity	.29	.19	.25	.35
HERRING FILLETS	6-3/4 oz	Gourmet	.59	.49	.53	.39
		Value-Added	.45	.35	.39	.25
		Commodity	.33	.24	.28	.17
SHRIMP	2-1/2 oz	Gourmet	.59	.69		
		Value-Added	.39	.49		
	5-1/2 oz	Gourmet	1.99	.95	.79	1.19
		Value-Added	1.79	.75	.61	1.07
BROOK TROUT	10 oz	Gourmet	1.99	NO MARKET AT PRESENT		
COD ROE	21 oz	Commodity	NO MARKET	1.27	NO MARKET	

2. Margin on Shelf Price

This is the return to the retailer for selling other producers' goods. It is normally expressed as a percentage of the shelf price. The wholesale price is the shelf price less this margin.

Table 15 lists the margins which are generally accepted for the different category of product in the major markets. The overlap between different grades of product arises from the different qualities found in each grade. For example, caviar -- always a premium products -- commands a 40% margin in the U.K. Sardines, on the other hand, earn only a 30% margin -- even in the gourmet class. Specific margins have been applies to each product grade in each country according to the latest information from trade sources. These specific values are shown in the worksheets in Appendix A.

TABLE 15

NORMAL RETAIL MARGINS
ON CANNED FISH AND PRODUCTS
(Percentage of Shelf Price)

PRODUCT GRADE	U.S.A.	U.K.	FRANCE	GERMANY
Gourmet	33%	30 - 40%	30%	35%
Value-Added	28 - 33-1/3%	23 - 35%	25%	30%
Commodity	17 - 25%	15 - 26%	19%	25%

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3. Variable Selling Costs

As the product moves from the dock at the port of entry to the retailer it incurs three basic costs: allowances, importer and broker commissions, and import duties. All are calculated on the basis of the c.i.f. price.

a. Allowances

This cost represents an allowance to the importer for prompt payment. Typical terms are "2% 10 days, net 30". In practice we find this results in an average cost of about 1.5% of the c.i.f. value.

b. Importer and Broker

Commissions to importers and brokers vary. In the U.S.A. they range from 5% of c.i.f. for commodity class products to 7% for gourmet. In the U.K. they range between 7% and 12%. In France and the German Federal Republic the costs are 8 - 10% and 5 - 8% respectively. The values attributed to each product in our worksheet are based on the results of interviews with trade authorities. In practice, at the time of launching a product these commissions will be negotiated. They will depend on test market results as well as on the extent of the promotional programme of the Icelandic canners.

c. Tariffs and Duties

Again there are wide variations between products and markets. Latest regulations in each of the four countries are summarized in Table 16.

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TABLE 16

TARIFFS AND DUTIES LEVIED ON IMPORTS
OF FISH AND PRODUCTS
(% of c.i.f. Price)

PRODUCT	COUNTRY			
	U.S.A.	U.K.	FRANCE	GERMANY
Lumpfish Caviar	24%	30%		
Sild Sardines	30	7.5		
Herring Products	10	10	22	18.8
Shrimp	10			
Cod Roe		5		
Brook Trout	12			

4. Transportation Costs

We have developed transportation costs on the assumption that all exports of canned fish will be routed through one port. In this way Iceland can offer a shipping company a profitable load. In turn this will ensure a dependable service to the major markets. Allowing 40 cents per 100 lbs for transportation and warehousing in Iceland, we estimate that the total transportation and wharfage costs to each market will be:

To Germany - $1.94 per 100 lbs

U.K. - $2.13

France - $2.67

U.S.A. - $4.27

5. Calculation of f.o.b. Price

The f.o.b. price results from deducting all the above costs from the shelf price. It is especially significant in calculating contribution because it represents the net earning of foreign exchange by each product. Even though a product may not earn a profit in the accounting sense it may still earn foreign exchange to improve the balance of payments.

The f.o.b. values for the major products in the major markets are summarized in Table 17.

This table is not complete. It does not show all products and all grades in all markets. The reason -- to focus attention on the most profitable markets. In subsequent analysis of profit contribution, complemented by a qualitative assessment of the market, we show that effort should be concentrated on these products and markets.

The importance of the American market is apparent. Whenever there is a market for a product in the U.S.A., the return to producer, per case, is higher than from any of the other three markets. Already this analysis suggests that a major re-orientation of the industry towards the U.S.A. would be a rewarding move.

D. CONTRIBUTION - THE RETURN TO THE PRODUCER

The fish processor is motivated by financial return. Earnings for the country, while of general interest to him, will not motivate him to invest or produce. Therefore to develop a meaningful market strategy we will examine the contribution, or cash return to the processor, from promoting his products in the selected markets.

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TABLE 17

PRICE OBTAINED BY CANNING INDUSTRY
FOR EXPORTS TO SELECTED MARKETS
($ U.S. f.o.b.)

PRODUCT	SIZE	Units Per Case	GRADE	COUNTRIES: U.S.A. Per Unit	U.S.A. Per Case	U.K. Per Unit	U.K. Per Case	FRANCE Per Unit	FRANCE Per Case	GERMANY Per Unit	GERMANY Per Case
Lumpfish Caviar	2 oz	24	Gourmet	$ .34	$ 8.16						
			V - A	.24	5.71						
	100 grms	24	Gourmet			$.30	$ 7.30	$.31	$7.51	$.25	$6.07
			V - A			.26	6.28	.25	6.14	.14	3.41
Sild Sardines	3-3/4 oz	224	Gourmet	.46	11.08	.18	4.29	.22	5.27	.29	6.99
			V - A	.22	5.30	.11	2.54	.13	3.20	-	
			Comm.	.13	3.20	.08	1.88	.09	2.33	.10	2.53
Herring Tid-Bits	3-3/4 oz	24	Gourmet	.29	7.00	.24	5.86	.24	5.70	.31	7.50
			V - A	.22	5.28	.18	4.30	.18	4.23	.25	5.97
			Comm	.19	4.60	.13	3.09	.14	3.48	.20	4.85
	6-3/4 oz	24	Comm							.20	4.75
Herring Fillets	6-3/4 oz	24	Gourmet	.31	7.44	.27	6.40	.26	6.36	.19	4.52
			V - A	.25	6.01	.19	5.06	.21	4.95	.13	3.05
			Comm.	.21	5.14	.16	3.77	.16	3.83	.09	2.22
Shrimp	2-1/2 oz	24	Gourmet	.32	7.77	.38	9.10				
			V - A	.21	5.07	.27	6.48				
	5-1/2 oz	12	Gourmet	1.10	13.21	.41	5.40	.42	5.03	.59	7.07
			V - A	.99	11.86	.40	4.81	.34	4.13	.57	6.84

TABLE 17 (Cont'd)

PRODUCT	SIZE	Units Per Case	GRADE *	COUNTRIES							
				U.S.A.		U.K.		FRANCE		GERMANY	
				Per Unit	Per Case	Per Unit	Per Case	Per Unit	Per Case	Per Unit	Per Case
Brook Trout	10 oz	24	Gourmet	$1.07	$25.72						
Cod Roe	21 oz	100	Comm.			$.78	$77.68				

*
- Gourmet
- Value-Added (V - A)
- Commodity (Comm.)

1. Raw Material Costs

In this section we project the raw material costs which the Icelandic fish processing industry will face. Our calculations and review reflect only the effects of increasing demand on the available supply. We have not introduced any allowance for world-wide or local inflation. All our calculations are in terms of 1969 dollars.

Our calculations of these costs are based on many factors. In some instances we have depended heavily on knowledgeable people in Iceland. In other cases we have examined the entire raw materials "system" in detail in order to synthesize the cost data.

a. Sardines

Sardines are now caught and processed at only two locations in Iceland -- Sudavik and Akureyri. In both places the sardines are caugnt in small boats operating in teams of two, sometimes three. The sardine season lasts for about 10 weeks from mid-June until August.

Sardine fishermen are independent. They sell the fresh sardines to the canning plant at an agreed price. In 1969 the price was about $54 per ton.

Plant capacity at Akureyri is about 25 tons per week with present facilities on one shift. As the demand increases up to the limit of the available raw material -- about 2500 tons -- it will be necessary to freeze the sardines and hold for later production. This can be done without affecting the quality.

Surplus freezing capacity exists in Iceland. No additional capital investment will be required to

freeze the sardines. The actual cost of freezing will depend to some extent on local depreciation policies and on the cost of capital. However, assuming reasonable utilization of the freezing plant we anticipate the cost of freezing will be about $16 per ton. Icing the sardines prior to freezing would add a further $6.

Another factor will affect raw materials costs as production grows -- transportation. Increasing demands could be met only by catching sardines in other fjords. The resulting transportation costs might average $10 per ton.

Thus we expect the costs of sardines going into processing to be:

Landed Cost	-	$54
Icing	-	$ 6
Freezing	-	$16
Transportation	-	$10
		$86 per ton

b. Herring

Associated Canneries assumed a price of $30 to $34 per barrel of salted and spiced herring in developing their financial plan. Since then the shortage of herring has boosted the price to over $60. And, there is little indication of an early decline.

Prices of herring are established by a price committee. There is no individual negotiation between canning companies and fishermen.

In planning a market strategy for canned products, two aspects influence the price that the canners may have to pay for herring:

- In gaining entry to a developed, consumer-oriented market, the supplier must indicate his intention to supply that market continuously -- regardless of variations in the price of raw materials or in their availability.

- Canners are in competition with other users for Icelandic herring. We believe the free market laws of supply and price should govern the allocation of raw material between users. Consequently, if the canneries wish to build up and support a market for canned herring tid-bits they must be prepared to buy herring at the going price. If the industry is not profitable at these higher prices it must decide whether it is prepared to develop a market. The alternative strategy is hit-or-miss selling of canned herring as a commodity whenever the price falls low enough to enable Iceland to compete.

The greatest return results from controlling the market. This implies branded, value-added products. Therefore, we have assumed in our analysis a raw material price of $60 per barrel (100 kgs) for tid-bit production. If the price falls profits will, of course, be greater.

Herring fillets are produced from fresh or frozen herring. The price for fresh herring is fixed by the industry pricing board. Curently it is kr. 6.50 per kilogram round weight (equivalent to 3.35 cents per pound). However, because of the current shortage we foresee the possibility of prices increasing to 8 or 9 kr. (4.5 cents).

The majority of the catch will be frozen. Only in this way can the canning plant level out the fluctuations in landings and also assure a steady supply. Freezing costs above 1 cent per pound. Thus the cost going into processing averages 5.5 cents.

Assuming an overall plant yield of 40 - 45% (48 - 55% at the filleting machines) the cost of the herring fillets is just over 13 cents per lb. (28.8 cents per kilogram). This is the raw material cost we have used in estimating the profitability of herring fillets. This is a conservative figure. If herring prices stay at present levels, and if minimal freezing is necessary, this cost will be closer to 10¢ per lb.

c. Shrimp

The present shrimp catch is much below its potential. Catching is confined to the fjords. The season lasts for only six months. Quotas are in effect. The result is a current price of about $.135 per kilogram or $135 per ton.

If the market for shrimp is to be exploited a much larger catch is essential. This means fishing in more distant waters: in turn larger boats. If these boats catch shrimp only, a fair return to crew and owners will require a price of $186 per ton. On the other hand, spreading the fixed costs over other species: scallops, clams, squid, etc. would provide a reasonable return at $140 per ton.

We have assumed the growth of the industry will generate a demand for these other species. A raw material price of $140 per ton is the basis of our analysis. This is equivalent to about $780 per ton when peeled, assuming about 18% yield.

d. Lumpfish Roe

Lumpfish are caught exclusively for their roe. Production and sales have been on a relatively minor scale to-date. The potential market in the U.S.A. and U.K. point to a substantial increase in the demand for roe. How will this affect the price?

In 1969 exports were just over 1000 metric tons. The price was $623 per ton. The previous year, when exports were only 764 tons, the price was $556. Part of this increase is attributable to inflation. But, the greater demand is a contributor.

The market for lumpfish caviar in the U.S.A. and U.K. -- 410,000 cases -- is equivalent to 550 tons of raw material. If Icelandic canners are to buy this amount, and overseas companies to buy their normal quantities in order to retain their markets, the price will rise to a new level sufficient to produce a greater catch.

We do not have sufficient data to develop the complete supply curve. However an assumption of a linear relationship suggests that the additional demand might push the price up to about $760. Again, this is a conservative figure.

e. Cod Roe

Fish filleting plants extract the roe during February, March and April. They then freeze it and sell as required to the canning plants. If necessary, carefully frozen cod roe can be kept for up to two years without deteriorating.

Consequently we do not envisage any shortage of cod roe. Also, the increased demand resulting from Iceland's gaining a share of the U.K. market is relatively small.

The current price for cod roe is about $250 per ton. We will assume no change in this figure.

f. Brook Trout

It is difficult to predict the price of this material. Executives of Associated Canneries have estimated

a price of $ 320 per metric ton. However, in order to obtain larger quantities -- seeding other lakes, raising the lake temperatures, etc. -- higher prices may be necessary. Also, the high profitability of this item will support higher prices.

We will therefore assume a price of $ 450. A lower actual price will mean correspondingly greater profits.

In summary, we will assume the following prices in preparing profit forecasts:

Sardines	-	$ 86 per ton or 8.6¢ per kg.
Herring	-	$ 600 per ton or 60¢ per kg.
Herring Fillets	-	$ 290 per ton or 29¢ per kg.
Shrimp	-	$ 870 per ton or 87¢ per kg.
Lumpfish Roe	-	$ 760 per ton or 76¢ per kg.
Cod Roe	-	$ 250 per ton or 25¢ per kg.
Brook Trout	-	$ 450 per ton or 45¢ per kg.

Other materials are used in addition to fish. But, they are less important. They include sauces, seasoning and preservatives. For this reason the raw material cost of gourmet grades is higher than the commodity grade. The difference reflects the cost of these non-fish additives. Using these values we obtain the raw material cost for each major product (Table 18).

2. Packaging Material Costs

Actual packaging material costs will be known only when the final package is adopted. It, in turn, will be the result of market tests. This is especially true of the high margin gourmet items.

TABLE 18

RAW MATERIAL COSTS FOR MAJOR PRODUCTS
($ U.S PER CAN/JAR)

PRODUCT	SIZE	GRADE		
		GOURMET	VALUE-ADDED	COMMODITY
Lumpfish Caviar	2 oz	.047	.037	
	100 grms	.082	.062	
Sild Sardines	3-3/4 oz	.040	.033	.019
Herring Tid-Bits	3-3/4 oz	.099	.089	.079
Herring Fillets	6-3/4 oz	.110	.090	.072
Shrimp	2-1/2 oz	.062	.052	
	5-1/2 oz	.132	.112	
Brook Trout	10 oz	.170		
Cod Roe	21 oz			.144

TABLE 19

PACKAGING COSTS FOR MAJOR PRODUCTS
($ U.S. PER CAN/JAR)

PRODUCT	SIZE	GRADE		
		GOURMET	VALUE-ADDED	COMMODITY
Lumpfish Caviar	2 oz	.056	.056	
	100 grms	.046	.046	
Sild Sardines	3-3/4 oz	.051	.044	.031
Herring Tid-Bits	3-3/4 oz	.030	.030	.030
Herring Fillets	6-3/4 oz	.040	.040	.040
Shrimp	2-1/2 oz	.035	.035	
	5-1/2 oz	.035	.035	
Brook Trout	10 oz	.082		
Cod Roe	21 oz			.086

However, we have estimated packaging costs from a detailed analysis of existing products in each price category in each market.

We have concluded that the costs shown in Table 19 are realistic.

3. Labour Costs

The Icelandic fish canning industry is efficient. This conclusion is based on a study of the operations at the five major plants. In all cases we compared historical productivity data with figures from other plants in other countries. In several plants we observed actual canning operations. We studied both work pace, methods, and the condition and use of equipment. Throughout, plant operations reflected the owner's concern over productive efficiency.

One of the factors contributing to both a good work pace and to accurate labour cost estimating is the incentive plan. However we did not accept the Icelander's estimates of labour cost without question. For each major production line we examined alternative levels of staffing. For each level we assessed the relationship between production and labour costs.

The major processes are summarised briefly below.

a. Cod Roe

i. Extraction at fish processing plants.

- sorting, separation, washing, salting, panning and freezing.

ii. Transportation into cold storage at canning plant.

iii. Canning: melt frozen blocks, separate skin, add other ingredients, fill cans, secure lid, transport to autoclave for cooking under pressure.

iv. Label, pack in cases, store in warehouse.

b. Lumpfish Caviar

i. Barrels of lumpfish roe are bought from a number of plants and transported by road to the canning plant, where they are chilled to 5° C.

ii. The barrels are then opened, and the caviar washed, colour added and fed into the jar-filling machine.

iii. Simultaneously the jars have been washed and dried and fed into the jar filling machine.

iv. Jars are vacuum sealed, closed, packed into a case and stored in a chilled atmosphere.

c. Herring Tid-Bits

i. Headless herring is salted, spiced and placed in barrels. It is then allowed to cure for about 6 months.

ii. After being delivered by road to the canning plant, the barrels are kept in cool storage until needed.

iii. The barrels are dumped into a de-brining tank and the herring conveyed to the filleting table. Offal is led off to empty barrels, the filleted herring goes to the skinning table, and then to the tid-bit slicer.

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iv. Tid-bits are placed by hand into cans. After filling, the cans pass to the lid machines and to washing.

v. Packing and storage.

d. Sardine

Essentially the same as the herring tid-bit operation.

e. Herring Fillets, Kipper Snacks

i. Herring are landed, scaled, and conveyed either to the freezing room or the filleting machine.

ii. From three filleting machines the fillets are placed manually into cans. Oil is metered into the cans which then go to the closing machines.

iii. Curing in the autoclave is followed by a minimum of 10 days storage. The cans, if in good condition then go to the wrapping machines and case packing.

From these observations and analyses, we believe that the data listed in Table 20 will reflect the labour costs of production at current wage rates.

At one plant the labour cost is appreciably higher than the values in Table 20. However, we believe that this is at least partly attributable to the intermittent production during 1969. As volume increases, we would expect the canning plants at least to equal, if not improve upon these figures.

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TABLE 20

ESTIMATED LABOUR COSTS OF PRODUCTION
FOR MAJOR PRODUCTS
($ U.S. PER CAN/JAR)

PRODUCT	SIZE	LABOUR COST
Lumpfish Caviar	2 oz	$.015
	100 grm	.012
		.040 Gourmet, V-A
Sild Sardines	3-3/4 oz	.030 Commodity
Herring Tid-Bits	3-3/4 oz	.021
Herring Fillets	6-3/4 oz	.025
Shrimp	2-1/2 oz	.015
Brook Trout	10 oz	.062
Cod Roe	21 oz	.025

4. Miscellaneous Expenses

Other expenses are incurred in each plant as a direct result of production operations. They include the various employee benefits: summer vacation (7% of payroll), sickness (1%), payroll tax (1%), holidays (12 days per year). Another major category is supplies: oil, electricity, miscellaneous production supplies, plant and equipment maintenance and so forth. A third element is the export tax, approximately 2.5% of the f.o.b. value of goods.

A fourth element which should be included as a direct expense is plant overhead. Primarily this consists of administrative personnel. Typically, we would envisage a plant operating at full one-shift production to employ a proprietor-manager, a plant superintendent, an accountant-bookkeeper and a secretary. The salary cost for this group should not exceed $40,000. We will assume initially that each of the seven major plants would incur this cost. However, as the industry develops, some rationalization will occur, with consequent savings.

It is difficult to attribute these expenses directly to production on any logical basis. Employee benefits are proportional to hours worked. Export tax depends on the volume of sales. Plant and equipment maintenance is, to some extent arbitrary. It is also related to the level of production. Administrative overhead is largely fixed. However, we can assume that the administrative staff is only employed and paid when the plant is operating. Under this assumption, overhead, as well as other miscellaneous expenses can be treated as being proportional to the direct labour cost.

Analysis of these costs for a number of the Icelandic plants shows that they range between 55% and 65% of the direct labour costs. We will assume that the upper, conservative, value is appropriate for most products in our analysis.

5. Marketing Costs

These costs reflect promotional and advertising effort to pull the products through the distribution channel. The amount varies but in all cases it represents a decision by management. It will be greatest for high profit gourmet items. It will be minimal for commodity grade products.

Optimal promotional tactics can be defined only when test market results are available. They will vary with the state of competition, the development of the market, and tradition or custom in each market.

At this stage, we believe that a target level of expenditure should be:

Gourmet	-	3% of the c. i. f. price
Value-Added	-	1. 5% of the c. i. f. price
Commodity	-	0. 5% of the c. i. f. price

These targets are based on our recently conducted interviews with fish marketing and distribution specialists. They are also consistent with our experience in marketing a variety of food products in the North American markets.

E. ESTIMATED CONTRIBUTION OF EACH PRODUCT IN EACH MARKET

Summarizing the results of the above analyses we obtain the contribution shown in Table 21. This list includes all the more profitable products and markets which we have identified and analysed in detail. It also includes all those products which could be sold under an "Iceland" brand.

However, additional sales are possible under co-packing agreements with firms such as John West. The return to the Icelandic canneries is not great. We would expect the f. o. b. price to yield about 15 - 20 cents profit per case (of 24 - 3-3/4 oz or 6-3/4 oz cans). In this case the cost should include a fair allocation of overhead. Superficially such sales may not return much profit. However, they do improve the cash flow (profit plus non cash expenses and fixed overhead allocation) and they augment Iceland's earnings of foreign exchange.

TABLE 21

CONTRIBUTION TO PROFIT AND OVERHEAD IN THE CANNING INDUSTRY FOR EXPORTS TO SELECTED MARKETS

($ U.S. f.o.b.)

PRODUCT	SIZE	Units Per Case	GRADE *	COUNTRIES							
				U.S.A.		U.K.		FRANCE		GERMANY	
				Per Unit	Per Case	Per Unit	Per Case	Per Unit	Per Case	Per Unit	Per Case
Lumpfish Caviar	2 oz.	24	Gourmet	$.211	$4.86						
			V - A	.113	2.32						
	100 grms	24	Gourmet			$.148	$3.54	$.176	$4.23	$.118	$2.83
			V - A			.131	3.13	.130	3.14	.021	0.49
Sild Sardines	3-3/4 ozs	24	Gourmet	.292	7.02	.022	0.43	.058	1.39	.127	3.21
			V - A	.076	1.84	(.037)	(0.88)	(.010)	(.23)		
			Comm.	.045	0.83	(.020)	(0.48)	(.002)	(.03)	.006	.17
Herring Tid-Bits	3-3/4 ozs	24	Gourmet	.122	2.91	.075	1.80	.074	1.76	.144	3.45
			V - A	.064	1.55	.025	.59	.027	0.64	.093	2.24
			Comm.	.049	1.18	(.013)	(.33)	.008	0.18	.062	1.43
	6-3/4 ozs	24	Comm.							(.052)	(1.25)
Herring Fillets	6-3/4 ozs	24	Gourmet	.068	1.64	.110	2.64	.067	1.60	(.008)	(.18)
			V - A	.022	0.91	.076	1.83	.033	0.79	(.005)	(1.08)
			Comm.	.004	0.10	.062	1.46	.007	0.16	(.060)	(1.44)
Shrimp	2-1/2 ozs	24	Gourmet	.192	4.60	.259	6.20				
			V - A	.092	2.23	.157	3.78				
	5-1/2 ozs	12	Gourmet	.875	10.51	.208	2.95	.214	2.57	.379	4.55
			V - A	.786	9.44	.216	2.60	.162	1.94	.380	4.57
Brook Trout	10 ozs	24	Gourmet	.687	16.50						
Cod Roe	21 ozs	100	Comm.			.483	48.27				

* Gourmet, Value-Added (V - A) and Commodity (Comm.)

In the next chapter we will examine how Iceland's available materials and resources should be allocated to these products and markets.

VI

MARKET STRATEGY - MAXIMIZING THE RETURN

A. INTRODUCTION

The Icelandic fish canning industry can select from four basic strategies:

1. Commodity products versus value-added products.

2. Gourmet products versus standard products.

3. Sale for cash versus barter.

4. Country versus country.

These alternatives are not mutually exclusive. The best strategy so combines them that profits are maximised.

The starting point in developing a strategy is the contribution which each product will earn in each market. The most profitable products are allocated to the most profitable markets until they have gained the target or maximum share of market. Remaining items are then allocated to the next most profitable market -- and so forth. The process continues in this way until all of a product is assigned to a market, or until productive capacity is exhausted.

Table 21 highlighted two important factors. The first is the importance of gourmet products. The second is the relative superiority of the North American market. Thus, an essential feature of Iceland's market strategy must be to capitalize on the gourmet market. This is especially important in view of Iceland's limited resources: low unit profit cannot be offset by high volume.

The importance of the gourmet market has other implications. Product entry must be supported by extensive testing: testing of the

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concept, the taste, the package, the price, advertising and sales promotion. Also, once launched, products must enter each market with a "line" of products -- at least three initially, subsequently others as the market develops. Thus in developing a strategy for each country we are concerned not only with the contribution from individual products. We must select at least three products which can be promoted together.

Analysis of each market -- both from the viewpoint of profit contribution and development -- suggests the following:

U.S.A.

Lumpfish Caviar

Sardines

Shrimp

Herring Fillets

Brook Trout

U.K.

Lumpfish Caviar

Sardines

Herring Fillets and Tid-Bits

FRANCE

Herring Fillets and Tid-Bits

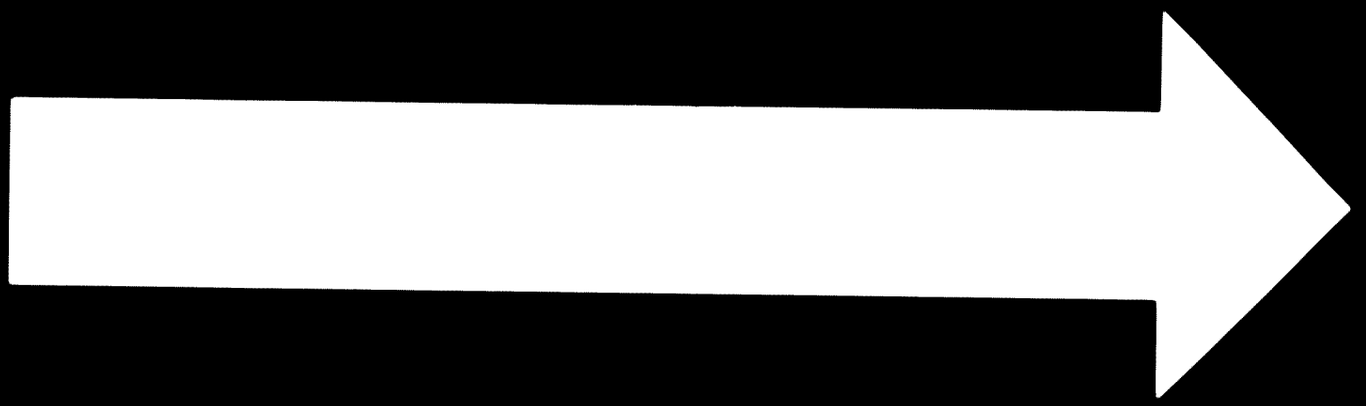
Sardines

Caviar

Shrimp

Cod Liver

G-612



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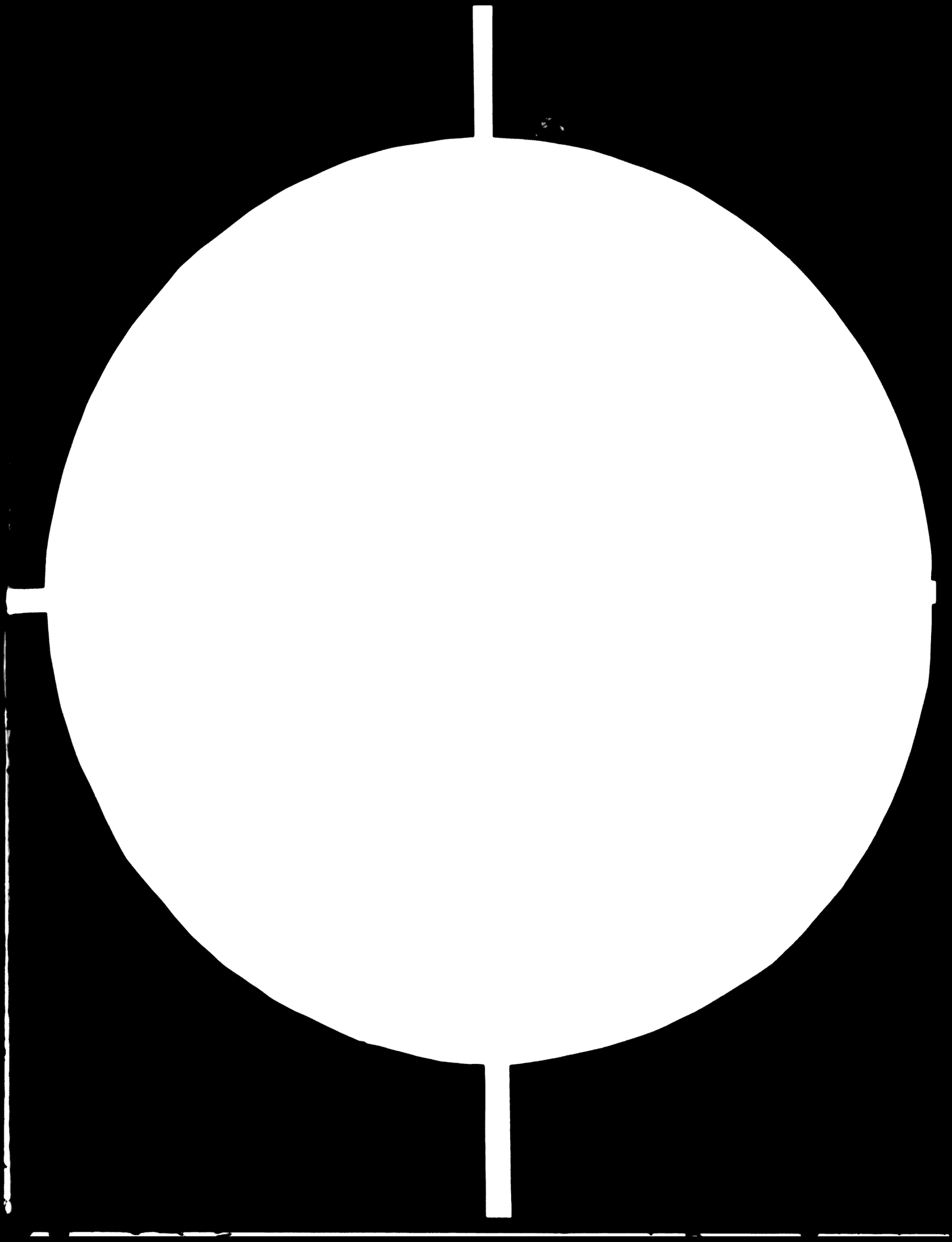

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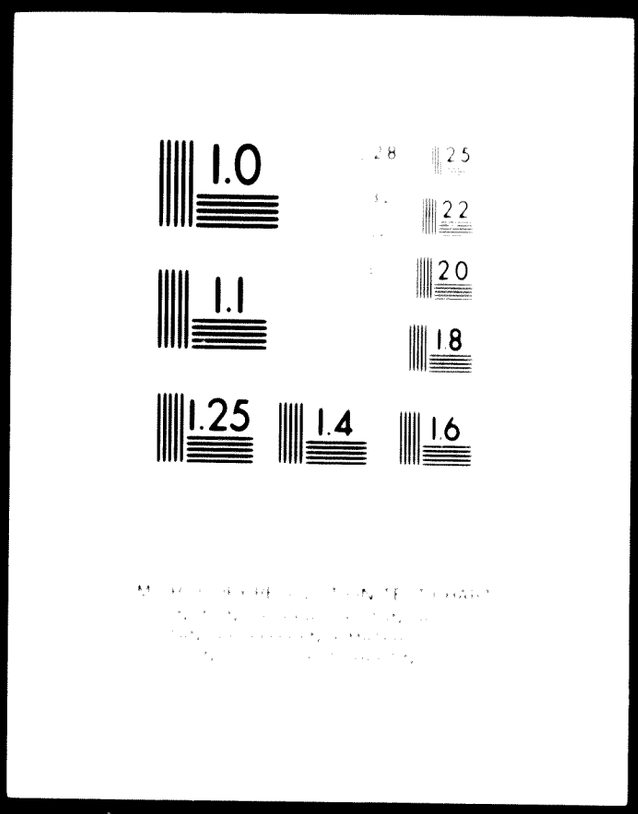

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GERMANY

Herring Tid-Bits and Fillets.

Herring fillets are included in the U.S.A. market although their contribution would not be as high as in the United Kingdom. The reason lies in this product having a very large potential in the American market. Furthermore, this potential is available to Iceland if it successfully introduces and promotes the right product.

The second factor influencing market strategy is the size of the market and the share which Iceland can secure.

B. MARKET SHARE AFFECTS BEST PRODUCT MIX

The share of each market which Iceland can expect depends on many factors. The most significant are:

- number of competitors
- size of market relative to the capacity of suppliers
- the state of development of the market
- the nature and extent of promotion and avertising by competitors and by Icelandic canners
- the attitude towards Icelandic suppliers
- the willingness of a supplier to maintain a steady supply of his goods to the market, despite temporary shortages of raw materials
- the willingness to work with and support brokers, importers, wholesalers and retailers in promoting a product

To-date Iceland does not enjoy a good reputation among fish product distributors. This is discussed in Volume II. However

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we believe that by serving the market the way it wants to be served, Iceland can overcome the present negative attitudes.

During our in-depth interviews in each major market we paid especial attention to those factors influencing market share. Based on the results of these interviews we estimate that Iceland can gain the share of market shown in Table 22 for its major products. In most countries, for most products we see Iceland gaining between 2 and 5% of the market. But, there are exceptions. Lumpfish caviar, subject to effective product design, packaging and promotion, should gain upwards of 25% of the U.K. and U.S.A. markets. Brook trout is a unique product. It will make its own market. We fully expect its sales to be at least 40% of the existing market in the U.S.A. Even larger sales would result if more raw material were available.

Herring fillet sales to the U.S.A. are also projected at a much higher level. Again, this is because we believe Iceland can develop this market. Little or no effective promotion exists at present. The market is very underdeveloped. We expect that Iceland will make this market much larger than it is at present.

Iceland also enjoys a substantial part of the United Kingdom's market for cod roe. At present it is over 20%. We believe that with the added benefit of co-packing contracts this high share should be maintained.

The market shares and volumes in Table 22 are an immediate target. We see the sale of Iceland's products reaching these levels in the third year after a decision has been made to enter the market. Further growth would occur in the fourth and fifth years.

We have omitted the estimated market share for some products in some markets. Typically caviar, sardines and shrimp in France and the Federal German Republic, herring tid-bits in the U.S.A., and trout in the U.K., France and Federal German Republic. In most cases the reason is the same: there is a scarcity of the product. All available production should be directed to the U.S.A. and to a lesser extent, the United Kingdom. Herring tid-bits are an exception. They have been omitted from the American market because of the

TABLE 22

ESTIMATED SIZE OF MARKET FOR ICELANDIC GOODS

Product	Market	Standard Case	Estimated Total Market		Estimated Icelandic Share	Estimated Market for Icelandic Products (000's Cases)		
			Tons	(000's) Cases		Total	Branded	Co-Packer
Lumpfish Caviar	U.S.A. U.K. France Germany	24-2 oz. 24-100 grm. Jars	1,500 500 500 500	1,100 180	33% 25%	365 45	290 35	75 10
Sild Sardines	U.S.A. U.K. France Germany	24-3 3/4 oz. Cans	40,000 23,000 43,000 10,000	16,000 9,000	4%[1] 2%[1]	640 180	480 100	160 80
Herring Tid-Bits	U.S.A. U.K. France Germany	24-3 3/4 oz. Cans	2,500 800 2,500 55,000	1,272 1,000 22,000	1% 5% 8 1/2% 1%	65 84 200	63 160	21 40
Herring Fillets	U.S.A. U.K. France Germany	23-6 3/4 oz. Cans	2,000 1,200 2,500 60,000	443 265 550 13,000	28% 5% 6 1/2% 1%	125 14 36 21	42 9 27	83 5 9 21
Shrimp	U.S.A. U.K. France Germany	24-2 1/2 oz. 24-5 1/2 oz. Cans	10,000 2,500 6,000 3,400	6,000 675	3%[1] 3%[1]	180 20	120 11	60 9
Brook Trout	U.S.A.	24-10 oz. Cans	100	15	40%[1]	4.16	4.16	
Cod Roe	U.K.	100-21 oz. Cans	2,000	35	20%	7	3	4

[1] Limited by available supply of raw material

difficulty of entry. This market has been over-exposed to herring tid-bits. Shelf space is at a premium. Consequently it is not in Iceland's interest to attempt to enter a market with a product already in over-supply.

C. THIS PRODUCT MIX WILL YIELD ANNUAL PROFIT CONTRIBUTION OF MORE THAN 3 MILLION DOLLARS

Development of a market takes place gradually. In projecting Iceland's entry into each market we have assumed the following sequence of activities:

Year 1 - Product Research and Testing

Year 2 - Test Marketing

Year 3 - Product Launch

Year 5 - Maturity

During the first year some profits would be generated from co-packing agreements and from a continuation of existing sales patterns. This will include lumpfish caviar to France, cod roe to England, and co-packed kipper snacks for Bjelland A. G. (Norway).

The second year will be used for test marketing products and concepts developed in the first year. Some revenue will be generated. However, the owners of the plants should not expect to withdraw dividends during this period.

The third year is the first year of aggressively promoting and selling branded products. In this year management will begin to realize the substantial profits which we anticipate. The fourth and fifth year will see continued gradual growth towards a mature market. During this period new products will be tested and introduced to take full advantage of all Iceland's resources. Many of these products can not be anticipated at this stage. In a later chapter (Volume II) on setting market priorities we discuss some ideas which should be tested.

Branded products in the gourmet and value-added category are the key to profitable market development. If Iceland's canners adopt this approach we project the contribution in the third year to be in excess of $3-1/2 million. Earnings of foreign exchange will be at least $10 million.

A summary of the projected earnings, country-by-country is presented in Tables 23 to 26. We should point out that in each case the third year represents the third year in each specific country. The results are not necessarily additive therefore. For example, if product research and testing were to begin in the U.S.A. in 1970, the third year would be 1972. But if a comparable program did not start in the U.K. until 1973, the third year would be 1975.

In these tables the volumes were taken from the market share estimates developed earlier. The contributions per case were obtained from Table 21 and the foreign earnings from Table 17 showing the f.o.b. price for each product.

As would be expected this table highlights the importance of the U.S. market. Obviously Iceland's efforts should be directed, almost exclusively, to this lucrative situation.

D. REMAINING PLANT CAPACITY SHOULD BE USED FOR CO-PACKING OTHER PRODUCTS

The above marketing strategy should move about 47 million cans of fish products annually by the third year of entry to each country. At maturity it will represent almost 60 million cans.

In order to use all plant capacity we suggest that the remaining capacity be devoted to co-packing opportunies. Based on an estimated 1 shift capacity of 86 million cans there is ample capacity for items such as cod liver, fish balls, fish loaf, clams and clam chowder.

The margin on co-packing is small. We would expect it to average about 1/2 cent per can. On this basis the additional profit contribution would be a further $200,000.

TABLE 23

ESTIMATED CONTRIBUTION TO PROFIT AND FOREIGN EXCHANGE EARNINGS IN THIRD YEAR

MARKET: U.S.A.

Product	Product Type	Volume Cases	Contribution Per Case	Total Contribution	Foreign Earnings Per Case	Total Foreign Earnings
Lumpfish Caviar	Gourmet	203,000	$4.86	$988,000	$8.16	$1,655,000
	Value Added	87,000	2.32	202,000	5.71	498,000
	Co-Packed	75,000	0.96	72,000	3.75	281,000
Sild Sardines	Gourmet	80,000	7.02	562,000	11.08	886,000
	Value Added	158,000	1.84	291,000	5.30	836,000
	Commodity	237,000	0.83	193,000	3.20	758,000
	Co-Packed	158,000	.09	14,200	2.44	385,000
Shrimp	Gourmet	40,000	4.60	184,000	7.77	310,000
	Value Added	60,000	2.23	134,000	5.07	304,000
	Co-Packed	80,000	.25	20,000	2.93	234,000
Brook Trout	Courmet	4,160	16.50	68,600	25.72	107,000
Herring Fillets	Gourmet	42,000	2.64	110,500	7.44	312,000
	Co-Packed	83,000	.15	12,400	3.80	315,000

Total Contribution to Profit $2,852,000

Total Earnings of U.S. Exchange $6,881,000

TABLE 24

ESTIMATED CONTRIBUTION TO PROFIT AND FOREIGN EXCHANGE EARNINGS IN THIRD YEAR

MARKET: U.K.

Product	Product Type	Volume Cases	Contribution Per Case	Total Contribution	Foreign Earnings Per Case	Total Foreign Earnings
Lumpfish Caviar	Gourmet	15,000	$3.54	$53,000	$7.30	$109,500
	Value Added	20,000	3.13	63,000	6.28	125,500
	Co-Packed	10,000	.90	9,000	3.96	39,600
Sild Sardines	Gourmet	100,000	.43	43,000	4.29	429,000
	Co-Packed	80,000	.06	4,800	2.41	192,400
Shrimp	Gourmet	4,000	2.95	11,800	5.40	21,600
	Value Added	7,000	2.60	18,200	4.81	33,600
	Co-Packed	9,000	.13	1,200	2.20	19,800
Cod Roe	Commodity	3,000	48.27	144,500	77.68	233,000
	Co-Packed	4,000	2.00	8,000	29.00	116,000
Herring Tid-Bits	Gourmet	13,000	1.80	23,500	5.86	76,000
	Value Added	32,000	.59	18,800	4.30	137,500
	Co-Packed	20,000	.15	3,000	3.55	71,000
Herring Fillets	Gourmet	2,000	1.64	3,300	6.40	12,800
	Value Added	7,000	.91	6,400	5.06	35,500
	Co-Packed	5,000	.15	700	3.80	19,000

Total Contribution to Profit $412,200

Total Earnings of Sterling $1,671,800

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TABLE 25

ESTIMATED CONTRIBUTION TO PROFIT AND FOREIGN EXCHANGE EARNINGS IN THIRD YEAR

MARKET: FRANCE

Product	Product Type	Volume Cases	Contribution Per Case	Total Contribution	Foreign Earnings Per Case	Total Foreign Earnings
Herring Tid-Bits	Gourmet	28,000	$1.76	$49,100	$5.70	$159,500
	Value Added	35,000	.64	22,500	4.23	148,000
	Co-Packed	21,000	.15	3,200	3.55	74,500
Herring Fillets	Gourmet	12,000	1.60	19,200	6.36	76,300
	Value Added	15,000	.79	11,800	4.95	74,100
	Co-Packed	9,000	.16	1,400	3.81	34,400

Total Contribution to Profit $107,200

Total Earnings of French Exchange $566,800

TABLE 26

ESTIMATED CONTRIBUTION TO PROFIT AND FOREIGN EXCHANGE EARNINGS IN THIRD YEAR

MARKET: GERMAN FEDERAL REPUBLIC

Product	Product Type	Volume Cases	Contribution Per Case	Total Contribution	Foreign Earnings Per Case	Total Foreign Earnings
Herring Tid-Bits	Gourmet	160,000	$3.39	$542,000	$7.50	$1,200,000
	Co-Packed	40,000	.15	6,000	6.27	250,000
Herring Fillets	Co-Packed	21,000	.15	3,000	3.80	80,000

Total Contribution to Profit $551,000

Total Earnings of German Exchange $1,530,000

E. MAJOR EXPENDITURES WILL BE NEEDED TO INTRODUCE THESE PRODUCTS

The key to a profitable canning industry is a gourmet and value-added capacity. This is readily apparent from the analysis of contribution for each item in the previous chapter. Co-packed products yield about 25 cents a case. Icelandic commodity grade products also will do little better than break-even. They will generate funds. They will earn some foreign exchange. But they will never support a strong, viable industry which controls its market. Gourmet and value-added products contributing several dollars per case are essential.

However, gourmet and value-added products do not occur by chance. Planning is necessary. The product in all its forms: concept, taste, packaging, price and promotion, must be tailored to the needs of the market. This requires a fairly costly pre- and post-launch research programme. It should include at least the following steps.

1. Pre-Launch - Year 1

a. Concept Test

A concept test measures the degree of consumer acceptance (or lack of acceptance) of an idea on which a product or line of products is based. Normally a number of alternative ideas are developed and translated into carefully prepared, consumer-oriented statements. The ideas are compared with one another and with the normal level of acceptance for the product class (if one exists). The purpose is to eliminate product ideas that consumers reject. No product development dollars are spent before the results of the concept test are known. Thus, costly product development is confined to those products with a high probability of acceptance.

b. Product Tests

This is the second step in bringing a product or line of products to market. Actual product development has been undertaken. In the eyes of the manufacturer, the actual product and the product concept or idea conform to one another. A limited sample of the product is tasted by consumers to verify that the line corresponds to the tasted concept. Any needed product modifications are then made, and the product re-tested.

The second stage of product testing is the "In-House Use Test". The product is placed in the home in the form it will be sold. A note describing the concept and carefully prepared directions for use are included. The housewife then reacts to the market within the context of normal in-home usage.

Additional modifications can be made, if necessary, to bring the product more in line with the concept. Results at this stage usually give reliable indications of the product's ultimate acceptance.

c. Brand Name Selection

As with a products formula, its name must reflect the concept on which it is based. Both the Brand Name and Product Identification lend themselves to testing. These tests reduce the risk of brand image conflicts and increases the chance of brand success.

d. Package Design

Packages should be designed by people operating in the environment in which the product will be sold. Professional designers should use all available research knowledge about a product

and its position in the market. Marketing objectives, concept tests, product tests and brand name research all contribute to their work. From this background they will produce alternative designs for both individual products and the complete line.

e. Package Design Tests

"Image" and shelf and display impact are the criteria of package design. Tests should be carried out to see whether the package:

- is consistent with the product concept
- is visible and easily understood
- has sufficient shelf and display impact that it stands out from competing products

f. Advertising

Television, radio and/or printed advertising may be used to support the product. Again the emphasis must be on supporting the product concept.

g. Advertising Test

Just as the concept, product, brand name and package design lend themselves to testing, so does advertising. And, it can be tested before it is published or aired. This will greatly reduce the possibility of failure. Continued testing, once the advertising is in use, will ensure that it has the appropriate impact on the target audience.

We estimate that the costs of these pre-launch activities in the American market will be:

Concept Test	$ 35,000
Product Test	$ 48,000
Brand Name Selection	$ 8,000
Package Design (line and individual items)	$ 32,000
Package Design Tests	$ 9,000
Legal Fees	$ 20,000
Advertising Design Fee	$ 25,000
Advertising Tests	$ 12,500
Sales Promotion	$ 30,000
Contingencies	$ 50,000
	$269,500

2. Post-Launch (Test Market) - Year 2

A test market in the second year is designed to be representative of the entire market. It is the opportunity to test -- on a repeat purchase basis -- whether the total product package designed in Year 1 meets the consumers' needs.

We estimate the costs of test marketing to be:

Legal Fees	$ 10,000
Advertising - media costs	$100,000
- fees	$ 60,000
Advertising tests	$ 12,500
Sales promotion	$ 65,000
Test Market Measurement	$ 60,000
Contingencies	$ 23,000
	$330,500

We recognize that this is an expensive programme. However, it is the most profitable in the long term, and least risky in the short term. It will prevent a waste of money on developing products which are not suited to the market. It will prevent a costly build-up of inventories which can be sold only at liquidation prices. On the

positive side it will enable the Icelandic industry to enter the market with a product which the consumer will buy. Only in this way can valuable shelf space be retained in face of conflicting demands from other suppliers.

F. THE QUESTION OF RISK AND ALTERNATIVE STRATEGIES

During a recent trip to Iceland we discussed these concepts with members of Associated Canneries Inc. They were very concerned about the "risk" associated with such a heavy marketing investment.

Certainly there is a risk. But it would be discovered early in the concept or product testing stages. Thus, if there is any significant probability of the market not accepting high profit, gourmet or value-added products, it would be discovered early in the development program. The "loss" would be less than $100,000. Furthermore, a program could be set up under which funds for continued development are released only after a satisfactory result at each stage. In this way a lender's risk is greatly reduced.

However, a more gradual program has its risks. The more serious are:

- Inadequate design of product or line prevents pricing in the gourmet or value-added class. This loss of margin is a very real cost.

- A product or package design which fails to motivate the consumer to purchase. Slow turnover would lead to buyers refusing Icelandic goods in view of pressure for shelf space from competing products.

Despite these risks, it is possible for Iceland to enter the market with a single line of products.

TABLE 27

REVENUES AND CONTRIBUTIONS FROM INTRODUCING SINGLE LINE PRODUCTS

Market	Product	Year 3			Year 5		
		Cases	Sales Revenue	Contr'n	Cases	Sales Revenue	Contr'n
U.S.A.	Caviar-Co-Pack	75,000	$284,000	$ 72,000	90,000	$340,000	$ 86,400
	Sardines-Co-Pack	158,000	387,000	14,200	177,000	434,000	16,000
	Shrimp-Co-Pack	80,000	234,500	20,000	90,000	264,000	22,500
	Brook Trout	4,160	107,000	68,600	4,160	107,000	68,600
	Total U.S.A. Market		$1,012,000	$174,800		$1,145,000	$193,500
U.K.	Caviar	10,000	306,000	9,000	12,000	369,000	10,800
	Sardines	80,000	193,500	4,800	85,000	205,500	5,100
	Shrimp	9,000	19,800	1,170	14,000	30,800	1,820
	Cod-Roe	7,000	348,000	152,000	7,360	389,000	170,000
	Herring Tid-Bits	20,000	71,000	3,000	25,000	88,600	3,750
		5,000	19,000	738	7,000	26,500	1,030
	Total U.K. Market		$957,300	$170,700		$1,109,400	$192,500
	Total Sales f.o.b.		$1,970,300			$2,254,400	
	Total Contribution to Profit			$345,500			

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1. Introduction of Single Line Commodity or Co-Pack Products

a. U.S.A. Market

This market virtually demands promotion and advertising for value-added products. If Iceland is unwilling to make this investment we see the product volumes in Years 3 and 5 (shown in Table 27). In the absence of promotion Iceland should concentrate on co-packing agreements. It may be possible to enter the U.S.A. market with a value-added caviar. However, the lack of test market data will increase the difficulty of being "listed" in the major stores.

We believe that the market for co-packed products will be as great as in the high-promotion strategy. Shrimp and sardines will be the basic product. We do not see a profitable co-pack opportunity for herrings because the market is underdeveloped. The large market in the earlier strategy resulted from Iceland's creating the market. Co-packing will not do this. Brook Trout will always command a premium price.

b. United Kingdom

Cod roe and caviar appear to be the best products in this commodity and co-pack market. Other products can be sold but it is questionable if they will generate much profit.

Total sales to the U.S.A. and U.K. will increase to $1,970,300 in the third year and slightly in excess of $2-1/4 million in the fifth year. Contribution to profit will range between $345,000 and $386,000 out of which must be deducted the costs of the sales force, financing charges, return on investment to the owners, and the corporate costs of "Associated Canneries Inc".

Sales of caviar to France should produce an additional $350,000 revenue, and $10,000 net income. Cod liver pâté should augment these figures still further.

Shrimp offers additional potential to the Icelandic fishing industry. There is a world-wide shortage of shrimp: virtually all available supplies could be sold in the U.S. market at upwards of $1 per lb.

The quantity required for canning is small. Eighty-nine thousand cases for the U.S.A. and U.K. markets needs 380,000 lbs of peeled shrimp. The annual sustainable catch is estimated at 1500 - 2000 tons landed weight: equivalent to between 550,000 and 700,000 lbs peeled. Thus at least 200,000 lbs is available for sale as frozen shrimp at $1 per lb. Estimated profit is slightly in excess of 50¢. Thus additional revenue of $200,000 and profit contribution of $100,000 should be realized from the sale of frozen shrimp.

The overall implications of this strategy, compared with the high-promotion strategy, are outlined in Chapter VIII - Cash Flow.

G. OTHER STRATEGIES EXIST

Other strategies exist but most are a combination of the above two. One which has some appeal to the Icelandic industry is based on heavy promotion of caviar only. This reduces the investment in inventory and receivables - discussed in Chapter VIII. However, it results in negligible reduction in test marketing, concept and packaging testing costs. One advantage of developing a complete line of products is that these market development costs are spread over many items.

The one strategy which promises the greatest return to Iceland is high promotion of branded products. It has the advantage of developing a market which would enable the industry to operate close to capacity. But capacity operations may require additional investment. Before comparing the cash flows of alternative strategies we will examine plant capacity in some detail to assess the need for capital investment.

VII

PRODUCTIVE CAPACITY - THE ABILITY TO SUPPLY THE MARKET

A. INTRODUCTION

Iceland's best strategy will create a total demand for over 2,400,000 cases in the fifth year if all markets are developed simultaneously. This is equivalent to 59 million tins and/or jars annually.

Can this be done with present facilities? If not, what investment is needed?

In a previous chapter we examined the availability of raw material. We found that a scarcity of certain species will impose a major constraint on the growth of the industry.

Plant facilities do not represent the same kind of constraint. Needed equipment can be purchased. Buildings and freezing plants can be constructed. But, such needs reflect a demand for funds. As such they must be included in any development plan.

B. RELATIVELY LITTLE INVESTMENT IS NEEDED IN PLANT AND EQUIPMENT

Fifty-nine million units is, in aggregate, within the limits of existing capacity. However, examination of specific products and plants shows a need for some additional capacity or re-arrangement of equipment.

The following analysis is not final. It is based on the present limited understanding of the market. To illustrate -- we estimate that the demand for sardines will be about 800,000 cases of 24 - 3-3/4 oz cans. The significant factor is the total demand -- 4-1/2 million pounds of sardines -- not the size of can. This can size

has been used as a standard for estimating profit and contribution. We are not saying that sardines should be sold in a 3-3/4 oz tin. The answer to the size and shape of tin will emerge in the pre-launch tests.

The market may prefer sardines in a glass jar, or in a 2-ounce tin. Or, maybe the shape is ill-suited to display on retail shelves. It may transpire that the tin should be cylindrical.

Obviously, plant equipment selection should wait until after the results of the market tests. No facilities should be purchased, nor equipment re-arranged at the present time.

Despite this proviso, some estimate of capital investment is necessary in order to project the cash flow and to estimate the need for financing. Consequently we have assumed that existing package configurations are acceptable. This is not an unreasonable assumption. The containers now in use reflect current trade practices. They are fairly generally accepted, and are reasonably compatible with present merchandising methods.

In order to evaluate plant capacity in detail we will examine each product and associated production line in some detail.

1. Caviar

The projected demand for caviar in five years is 470,000 cases of 24 jars: equivalent to 11,300,000 jars annually.

Two plants are now set up to process caviar. Arctic Ltd. at Akranes and the Langeyri plant can each produce 15,000 jars a day. This is based on a production rate of 2000 jars per hour.

Very little equipment is required for this process. Opening and dumping the barrels of lumpfish roe, washing out and colouring and spicing the roe are essentially manually paced. Greater throughput

would call for increased staff and, at most, extra washing tubs.

The principal mechanical element, and the major constraint is the jar-filling machine and vacuum seal - lid closing machine. This bottleneck limits production at the present time to 30,000 jars per day -- 7,200,000 per year.

The additional production could be realized in two ways - run an extra shift or add one jar-filler, vacuum sealer machine. The former alternative would require no investment. However, we will assume conservatively that additional equipment is needed despite the assurance that the plants could work a second shift if necessary. The installed cost of the new quipment will be about $ 8,000.

There is no problem of "peaking" in the production of lumpfish caviar. Although the lumpsucker is caught during a very short season the roe is salted in barrels. After a three month "ripening" period it could be held in cold storage for up to two or three years without deterioration. Thus production can be spread throughout the year with obvious benefits in productivity and employee morale.

2. Sild Sardines

The Langeyri plant and the K. Jonnson plant in Akureyri together can produce 70,000 - 3-3/4 oz tins of sild sardines daily. At present they are set up for seasonal operation only: processing fresh sardines. At the end of the sardine season the equipment is moved out of the processing line at the Langeyri plant to permit caviar production.

Much of the work is manually paced. Trimming the small herring and filling the cans -- both labour

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intensive -- are performed by up to 58 girls working at continuous tables. Changes in output are controlled by reducing or increasing the number or girls.

After filling, the cans go through the lid-closing machine to precooking and sterilizing. Subsequently marking and packing complete the process. The goods are then ready for shipment to customers.

Cans are made at the plant. Lids are imported. In both cases capacity far exceeds the expected demand.

In order to increase production from the present capacity of 17,000,000 tins yearly (240 working days) to 19,000,000 -- the projected demand in the third year -- some minor changes will be necessary. More space will be needed to allow sardine and caviar processing simultaneously. This might cost up to $15,000.

Additional cooking capacity might be needed if production were to be limited to these two plants. However surplus lid-closing and autoclave capacity is available at Nordurstjarnan. Consequently we do not envisage the need for any major investment in equipment.

3. Shrimp

Icelandic shrimp is currently sold in the frozen form. Revenue approximates $1 per pound.

Our research shows a profitable market for shrimp in other forms. We estimate it to be almost 250,000 cases annually after five years -- equivalent to 6,000,000 2-1/2 or 5-1/2 oz units. The units may be whole shrimp in exotic sauces or spices, or it may be a pâté.

This uncertainty compounds the difficulty of estimating facility requirements. However we will assume a complex process in order to be conservative in our analysis.

The present frozen shrimp process has only one major equipment constraint -- the machine peeler capable of processing 7 tons of raw shrimp daily. Two such machines are installed at Langeyri. Their combined output is 2.8 tons per shift. Other operations are essentially manually paced. These operations include:

a. Landing iced shrimp in boxes on wharf from boats.

b. Transport into chilled room, maintained a few degrees above freezing.

c. Transport to hoisting station where they are lifted and dumped into either of two peeling machines.

d. "Peeling" which includes cooking, passing through an inclined plane of peeler rollers, screening, separating, washing and dewatering.

e. Trimming manually on a conveyor belt.

f. Bagging, weighing and sealing.

Six million units corresponds to about 500 tons of shrimp. Present capacity is equivalent to 350 tons based on a six month shrimp season. The difference could be processed entirely by hand -- including hand peeling -- or could justify another machine peeler.

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Subsequent operations might include: mixing, cooking, vacuum sealing and/or lid closing. In the absence of specific product characteristics we cannot estimate processing needs. However an allowance of about $ 35, 000 would provide for an automatic filler and an automatic autoclave. This should cover all probable needs.

4. Cod Roe

Two thousand 21 ounce cans per hour is the capacity of the present cod roe line at Langeyri. The limit is imposed by the autoclave pressure cooker. Other operations: skin separation, mixing, can filling and putting on the lid are carried out on a number of individual machines arranged in sequence. Most are automatic, or semi-automatic. Their capacity ranges up to 80, 000 per hour -- much above that of the autoclave.

Subsequent operations: labelling and packing, are manually paced. Increased output could be obtained by adding extra personnel.

Annual production of 7400 cases (740, 000 cans) represents 370 hours production. This is well within plant capacity. No additional investment is necessary.

5. Brook Trout

Annual production, limited by a shortage of raw material, of only 28 tons -- 42, 000 cans presents no problems. Currently this product is produced in the "ORA" plant in Kopavogur. Capacity is 10, 000 cans per day.

6. Herring Tid-Bits

Salted and spiced herring is allowed to cure in barrels for up to six months before being delivered to

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the canning plants. At the plant the barrels are stored in coolers at 5°C. for up to a year if necessary. Thus the tid-bit production can be spread out to improve equipment utilization if necessary.

The production process consists of the following operations:

a. Remove barrels from storage, take off lids and tip contents into a wide tank.

b. An elevating conveyor removes the herring from the spiced and salted sauces, and dumps it on another conveyor leading to a filleting machine.

c. Machine-fillet at up to 70 herrings per minute.

d. Convey fillets to distribution conveyor supplying fillets to a number of girls removing the skin.

e. Manually place skinned fillets in tray leading to the tid-bit cutter.

f. Slice herring fillets in the tid-bit cutter and convey to the can filling table.

g. A can-feed and sauce-filling machine meters a small amount of sauce into each tin.

h. Cans are conveyed to tid-bit filling table where they are loaded manually by up to 38 girls on incentive pay.

i. Filled cans conveyed to an after-filling machine where they are topped off with more sauce and then stacked in trays 5-high.

j. Pass cans into a can-lid locking machine from which they tumble into wash baths, and are then

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elevated into a drying tunnel.

k. Pack tins manually into cartons.

l. Seal and transport cartons to storage.

The capacity of this line at the ORA plant is 70 herrings per minute. This is dictated by the filleting machine. Each can-lid locking machine will pass 60 cans per minute. Of the three machines, only two are used regularly. The third is a stand-by in case of emergency.

Daily, one-shift production, is about 100,000 cans. A total annual demand of 360,000 cases of 24 cans thus represents only 37 days' output. Adequate capacity therefore exists. No additional investment is necessary.

7. Herring Fillets

This process is not unlike herring tid-bit production except that fresh herring is the raw material. The overall process consists of:

a. Scale fresh herring.

b. Freeze, if necessary to smooth out surges in the catch landing.

c. Machine fillet.

d. Fill cans, meter in oil or sauce.

e. Close and seal.

f. Cook in autoclave.

Again, adequate capacity exists for an annual production of 5,500,000 cans. The autoclave, with a daily

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output of 60,000 cans, is the limiting facility. The projected demand represents only about 100 days production.

Thus, in summary, relatively little additional capacity is required to enable the plants to meet the projected demand. In total the added investment is under $60,000. This is considerably less than the owners of the plants wish to invest. However this desire reflects their production orientation. They are very concerned about production costs and efficiency. This has resulted in very efficient plant operations and high employee productivity. Consequently we strongly recommend that no additional investment be made in plant or equipment unless necessary -- on an industry basis -- to meet market demands.

All available funds should be directed towards market development.

VIII

SUCCESSFUL MARKETING DEMANDS ORGANIZATION

A. INTRODUCTION

Successful marketing of Iceland's canned fish and fish products will not happen by chance alone. It demands organization and effort.

One of the major needs is a fundamental change in attitude towards the market. Traditionally, Icelanders view the market as a place to sell what they produce. We suggest that they think of their plants as a means of producing what the market wants.

This change has many implications. The most important is that it will enable Iceland to obtain the maximum revenue and profit from the markets. Contrast this with the present system in which the canners may realize only 40 cents profit per case, whereas wholesalers and retailers receive many times this amount. Our earlier analysis showed the importance of gourmet and value-added products. However successful production and marketing of these classes of goods requires a market-,not a production orientation.

In this chapter we explore the impact of this change on the organization of the industry -- both in Iceland and in the major markets.

B. PRESENT ORGANIZATION OF THE INDUSTRY

At present the Icelandic fish and fish canning industry consists of many independent elements. Where necessary, industry or government boards intervene to regulate prices and/or maintain a balance between the elements. Thus the fishermen are largely independent. The freezing plants are independent, and, in most cases the canning plants are independently owned.

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However, the economic balance between independent fishermen and large freezing plants is maintained by pricing boards which set the price which the fishermen shall receive.

Only in exporting have the members of the industry abandoned their independence. Some years ago they formed two organizations to market frozen fish and fish fillets in the major markets. This is functioning effectively and has enabled Iceland to maintain a reasonable volume of exports.

Five of the major canneries, viewing the export success of the freezing plants, have agreed in principle to form an association -- Associated Canneries Inc. Its objective is primarily to promote the exports of the five companies. They have agreed however to allow other canneries to join the association should they so wish.

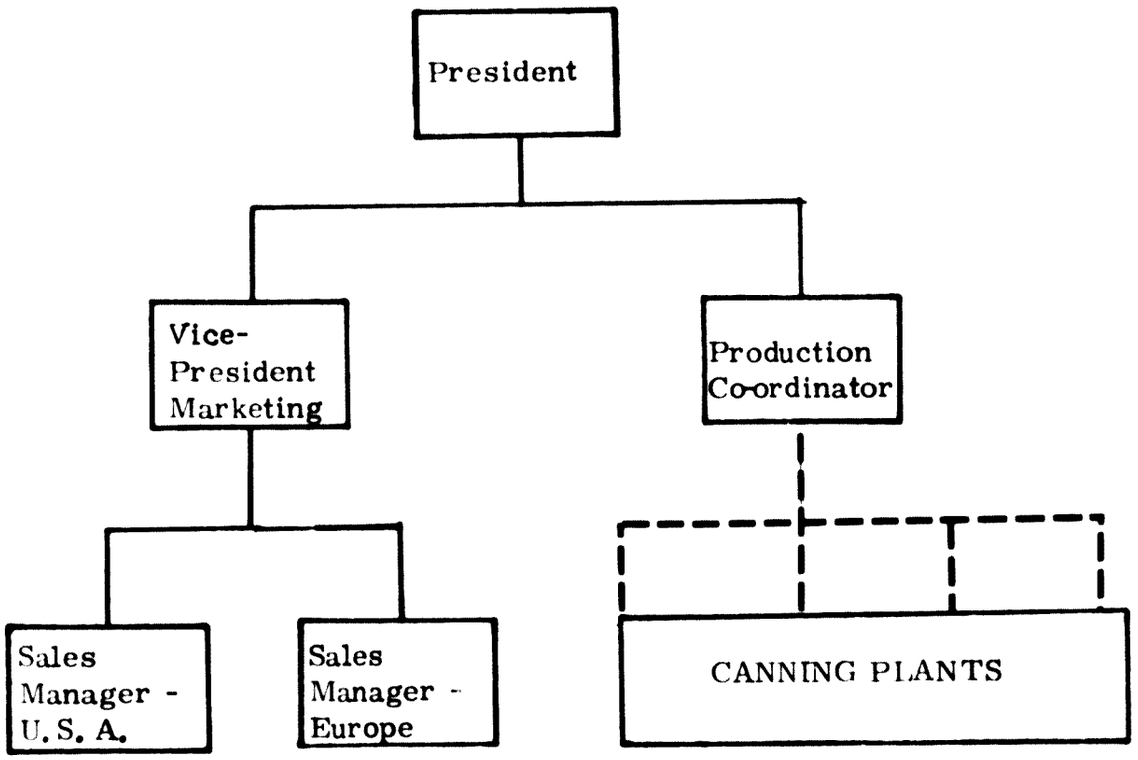
Financing of Associated Canneries is to be largely through loans from international and domestic sources. Security for these loans was to be equity stock of each of the founder companies. In setting up Associated Canneries each of the five founders pledged 49% of equity shares as share capital in the new company. In addition, they agreed to lend the balance of their shares to the new company to be pledged as security.

C. TARGET ORGANIZATION FOR INDUSTRY

In order to exploit effectively the markets in North America, United Kingdom and continental Europe we envisage the following organization structure (Figure 6). We should point out that it represents the operating structure, not necessarily the financial structure. However we believe that by identifying the key operating and management positions, and their responsibilities, would-be sources of financing will ensure the necessary financial controls.

FIGURE 6

TARGET ORGANIZATION STRUCTURE



The principle duties and responsibilities of these positions are enumerated below.

1. President

The President is the chief operating executive of the marketing company. His responsibility is to generate maximum contribution for the canning industry from export sales within policies laid down by the board.

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He is not to ensure that all plants are operating at similar levels, nor is he to ensure that production is allocated evenly between all plants. These may result from his objective of maximizing profits, but they are not his objective.

This distinction is especially important in view of the role of the canning plants in setting up "Associated Canneries Inc." They see this organization initially as a means of increasing the sales of their existing product lines. The initial prospectus indicated a fairly uniform increase in production among the plants. Uniform production levels may result from the optimal production-marketing plan, but it is unlikely. The initial heavy emphasis on caviar and sild sardines appears to be of especial benefit to two of the five plants.

It is important to realize that profits result from marketing and selling -- not from production. Maximum profit might result if only three of the five plants are operating. The board of directors, heavily influenced by, if not consisting of, canning plant owners must resist the pressures to allocated production uniformly. Instead, the financial structure and transfer pricing may be so devised that all profits accrue to the marketing company. In this way they will accrue to canning plant owners in proportion to their investment rather than to their operating level.

These responsibilities imply the following duties for the president:

- Establish annual and long-range marketing plans and export production requirements.

- Co-ordinate with governmental authorities to set and control high quality standards.

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- Obtain co-operation from Fisheries Research Institute in developing new formulae, testing new recipes.

- Participate with governmental authorities, in particular the Ministries of Fisheries and Agriculture to develop policies to protect, sustain and increase the yields of desirable species.

- Represent the canning industry in preparing submissions on the impact of specific tax policies and contemplated tax changes.

- Ensure that marketing and production plans are co-ordinated and executed efficiently.

2. Vice-President - Marketing

The responsibility of this position will vary somewhat depending on the timing of entry to the U.S.A. and European markets. We will assume however that the U.S.A. market will be the first target, followed about three years later by intensive development of the U.K. market.

Primarily, the Vice-President - Marketing is responsible for developing marketing plans in each market area. During the first year he will direct the pre-launch activities - concept tests, product tests, etc. He will also develop co-packing agreements and select a sales manager for the U.S. market.

In the second year he will direct the test marketing activities and maintain contact with potential customers in anticipation of the product launch.

Once the product is introduced, the Vice-President - Marketing will be responsible for planning and controlling the marketing activities in all market areas. This will include:

- Establishing objectives with respect to product lines and market territories.

- Preparing the annual marketing plan, including financial, strategic and tactical components.

- Studying opportunities for new product lines, and new markets. Makes recommendations to the President on such matters.

- Makes recommendations to the President on general pricing policies.

- Supervises and co-ordinates all activities relating to:

  - pricing

  - distribution

  - advertising and sales promotion

  - market planning

  - sales budgets and expenses

  - field warehousing and inventories

3. Sales Manager

We see the need for two Sales Managers -- one for the U.S.A., the other for Western Europe. Their primary responsibility is to achieve volume objectives in their respective markets. In addition, they would:

- Execute relevent segments of the marketing plan.

- Select, supervise and appraise brokers and importers.

- Set quotas for brokers and objectives for importers.

- Train broker and importers sales forces.

- Recommend sales policies.

- Establish a territorial coverage plan and review annually.

- Participate in the establishment of sales objectives.

- Call upon key supermarket, departmental store, specialty store and institutional customers and prospects.

- Report product opportunities and problems.

- Maintain liaison with influential people such as: writers, editors, home economists.

- Control sales expense.

4. Production Co-ordinator

The Production Co-ordinator assigns production to the various plants. This is essentially a planning - analytical position. He will receive regular reports from the various canning plants on their capacity and incremental costs for each product class. Armed with this information he assigns orders in such a way as to minimize costs. In addition, his duties include:

- Analyzing stocks of finished goods in Icelandic warehouses, and ensuring these stocks are adequate for all expected demands from any market.

- Co-ordinating the movement of goods from each plant to a central shipping point to the market.

D. THIS ORGANIZATION WILL ADD $250,000 TO OVERHEAD ANNUALLY.

We estimate that this structure will impose an additional burden of $250,000 annually. However, these costs will be recovered several times from the higher marketing margin.

Actual salaries will depend on the strategy adopted by the Icelandic industry. If it decides to concentrate solely on the U.S. market the sales manager will be much more closely directed by the vice-president. On the other hand, entry to both U.S. and European markets will place greater responsibilities on the sales manager.

The latter development will demand a higher salary. Consequently we will adopt it as a basis for the financial plan. The breakdown of overhead costs is estimated to be:

Position	Salary	Expenses	Total
President	25,000	25,000	50,000
Production-Co-ordinator	10,000	10,000	20,000
Vice-President, Marketing	50,000	50,000	100,000
Sales Manager, U.S.A.	25,000	25,000	50,000
Sales Manager, Europe	16,000	20,000	36,000
TOTAL ORGANIZATION OVERHEAD			$256,000

One apparent anomaly should be explained: the higher salary for the Vice-President than for the President. The President will be from Iceland and will live in Iceland. His salary will be based on the Icelandic scale. The Vice-President on the other hand must be international. He will be one of the better marketing executives with an American background and equally familiar with the European scene. Such people are accustomed to much higher salaries than people resident in Iceland. Furthermore it will be essential to pay this order of salary to attract the right man.

Expenses cover office accommodation, secretarial assistance, automobile, travel and entertainment expenses.

IX

CASH FLOW - THE MEASURE OF SUCCESS

A. INTRODUCTION

Up to this point we have discussed several optional strategies. And, there are others. We now propose to examine the cash flows associated with four of the more attractive strategies. This evaluation will guide the Icelandic fish canning industry in both selecting a strategy, and in arranging the needed financing.

The four principal strategies are:

1. Gourmet and Value Added Products - U. S. and European markets simultaneously.

2. Gourmet and Value Added Products - Enter European market 3 years after entering U. S. market.

3. Gourmet and Value Added Products - U. S. market only. Co-pack for European market.

4. Co-pack and commodity products only.

The basis of evaluation is the cash flow. This will incorporate all the relevent financial information from previous chapters. It will include also a number of other important financial factors such as working capital requirements, return on investment to owners and debt-financing charges. These factors are first examined in some detail before assembling the total cash flow profile.

B. WORKING CAPITAL

Inventories and accounts receivable represent the major demand for funds. Both vary according to the nature of the market, the market strategy and volume of sales. The principles underlying our estimates are summarised in the following two subsections.

1. Inventories

Investment in inventories consists of those variable, out-of-pocket, or cash costs which are incurred as a result of a decision to produce. The investment, from the viewpoint of cash needs, is not the selling price although it is frequently shown at that value in financial statements. The relevant costs are raw material, labour, packaging and variable overhead.

The size of the average investment will depend on the availability of raw materials. If material is available steadily throughout the year, raw material can be purchased as needed. Inventory will be minimised. On the other hand, if material is available only for a short time, a much greater investment will be needed in order to support year round production and/or distribution.

From an analysis of the raw material - production processes we have estimated that the level of finished goods inventory should equal three months' sales. In addition there will be a varying investment in raw material according to its availability. We estimate this level to be:

Caviar	-	4 months' supply
Sild Sardines	-	2-1/2 month's supply
Shrimp	-	4 months' supply
Trout	-	2 months' supply
Herring Fillets	-	1 months' supply
Herring Tid-Bits	-	2 months' supply

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2. Accounts Receivable

We have assumed that accounts will be settled on average, after six weeks. Thus there will be a cash investment in receivables equal to six weeks sales expressed in the variable costs of production.

C. RETURN ON INVESTMENT

We recommend that during the first three years in each market, no dividends be paid to owners as return on their investment. They will of course, draw salaries, assumed to be about $15,000 annually. From the fourth year, return-on-investment should be recognized as a cost of being in business and should take priority over other discretionary outlays.

In 1969, owners' equity in the five major canning plants totalled about $1,400,000. The two other major plants capable of producing significant quantities for export represented a total investment of about $1,500,000. However, owner's equity was very low due to an accumulation of operating deficits.

The agreement over a permissible return will be negotiated with various lenders. However, in order to demonstrate the viability of different strategies we will assume that a before-tax return of 10% on fixed investment is reasonable. Accordingly we will incorporate an annual withdrawal of $350,000 to the owners of the plant.

D. DEBT FINANCING AND SERVICING COSTS

Outside financing will be needed to implement the marketing strategy. It will come from various sources - local banks, owners, and international sources such as I.F.C. Until the details of such financing are resolved the actual service charge and terms of repayment will be unknown.

Because of this uncertainty, we have assumed an aggregate interest cost of 7% on borrowed funds.

E. PROJECTION OF CASH FLOWS

The following Tables 28 to 31 inclusive, show the projected cash flows of the four principal strategies. Other strategies could be developed, of course, but they would represent only minor re-arrangements of the main features of these four.

Cases 1, 2 and 3 are heavily dependent on value-added and gourmet products. Such products are costly to launch but profit is substantially higher than commodity grades. Case 4 shows a commodity - co-pack product. It reflects very clearly the much lower costs of market entry. In selecting a strategy both risk and return are important. The return can be estimated -- and it has been recorded in the attached tables. The assessment of risk is highly subjective however. Incurring a debt of $2,000,000 would be intolerable to many companies but would be inconsequential to others.

From our discussions with members of the Icelandic industry we find a strong aversion to excessive debt. Consequently we will focus our comparison on cases 2 and 4.

The upper part of the table shows the disbursements year by year. Market development includes the product and market testing discussed in Chapter VI. Marketing organization covers the senior members of management of the marketing organization described in the previous chapter. The values of working capital show the change from one year to the next: they represent the added demand for funds each year.

Totalling all disbursements shows a maximum cash outlay in case 2 of slightly in excess of $3-1/2 million. This occurs in year 3.

Receipts likewise show the cash flow into the organization from each principal market. Year 2 is the test market year. Year 3 is the first year of the national sales programme.

The bottom line "cumulative cash flow" shows the maximum funds required to execute the strategy. It also shows when each

CASE 1

CASH FLOW PROJECTION
GOURMET AND VALUE-ADDED PRODUCTS
ENTER ALL MARKETS SIMULTANEOUSLY

TABLE 28

ALL FIGURES IN U.S. DOLLARS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6
	$	$	$	$	$	$
DISBURSEMENTS						
Market Development	539,000	740,000				
Marketing Organization	206,000	256,000	256,000	256,000	256,000	256,000
Advertising & Promotion			2,500,000	2,500,000	2,000,00	1,500,000
Capital Investment			60,000			
Working Capital - (Net Change)						
- Inventory - Raw Materials		112,300	371,700	50,200	34,200	-
- Finished Goods		392,500	1,351,250	250,000	189,000	-
- Accounts Receivable		181,000	621,000	140,000	78,000	-
Interest Payments @ 7%		52,000	149,000	231,800		
Return to Owners	-	-	-	350,000	350,000	350,000
Total Cash Outlay	745,000	1,733,800	5,308,950	3,778,000	2,907,200	2,106,000
RECEIPTS						
Contribution From Sales: USA		206,500	2,852,000	3,000,000	3,428,000	3,428,000
UK		50,800	412,400	480,000	520,500	520,500
France		31,100	107,100	111,000	115,500	115,500
Germany		66,000	750,000	836,000	930,000	992,000
Total Cash Income		354,400	4,121,500	4,427,000	4,994,000	5,056,000
Excess of Receipts Over Outlay	(745,000)	(1,379,400)	(1,187,450)	649,000	2,086,800	2,950,000
Cumulative Cash Flow	(745,000)	(2,124,400)	(3,311,850)	(2,662,850)	(576,050)	2,373,950

CASE 2

CASH FLOW PROJECTION

GOURMET AND VALUE-ADDED PRODUCTS
ENTER EUROPEAN MARKET 3 YEAR AFTER U.S. MARKET
CO-PACK IN INTERIM

TABLE 26

ALL FIGURES IN U.S. DOLLARS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6
DISBURSEMENTS						
Market Development	$ 269,500	$ 320,000	$	$ 269,000	$ 420,000	$
Marketing Organization	206,000	256,000	256,000	256,000	256,000	256,000
Advertising & Promotion			1,500,000	1,500,000	1,000,000	2,000,000
Capital Investment			60,000			
Working Capital - (Net Change)						
- Inventory - Raw Materials		67,800	314,800	50,400	68,500	56,900
- Finished Goods		145,000	898,000	120,200	326,600	453,300
- Accounts Receivable		127,000	427,000	62,000	98,000	194,000
Interest Payments @ 7%		33,300	89,800	128,000	88,000	9,000
Return to Owners	-	-	-	350,000	350,000	350,000
Total Cash Outlay	475,500	949,100	3,545,600	2,735,600	2,607,100	3,319,200
RECEIPTS						
Contribution From Sales: USA		206,500	2,852,000	3,000,000	3,428,100	3,428,100
UK		25,000	120,000	170,700	243,300	412,400
France		4,000	19,400	25,000	31,100	107,100
Germany		6,600	9,000	12,000	66,000	750,000
Total Cash Income		242,100	3,000,400	3,207,700	3,768,500	4,697,600
Excess of Receipts Over Outlay	(475,500)	(707,000)	(545,200)	472,100	1,161,400	1,378,400
Cumulative Cash Flow	(475,500)	(1,182,500)	(1,727,700)	(1,255,600)	(94,200)	1,284,200

CASE 3

CASH FLOW PROJECTION
GOURMET & VALUE-ADDED PRODUCTS - U.S. MARKET ONLY
CO-PACK FOR EUROPEAN MARKETS

TABLE 30

ALL FIGURES IN U.S. DOLLARS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6
DISBURSEMENTS	$	$	$	$	$	$
Market Development	269,500	320,000				
Marketing Organization	206,000	256,000	256,000	256,000	256,000	256,000
Advertising & Promotion			1,500,000	1,500,000	1,000,000	1,000,000
Capital Investment			60,000			
Working Capital - (Net Change)						
- Inventory - Raw Materials		67,800	314,800	50,400	24,000	-
- Finished Goods		145,000	898,000	120,200	79,100	
- Accounts Receivable		127,000	427,000	62,000	44,000	
Interest Payments @ 7%		33,300	89,800	121,000	68,500	
Return to Owners				350,000	350,000	350,000
Total Cash Outlay	475,500	949,100	3,545,600	2,459,600	1,821,600	1,606,000
RECEIPTS						
Contribution From Sales: USA		206,500	2,852,000	3,000,000	3,428,000	3,428,000
UK		25,000	120,000	170,700	181,000	192,500
France		4,000	19,400	25,000	27,000	29,000
Germany		6,600	9,000	12,000	15,000	15,000
Total Cash Income		242,100	3,000,000	3,207,700	3,651,000	3,664,500
Excess of Receipts Over Outlay	(475,500)	(707,000)	(545,200)	748,100	1,830,400	2,058,500
Cumulative Cash Flow	(475,500)	(1,182,500)	(1,727,700)	(979,600)	850,800	2,909,300

CASE 4

CASH FLOW PROJECTION

NO HEAVY PROMOTION

COMMODITY AND CO-PACK PRODUCTS ONLY

TABLE 31

ALL FIGURES IN U.S. DOLLARS

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6
DISBURSEMENTS	$	$	$	$	$	$
Marketing Organization	146,000	196,000	196,000	196,000	196,000	196,000
Advertising & Promotion						
Working Capital - (Net Change)						
- Inventory - Raw Materials	40,000	170,000	30,000	20,000	15,000	8,000
- Finished Goods	56,000	302,000	55,000	47,000	39,000	12,000
- Accounts Receivable	28,000	151,000	27,000	24,000	20,000	7,000
Interest Payments @ 7%	-	15,300	48,700	47,500	42,400	34,200
Return to Owners	-	-	-	-	-	-
Total Cash Outlay	270,000	834,300	356,700	334,500	312,400	257,200
RECEIPTS						
Contribution From Sales: USA	15,000	110,000	174,800	185,000	193,500	193,500
UK	25,000	120,000	170,700	181,000	192,500	192,500
France	4,000	19,400	25,000	27,000	29,000	29,000
Germany	6,600	9,000	12,000	15,000	15,000	15,000
Total Cash Income	50,600	358,400	382,500	408,000	430,000	440,000
Excess of Receipts Over Outlay	(219,400)	(475,900)	25,800	73,500	117,600	182,800
Cumulative Cash Flow	(219,400)	(695,300)	(679,500)	(606,000)	(488,400)	(305,600)

strategy reaches the cash break-even point.

Case 2 - gourmet and value-added products introduced into Europe 3 years after the U.S.A. - requires a maximum cash infusion of $1,736,500 during the third year. This loan would be completely repaid in the sixth year when the surplus would have reached over $1 million. It will be noted that this is after the owners have withdrawn dividends of over $1 million.

Subsequently this strategy will continue to generate funds at a rate in excess of $1,500,000 annually. By the eighth year (not shown in the table) the contribution from the four major markets will total more than $5,000,000. Deduction of marketing outlays and annual ownership dividends will still result in an annual cash surplus of almost $3 million.

Contrast this with case 4 - commodity sales and co-packing agreements. In this situation the sole basis of competition is price. There is no attempt to build up a market preference. The sale goes to the lowest bidder and perhaps to the most persuasive salesman. Even after six years the cash flow has been insufficient to support salesmen's salaries and working capital needs. Not only that, the owners have not withdrawn any dividends. Their reward has been only their $15,000 salary already built into the cost structure of each product.

The only advantage of this strategy is its lower cash needs. A total of $700,000 would suffice.

Despite the lower apparent risk resulting from lower borrowing, the actual risks are much higher:

- The low contribution and build up of funds will make the industry very sensitive to raw material price changes. In fact, profits will depend more on the ability to predict changes in raw material prices than in production or market skills.

- The low cash build up will prevent the Icelanders from supporting their market in the event of a local shortage of raw materials. In turn, failure to supply will make a second entry to the market even more difficult (As discussed in Volume II, Iceland already suffers from a poor reputation in this respect).

- Insofar as price is the sole basis of competition, any other supplier could displace Iceland by lowering his price by only a few cents per case. Under such circumstances, factors such as tariff changes, common markets, export duties and subsidies may have a traumatic effect on Iceland's position.

F. CONCLUSION

In summary therefore, we strongly recommend the added investment in a strong market position. Of the three strategies shown in this category, cases 1 to 3, case 2 is probably preferable. The total amount of the loan is less -- only $ 1, 800, 000. It can be repaid within six years (five if the owners were prepared to forego all dividends until after repayments). And it generates sufficient cash from the U.S. market to finance entry into Europe.

And to this should be added any further contribution, albeit small, that could be generated from co-packing agreements for fish puddings, liver pate, clam chowders and fish-based pet foods.

APPENDICES

APPENDIX A

PROFITABILITY AND CONTRIBUTION ANALYSIS

- BY PRODUCT

- BY COUNTRY

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar — UNITS PER CASE: 24

WEIGHT PER UNIT: 2 oz — U. S. DOLLARS

ITEM	MARKET: U. S. A.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.4900	11.76		.6900	16.56				
2	Margin on Shelf Price	.1617	3.91	33.0 of ①	.2277	5.46	33.0 of ①			
3	Wholesale Price	.3283	7.85		.4623	11.09				
4	Var. Selling Costs: a. Allowances	.0037	.09	1.5	.0054	.13	1.5			
	b. Importer & Broker	.0173	.41	7.0	.0245	.59	7.0			
	c. Tariffs & Duties	.0594	1.40	24.0	.0824	1.97	24.0			
5	Variable Selling Costs (Total)	.0804	1.90	32.5	.1123	2.69	32.5			
6	Manufacturer's Price C. I. F.	.2479	5.95	100.0	.3500	8.40	100.0			
7	Transportation Costs	.0102	0.24		.0102	0.24				
8	Contribution to F. O. B. Plant	.2377	5.71		.3398	8.16				
9	Variable Cost of Goods: a. Raw Material	.0370	0.89		.0470	1.13				
	b. Packing	.0560	1.34		.0560	1.34				
	c. Labour	.0150	0.36		.0150	0.36				
	d. Taxes, etc.	.0090	0.22		.0090	0.22				
10	Variable Cost of Goods (Total)	.1170	2.81		.1270	3.05				
11	Contribution to Marketing Overhead and Profit	.1207	2.50		.2218	5.11				
12	Total Marketing Costs	.0074	0.18		.0105	0.25	3.0			
13	Contribution to Overhead and Profit	.1133	2.32		.2113	4.86				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar

UNITS PER CASE: 24

WEIGHT PER UNIT: 2 oz

U. S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.3900	9.36		.5900	14.16				
2	Margin on Shelf Price	.1225	3.28	35.0 of 1	.2360	5.66	40.0 of 1			
3	Wholesale Price	.2675	6.08		.3540	8.50				
4	Var. Selling Costs: a. Allowances	.0028	0.06	1.5	.0037	0.09	1.5			
	b. Importer & Broker	.0189	0.43	10.0	.0250	0.60	10.0			
	c. Tariffs & Duties	.0568	1.29	30.0	.0752	1.80	30.0			
5	Variable Selling Costs (Total)	.0785	1.78	41.5	.1039	2.49	41.5			
6	Manufacturer's Price C.I.F.	.1890	4.30	100.0	.2501	6.01	100.0			
7	Transportation Costs	.0051	0.12		.0051	0.12				
8	Contribution to F.O.B. Plant	.1839	4.18		.2450	5.89				
9	Variable Cost of Goods: a. Raw Material	.0370	0.89		.0470	1.13				
	b. Packing	.0560	1.34		.0560	1.34				
	c. Labour	.0150	0.36		.0150	0.36				
	d. Taxes, etc.	.0900	0.22		.0090	0.22				
10	Variable Cost of Goods (Total)	.1170	2.81		.1270	3.05				
11	Contribution to Marketing Overhead and Profit	.0669	1.37		.1180	2.84				
12	Total Marketing Costs	.0057	0.13	3.0	.0075	0.18	3.0			
13	Contribution to Overhead and Profit	.0612	1.24		.1105	2.66				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar UNITS PER CASE: 24

WEIGHT PER UNIT: 2 oz U. S. DOLLARS

ITEM	MARKET: FRANCE	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.6500	15.60		.8900	21.36				
2	Margin on Shelf Price	.2925	7.02	45.0 of 1	.4450	10.68	50.0 of 1			
3	Wholesale Price	.3575	8.58		.4450	10.68				
4	Var. Selling Costs a. Allowances	.0039	0.09	1.5	.0047	0.11	1.5			
	b. Importer & Broker	.0130	0.31	5.0	.0255	0.61	8.0			
	c. Tariffs & Duties	.0785	1.89	30.0	.0959	2.30	30.0			
5	Variable Selling Costs (Total)	.0954	2.29	36.5	.1261	3.02	39.5			
6	Manufacturer's Price C.I.F.	.2621	6.20	100.0	.3189	7.66	100.0			
7	Transportation Costs	.0064	0.15		.0064	0.15				
8	Contribution to F.O.B. Plant	.2557	6.14		.3125	7.51				
9	Variable Cost of Goods a. Raw Material	.0370	0.89		.0470	1.13				
	b. Packing	.0560	1.34		.0560	1.34				
	c. Labour	.0150	0.36		.0150	0.36				
	d. Taxes, etc.	.0090	0.22		.0090	0.22				
10	Variable Cost of Goods (Total)	.1170	2.81		.1270	3.05				
11	Contribution to Marketing Overhead and Profit	.1387	3.33		.1855	4.46				
12	Total Marketing Costs	.0078	0.19		.0096	0.23	3.0			
13	Contribution to Overhead and Profit	.1309	3.14		.1759	4.23				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar UNITS PER CASE: 24

WEIGHT PER UNIT: 2 oz U. S. DOLLARS

ITEM	MARKET: GERMAN FEDERAL REPUBLIC	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.5900	14.16		.3100	7.44				
2	Margin on Shelf Price	.2360	5.66		.1085	2.60	35% of ①			
3	Wholesale Price	.3540	8.50		.2015	4.84				
4	Var. Selling Costs: a. Allowances	.0038	0.09	1.5	.0021	0.05	1.5			
	b. Importer & Broker	.0205	0.49	8.0	.0117	0.28	8.0			
	c. Tariffs & Duties	.0723	1.74	28.0	.0412	0.99	28.0			
5	Variable Selling Costs (Total)	.0966	2.32	37.5	.0550	1.32	37.5			
6	Manufacturer's Price C. I. F.	.2574	6.18		.1465	3.52				
7	Transportation Costs	.0047	0.11		.0047	0.11				
8	Contribution to F. O. B. Plant	.2527	6.07		.1418	3.41				
9	Variable Cost of Goods: a. Raw Material	.0470	1.13		.0370	0.89				
	b. Packing	.0560	1.34		.0560	1.34				
	c. Labour	.0150	0.36		.0150	0.36				
	d. Taxes, etc.	.0090	0.22		.0090	0.22				
10	Variable Cost of Goods (Total)	.1270	3.05		.1170	2.81				
11	Contribution to Marketing Overhead and Profit	.1257	3.02		.0248	0.60				
12	Total Marketing Costs	.0077	0.19		.0043	0.11	3.0			
13	Contribution to Overhead and Profit	.1180	2.83		.0205	0.49				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar

UNITS PER CASE: 24

WEIGHT PER UNIT: 100 grms

U. S. DOLLARS

ITEM	MARKET: U. S. A.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.8900	21.36		.6900	16.56				
2	Margin on Shelf Price	.2981	7.16	33-1/2 % of ①	.2311	5.55	33-1/2 % of ①			
3	Wholesale Price	.5919	14.20		.4589	11.01				
4	Var. Selling Costs a. Allowances	.0067	0.16	1.5	.0051	0.12	1.5			
	b. Importer & Broker	.0312	0.75	7.0	.0242	0.58	7.0			
	c. Tariffs & Duties	.1073	2.57	24.0	.0833	2.00	24.0			
5	Variable Selling Costs (Total)	.1452	3.48	32.5	.1126	2.70	32.5			
6	Manufacturer's Price C. I. F.	.4467	10.72		.3463	8.31				
7	Transportation Costs	.0171	0.41		.0171	0.41				
8	Contribution to F. O. B. Plant	.4296	10.31		.3292	7.90				
9	Variable Cost of Goods a. Raw Material	.0820	1.96		.0620	1.49				
	b. Packing	.0460	1.10		.0460	1.10				
	c. Labour	.0120	0.29		.0120	0.29				
	d. Taxes, etc.	.0090	0.22		.0090	0.22				
10	Variable Cost of Goods (Total)	.1490	3.57		.1290	3.10				
11	Contribution to Marketing Overhead and Profit	.2806	6.74		.2002	4.80				
12	Total Marketing Costs	.0134	0.32	3.0	.0051	0.12	1.5			
13	Contribution to Overhead and Profit	.2672	6.42		.1951	4.68				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar — UNITS PER CASE: 24

WEIGHT PER UNIT: 100 grms — U. S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.7500	18.00		.5900	14.16				
2	Margin on Shelf Price	.3000	7.20		.2065	4.96	35% of ①			
3	Wholesale Price	.4500	10.80		.3835	9.20				
4	Var. Selling Costs a. Allowances	.0062	0.15	2.0	.0054	0.13	2.0			
	b. Importer & Broker	.0375	0.90	12.0	.0270	0.65	10.0			
	c. Tariffs & Duties	.0938	2.25	30.0	.0811	1.94	30.0			
5	Variable Selling Costs (Total)	.1375	3.30	44.0	.1135	2.72	42.0			
6	Manufacturer's Price C. I. F.	.3125	7.50		.2700	6.48				
7	Transportation Costs	.0085	0.20		.0085	0.20				
8	Contribution to F. O. B. Plant	.3020	7.30		.2615	6.28				
9	Variable Cost of Goods a. Raw Material	.0820	1.96		.0620	1.49				
	b. Packing	.0460	1.10		.0460	1.10				
	c. Labour	.0120	0.29		.0120	0.29				
	d. Taxes, etc.	.0070	0.18		.0070	0.18				
10	Variable Cost of Goods (Total)	.1470	3.53		.1270	3.06				
11	Contribution to Marketing Overhead and Profit	.1570	3.77		.1345	3.22				
12	Total Marketing Costs	.0093	0.23	3.0	.0040	0.09	1.5			
13	Contribution to Overhead and Profit	.1477	3.54		.1305	3.13				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar UNITS PER CASE: 24

WEIGHT PER UNIT: 100 grms U. S. DOLLARS

ITEM	MARKET: FRANCE	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.6500	15.60		.5300	12.72				
2	Margin on Shelf Price	.3250	7.80	50% of ①	.2385	5.72	45% of ①			
3	Wholesale Price	.3250	7.80		.2915	7.00				
4	Var. Selling Costs a. Allowances	.0034	0.08	1.5	.0032	0.08	1.5			
	b. Importer & Broker	.0186	0.45	8.0	.0106	0.26	5.0			
	c. Tariffs & Duties	.0701	1.68	30.0	.0642	1.53	30.0			
5	Variable Selling Costs (Total)	.0921	2.21	39.5	.0780	1.87	36.5			
6	Manufacturer's Price C. I. F.	.2329	5.59		.2135	5.13				
7	Transportation Costs	.0106	0.25		.0106	0.25				
8	Contribution to F. O. B. Plant	.2223	5.34		.2029	4.88				
9	Variable Cost of Goods a. Raw Material	.0820	1.96		.0620	1.49				
	b. Packing	.0460	1.10		.0460	1.10				
	c. Labour	.0120	0.29		.0120	0.29				
	d. Taxes, etc.	.0090	0.22		.0090	0.22				
10	Variable Cost of Goods (Total)	.1490	3.57		.1290	3.10				
11	Contribution to Marketing Overhead and Profit	.0733	1.77		.0739	1.78				
12	Total Marketing Costs	.0069	0.17	3.0	.0032	0.08	1.5			
13	Contribution to Overhead and Profit	.0664	1.60		.0707	1.70				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Lumpfish Caviar — UNITS PER CASE: 24

WEIGHT PER UNIT: 100 grms — U. S. DOLLARS

ITEM	MARKET: GERMAN FEDERAL REPUBLIC	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
	Shelf Price	.6900	16.56		.4900	11.76				
	Margin on Shelf Price	.2760	6.62	40% of ①	.1715	4.12	35% of ①			
	Wholesale Price	.4140	9.94		.3185	7.64				
	Var. a. Allowances	.0060	0.14	2.0	.0046	0.11	2.0			
	Selling b. Importer & Broker	.0240	0.58	8.0	.0189	0.44	8.0			
	Costs c. Tariffs & Duties	.0840	2.02	28.0	.0648	1.55	28.0			
	Variable Selling Costs (Total)	.1140	2.74	38.0	.0878	2.10	38.0			
	Manufacturer's Price C.I.F.	.3000	7.20		.2307	5.54				
	Transportation Costs	.0078	0.18		.0078	0.18				
	Contribution to F.O.B. Plant	.2922	7.02		.2229	5.36				
	Vari- a. Raw Material	.0820	1.96		.0620	1.49				
	able b. Packing	.0460	1.10		.0460	1.10				
	Cost of c. Labour	.0120	0.29		.0120	0.29				
	Goods d. Taxes, etc.	.0090	0.22		.0090	0.22				
	Variable Cost of Goods (Total)	.1490	3.57		.1290	3.10				
	Contribution to Marketing Overhead and Profit	.1432	3.45		.0939	2.26				
	Total Marketing Costs	.0090	0.22	3.0	.0034	0.08	1.5			
	Contribution to Overhead and Profit	.1342	3.23		.0905	2.18				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Sild Sardines — UNITS PER CASE: 24

WEIGHT PER UNIT: 3-3/4 oz — U. S. DOLLARS

ITEM	MARKET: U. S. A.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.9900	23.76		.4900	11.76		.2700	6.48	
2	Margin on Shelf Price	.3300	7.92	33-1/3 of ①	.1633	3.92	33-1/3 of ①	.0675	1.62	25% of ①
3	Wholesale Price	.6600	15.84		.3267	7.84		.2025	4.86	
4	Var. Selling Costs — a. Allowances	.0071	0.17	1.5	.0035	0.08	1.5	.0022	0.05	1.5
	Var. Selling Costs — b. Importer & Broker	.0333	0.80	7.0	.0165	0.40	7.0	.0074	0.18	5.0
	Var. Selling Costs — c. Tariffs & Duties	.1431	3.43	30.0	.0709	1.70	30.0	.0446	1.07	30.0
5	Variable Selling Costs (Total)	.1835	4.40	38.5	.0909	2.18	38.5	.0542	1.30	36.5
6	Manufacturer's Price C. I. F.	.4765	11.44		.2358	5.66		.1483	3.56	
7	Transportation Costs	.0150	0.36		.0150	0.36		.0150	0.36	
8	Contribution to F. O. B. Plant	.4615	11.08		.2208	5.30		.1333	3.20	
9	Variable Cost of Goods — a. Raw Material	.040	.960		.033	.792		.019	.456	
	Variable Cost of Goods — b. Packing	.051	1.224		.044	1.056		.031	.744	
	Variable Cost of Goods — c. Labour	.040	.960		.040	.960		.030	.720	
	Variable Cost of Goods — d. Taxes, etc.	.024	.576		.024	.576		.018	.432	
10	Variable Cost of Goods (Total)	.155	3.720		.141	3.384		.098	2.352	
11	Contribution to Marketing Overhead and Profit	.3065	7.36		.0798	1.92		.0453	0.85	
12	Total Marketing Costs	.0143	0.34	3.0	.0035	0.08	1.5	.0007	0.02	0.5
13	Contribution to Overhead and Profit	.2922	7.02		.0763	1.84		.0446	0.83	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Sild Sardines

UNITS PER CASE: 24

WEIGHT PER UNIT: 3-3/4 oz

U.S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.3300	7.92		.1900	4.56		.1300	3.12	
2	Margin on Shelf Price	.0990	2.38	30% of ①	.0532	1.28	28% of ①	.0286	0.69	22% of ①
3	Wholesale Price	.2310	5.54		.1368	3.28		.1014	2.43	
4	Var. Selling Costs a. Allowances	.0028	0.07	1.5	.0017	0.04	1.5	.0012	0.03	1.5
	b. Importer & Broker	.0229	0.55	12.0	.0125	0.33	12.0	.0085	0.20	10.0
	c. Tariffs & Duties	.0144	0.46	7.5	.0086	0.20	7.5	.0065	0.15	7.5
5	Variable Selling Costs (Total)	.0401 .0401	1.08 1.08	21.0	.0238	0.57	21.0	.0162	0.38	19.0
6	Manufacturer's Price C.I.F.	.1909	4.46		.1130	2.71		.0852	2.05	
7	Transportation Costs	.0070	0.17		.0070	0.17		.0070	0.17	
8	Contribution to F.O.B. Plant	.1839	4.29		.1060	2.54		.0782	1.88	
9	Variable Cost of Goods a. Raw Material	.040	.960		.033	.792		.019	.456	
	b. Packing	.051	1.224		.044	1.056		.031	.744	
	c. Labour	.040	.960		.040	.960		.030	.720	
	d. Taxes, etc.	.024	.576		.024	.576		.018	.432	
10	Variable Cost of Goods (Total)	.155	3.720		.141	3.38		.098	2.35	
11	Contribution to Marketing Overhead and Profit	.028	0.57		(.035)	(.84)		(.020)	(0.47)	
12	Total Marketing Costs	.0057	0.14	3.0	.0017	0.04	1.5	.0004	0.01	0.5
13	Contribution to Overhead and Profit	.0223	0.43		(.0367)	(.88)		(.020)	(.48)	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Sild Sardines — UNITS PER CASE: 24

WEIGHT PER UNIT: 3-3/4 oz — U. S. DOLLARS

ITEM	MARKET: FRANCE	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.4300	10.32		.2500	6.00		.1700	4.08	
2	Margin on Shelf Price	.1290	3.10	30% of (1)	.0625	1.50	25% of (1)	.0323	0.78	19% of (1)
3	Wholesale Price	.3010	7.22		.1875	4.50		.1377	3.30	
4	Var. Selling Costs: a. Allowances	.0034	0.08	1.5	.0021	0.05	1.5	.0015	0.04	1.5
	b. Importer & Broker	.0229	0.55	10.0	.0143	0.34	10.0	.0085	0.20	8.0
	c. Tariffs & Duties	.0459	1.10	20.0	.0285	0.69	20.0	.0214	0.51	20.0
5	Variable Selling Costs (Total)	.0722	1.73	31.5	.0450	1.08	31.5	.0314	0.75	29.5
6	Manufacturer's Price C. I. F.	.2288	5.49		.1425	3.42		.1063	2.55	
7	Transportation Costs	.0090	0.22		.0090	0.22		.0090	0.22	
8	Contribution to F. O. B. Plant	.2198	5.27		.1335	3.20		.0973	2.33	
9	Variable Cost of Goods: a. Raw Material	.040	.960		.033	.792		.019	.456	
	b. Packing	.051	1.224		.044	1.056		.031	.740	
	c. Labour	.040	.960		.040	.960		.030	.720	
	d. Taxes, etc.	.024	.576		.024	.576		.018	.432	
10	Variable Cost of Goods (Total)	.155	3.720		.141	3.384		.098	2.352	
11	Contribution to Marketing Overhead and Profit	.065	1.55		(.008)	(.18)		(.001)	(.02)	
12	Total Marketing Costs	.0068	0.16	3.0	.0021	0.05	1.5	.0005	0.01	0.5
13	Contribution to Overhead and Profit	.058	1.39		(.010)	(.23)		(.002)	(.03)	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Sild Sardines — UNITS PER CASE: 24

WEIGHT PER UNIT: 3-3/4 oz — U. S. DOLLARS

ITEM	MARKET: FEDERAL GERMAN REPUBLIC	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.5900	14.16					.1900	4.56	
2	Margin on Shelf Price	.2605	4.96	35% of ①				.0475	1.14	25% of ①
	Wholesale Price	.3835	9.20					.1425	3.42	
4	Var. Selling Costs: a. Allowances	.0044	0.11	1.5				.0016	0.04	1.5
	b. Importer & Broker	.0208	0.50	7.0				.0056	0.14	5.0
	c. Tariffs & Duties	.0599	1.43	20.0				.0227	0.54	20.0
5	Variable Selling Costs (Total)	.0851	2.04	28.5				.0299	0.72	26.5
6	Manufacturer's Price C.I.F.	.2984	7.16					.1126	2.70	
7	Transportation Costs	.0070	0.17					.0070	0.17	
8	Contribution to F.O.B. Plant	.2914	6.99					.1056	2.53	
9	Variable Cost of Goods: a. Raw Material	.040	.960		.033	.792		.019	.456	
	b. Packing	.051	1.224		.044	1.056		.031	.744	
	c. Labour	.040	.960		.040	.960		.030	.720	
	d. Taxes, etc.	.024	.576		.024	.576		.018	.432	
10	Variable Cost of Goods (Total)	.1550	3.72					.098	2.352	
11	Contribution to Marketing Overhead and Profit	.136	3.27					.007	.18	
12	Total Marketing Costs	.0089	0.06	3.0				.0006	0.01	0.5
13	Contribution to Overhead and Profit	.127	3.21					.006	.17	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Canned Shrimp UNITS PER CASE: 24

WEIGHT PER UNIT: 2 1/2 oz. U. S. DOLLARS

ITEM	MARKET: U.S.A.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.5900	14.16		.3900	9.36				
2	Margin on Shelf Price	.1966	4.72		.1300	3.12				
3	Wholesale Price	.3934	9.44		.2600	6.24				
4	Var. Selling Costs a. Allowances	.0049	0.12		.0032	0.08				
	b. Importer & Broker	.0232	0.56		.0153	0.37				
	c. Tariffs & Duties	.0334	0.79		.0221	0.52				
5	Variable Selling Costs (Total)	.0615	1.47		.0406	0.97				
6	Manufacturer's Price C. I. F.	.3319	7.97		.2194	5.27				
7	Transportation Costs	.0085	0.20		.0085	0.20				
8	Contribution to F. O. B. Plant	.3234	7.77		.2109	5.07				
9	Variable Cost of Goods a. Raw Material	.0620	1.49		.0520	1.24				
	b. Packing	.0350	0.84		.0350	0.84				
	c. Labour	.0150	0.36		.0150	0.36				
	d. Taxes, etc.	.0100	0.24		.0100	0.24				
10	Variable Cost of Goods (Total)	.1220	2.93		.1120	2.68				
11	Contribution to Marketing Overhead and Profit	.2014	4.84		.0989	2.39				
12	Total Marketing Costs	.0099	0.24		.0065	0.16				
13	Contribution to Overhead and Profit	.1915	4.60		.0924	2.23				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Canned Shrimp UNITS PER CASE: 24

WEIGHT PER UNIT: 2 1/2 oz. U. S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.6900	16.56		.4900	11.76				
2	Margin on Shelf Price	.2300	5.52	33-1/3 % of ①	.1633	3.92	33-1/3 % of ①			
3	Wholesale Price	.4600	11.04		.3267	7.84				
4	Var. Selling Costs a. Allowances	.0059	0.14	1.5	.0042	0.10	1.5			
	b. Importer & Broker	.0277	0.67	7.0	.0197	0.47	7.0			
	c. Tariffs & Duties	.0299	0.71	7.5	.0213	0.51	7.5			
5	Variable Selling Costs (Total)	.0635	1.52	16.0	.0452	1.08	16.0			
6	Manufacturer's Price C. I. F.	.3965	9.52		.2815	6.76				
7	Transportation Costs	.0042	0.10		.0042	0.10				
8	Contribution to F. O. B. Plant	.3923	9.42		.2773	6.66				
9	Variable Cost of Goods a. Raw Material	.0620	1.49		.0520	1.24				
	b. Packing	.0350	0.84		.0350	0.84				
	c. Labour	.0150	0.36		.0150	0.36				
	d. Taxes, etc.	.0100	0.23		.0100	0.23				
10	Variable Cost of Goods (Total)	.1220	2.93		.1120	2.68				
11	Contribution to Marketing Overhead and Profit	.2703	6.49		.1653	3.98				
12	Total Marketing Costs	.0118	0.29	3.0	.0084	0.20	3.0			
13	Contribution to Overhead and Profit	.2585	6.20		.1569	3.78				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Canned Shrimp

UNITS PER CASE: 12

WEIGHT PER UNIT: 5 1/2 oz.

U. S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.9500	11.40		.7500	9.00				
2	Margin on Shelf Price	.3400	4.56	40% of ①	.2625	3.15	35% of ①			
3	Wholesale Price	.5100	6.84		.4875	5.85				
4	Var. Selling Costs a. Allowances	.0063	0.09	1.5	.0061	0.07	1.5			
	b. Importer & Broker	.0505	0.82	12.0	.0410	0.49	10.0			
	c. Tariffs & Duties	.0318	0.42	7.5	.0308	0.37	7.5			
5	Variable Selling Costs (Total)	.0886	1.33	21.0	.0779	0.93	19.0			
6	Manufacturer's Price C. I. F.	.4214	5.51		.4096	4.92				
7	Transportation Costs	.0093	0.11		.0093	0.11				
8	Contribution to F. O. B. Plant	.4121	5.40		.4003	4.81				
9	Vari- a. Raw Material	.1320	1.58		.1120	1.34				
	able b. Packing	.0350	0.42		.0350	0.42				
	Cost of c. Labour	.0150	0.18		.0150	0.18				
	Goods d. Taxes, etc.	.0100	0.12		.0100	0.12				
10	Variable Cost of Goods (Total)	.1920	2.30		.1720	2.06				
11	Contribution to Marketing Overhead and Profit	.2201	3.10		.2283	2.75				
12	Total Marketing Costs	.0126	0.15	3.0	.0122	0.15	3.0			
13	Contribution to Overhead and Profit	.2075	2.95		.2161	2.60				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Canned Shrimp UNITS PER CASE: 12

WEIGHT PER UNIT: 5 1/2 oz. U. S. DOLLARS

ITEM	MARKET: U.S.A.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	1.9900	23.88		1.7900	21.48				
2	Margin on Shelf Price	.6633	7.96	33-1/3 % of ①	.5966	7.16	33-1/3 % of ①			
3	Wholesale Price	1.3267	15.92		1.1934	14.32				
4	Var. Selling Costs a. Allowances	.0168	0.20	1.5	.0151	0.18	1.5			
	b. Importer & Broker	.0784	0.94	7.0	.0704	0.85	7.0			
	c. Tariffs & Duties	.1120	1.35	10.0	.1009	1.21	10.0			
5	Variable Selling Costs (Total)	.2072	2.49	18.5	.1864	2.24	18.5			
6	Manufacturer's Price C. I. F.	1.1195	13.43		1.0070	12.08				
7	Transportation Costs	.0187	0.22		.0187	0.22				
8	Contribution to F. O. B. Plant	1.1008	13.21		.9883	11.86				
9	Variable Cost of Goods a. Raw Material	.1320	1.58		.1120	1.34				
	b. Packing	.0350	0.42		.0350	0.42				
	c. Labour	.0150	0.18		.0150	0.18				
	d. Taxes, etc.	.0100	0.12		.0100	0.12				
10	Variable Cost of Goods (Total)	.1920	2.30		.1720	2.06				
11	Contribution to Marketing Overhead and Profit	.9088	10.91		.8163	9.80				
12	Total Marketing Costs	.0335	0.40	3.0	.0302	0.36	3.0			
13	Contribution to Overhead and Profit	.8753	10.51		.7861	9.44				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Canned Shrimp — UNITS PER CASE: 12

WEIGHT PER UNIT: 5 1/2 oz. — U. S. DOLLARS

ITEM	MARKET: France	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.7900	9.48		.6100	7.32				
2	Margin on Shelf Price	.2370	2.84	30% of ①	.1525	1.83	25% of ①			
3	Wholesale Price	.5530	6.64		.4575	5.49				
4	Var. Selling Costs a. Allowances	.0064	0.08	1.5	.0053	0.06	1.5			
	b. Importer & Broker	.0301	0.36	7.0	.0249	0.30	7.0			
	c. Tariffs & Duties	.0862	1.03	20.0	.0713	0.86	20.0			
5	Variable Selling Costs (Total)	.1227	1.47	28.5	.1015	1.22	28.5			
6	Manufacturer's Price C. I. F.	.4303	5.17		.3560	4.27				
7	Transportation Costs	.0116	0.14		.0116	0.14				
8	Contribution to F. O. B. Plant	.4187	5.03		.3444	4.13				
9	Variable Cost of Goods a. Raw Material	.1320	1.58		.1120	1.34				
	b. Packing	.0350	0.42		.0350	0.42				
	c. Labour	.0150	0.18		.0150	0.18				
	d. Taxes, etc.	.0100	0.12		.0100	0.12				
10	Variable Cost of Goods (Total)	.1920	2.30		.1720	2.06				
11	Contribution to Marketing Overhead and Profit	.2267	2.73		.1724	2.07				
12	Total Marketing Costs	.0129	0.16	3.0	.0106	0.13	3.0			
13	Contribution to Overhead and Profit	.2138	2.57		.1618	1.94				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Canned Shrimp

UNITS PER CASE: 12

WEIGHT PER UNIT: 5-1/2 oz

U. S. DOLLARS

ITEM	MARKET: FEDERAL GERMAN REPUBLIC	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	1.1900	14.28		1.0700	12.84				
2	Margin on Shelf Price	.4165	5.00	35% of ①	.3210	3.85	30% of ①			
3	Wholesale Price	.7735	9.28		.7490	8.99				
4	Var. Selling Costs a. Allowances	.0089	0.11	1.5	.0086	0.10	1.5			
	b. Importer & Broker	.0477	0.57	8.0	.0462	0.56	8.0			
	c. Tariffs & Duties	.1197	1.43	20.0	.1159	1.39	20.0			
5	Variable Selling Costs (Total)	.1763	2.11	29.5	.1707	2.05	29.5			
6	Manufacturer's Price C. I. F.	.5972	7.17		.5783	6.94				
7	Transportation Costs	.0085	0.10		.0085	0.10				
8	Contribution to F. O. B. Plant	.5887	7.07		.5698	6.84				
9	Variable Cost of Goods a. Raw Material	.1320	1.58		.1120	1.34				
	b. Packing	.0350	0.42		.0350	0.42				
	c. Labour	.0150	0.18		.0150	0.18				
	d. Taxes, etc.	.0100	0.12		.0100	0.12				
10	Variable Cost of Goods (Total)	.1920	2.30		.1720	2.06				
11	Contribution to Marketing Overhead and Profit	.3967	4.77		.3978	4.78				
12	Total Marketing Costs	.0179	0.22	3.0	.0173	0.21	3.0			
13	Contribution to Overhead and Profit	.3785	4.55		.3805	4.57				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Brook Trout UNITS PER CASE: 24

WEIGHT PER UNIT: 10 oz U. S. DOLLARS

ITEM	MARKET: U. S. A.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price				1.99	47.78				
2	Margin on Shelf Price				.6633	15.93	33-1/3 % of (1)			
3	Wholesale Price				1.3267	31.85				
4	Var. Selling Costs: a. Allowances				.0165	0.40	1.5			
	b. Importer & Broker				.0770	1.85	7.0			
	c. Tariffs & Duties				.1323	3.17	12.0			
5	Variable Selling Costs (Total)				.2258	5.42	20.5			
6	Manufacturer's Price C. I. F.				1.1009	26.43				
7	Transportation Costs				.0294	0.71				
8	Contribution to F. O. B. Plant				1.0715	25.72				
9	Variable Cost of Goods: a. Raw Material				.1700	4.08				
	b. Packing				.0820	1.97				
	c. Labour				.0620	1.49				
	d. Taxes, etc.				.0372	0.89				
10	Variable Cost of Goods (Total)				.3512	8.43				
11	Contribution to Marketing Overhead and Profit				.7203	17.29				
12	Total Marketing Costs				.0330	0.79	3.0			
13	Contribution to Overhead and Profit				.6873	16.50				

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Cod Roe — UNITS PER CASE: 100

WEIGHT PER UNIT: 21 oz — U. S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price							1.2700	127.00	
2	Margin on Shelf Price							.3302	33.02	26% of ①
3	Wholesale Price							.9398	93.98	
4	Var. Selling Costs — a. Allowances							.0121	1.21	1.5
	Var. Selling Costs — b. Importer & Broker							.0807	8.07	10.0
	Var. Selling Costs — c. Tariffs & Duties							.0404	4.04	5.0
5	Variable Selling Costs (Total)							.1332	13.32	16.5
6	Manufacturer's Price C.I.F.							.8066	80.66	
7	Transportation Costs							.0298	2.98	
8	Contribution to F.O.B. Plant							.7768	77.68	
9	Variable Cost of Goods — a. Raw Material							.1440	14.40	
	Variable Cost of Goods — b. Packing							.0860	8.60	
	Variable Cost of Goods — c. Labour							.0250	2.50	
	Variable Cost of Goods — d. Taxes, etc.							.0150	1.50	
10	Variable Cost of Goods (Total)							.2700	27.00	
11	Contribution to Marketing Overhead and Profit							.5068	50.68	
12	Total Marketing Costs							.0241	2.41	3.0
13	Contribution to Overhead and Profit							.4827	48.27	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Herring Tid-Bits — UNITS PER CASE: 24

WEIGHT PER UNIT: 3-3/4 oz — U. S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.4300	10.32		.2900	6.96		.1900	4.56	
2	Margin on Shelf Price	.1290	3.10	30% of ①	.0667	1.60	23% of ①	.0285	0.68	15% of ①
3	Wholesale Price	.3010	7.22		.2233	5.36		.1615	3.88	
4	Var. Selling Costs a. Allowances	.0037	0.09	1.5	.0028	0.07	1.5	.0020	0.05	1.5
	b. Importer & Broker	.0201	0.48	8.0	.0149	0.36	8.0	.0095	0.23	7.0
	c. Tariffs & Duties	.0254	0.61	10.0	.0188	0.45	10.0	.0138	0.33	10.0
5	Variable Selling Costs (Total)	.0492	1.18	19.5	.0365	0.88	19.5	.0253	0.61	18.5
6	Manufacturer's Price C.I.F.	.2518	6.04		.1868	4.48		.1362	3.27	
7	Transportation Costs	.0073	0.18		.0073	0.18		.0073	0.18	
8	Contribution to F.O.B. Plant	.2445	5.86		.1795	4.30		.1289	3.09	
9	Variable Cost of Goods a. Raw Material	.0990	2.38		.0890	2.14		.0790	1.90	
	b. Packing	.0300	0.72		.0300	0.72		.0300	0.72	
	c. Labour	.0210	0.50		.0210	0.50		.0210	0.50	
	d. Taxes, etc.	.0116	0.28		.0116	0.28		.0116	0.28	
10	Variable Cost of Goods (Total)	.1616	3.88		.1516	3.64		.1416	3.40	
11	Contribution to Marketing Overhead and Profit	.0829	1.98		.0279	0.66		(.0127)	(.31)	
12	Total Marketing Costs	.0075	0.18	3.0	.0028	0.067	1.5	.0006	.024	0.5
13	Contribution to Overhead and Profit	.0754	1.80		.0250	0.593		(.0133)	(0.33)	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Herring Tid-Bits — UNITS PER CASE: 24

WEIGHT PER UNIT: 3-3/4 oz — U. S. DOLLARS

ITEM	MARKET: FRANCE	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.4700	11.28		.3300	7.92		.2500	6.00	
2	Margin on Shelf Price	.1410	3.38	30% of (1)	.0825	1.98	25% of (1)	.0475	1.14	19% of (1)
3	Wholesale Price	.3290	7.90		.2475	5.94		.2025	4.86	
4	Var. Selling Costs: a. Allowances	.0036	0.09	1.5	.0028	0.07	1.5	.0023	0.06	1.5
	b. Importer & Broker	.0246	0.59	10.0	.0186	0.44	10.0	.0123	0.30	8.0
	c. Tariffs & Duties	.0544	1.30	22.0	.0408	0.98	22.0	.0340	0.80	22.0
5	Variable Selling Costs (Total)	.0826	1.98	33.5	.0622	1.49	33.5	.0486	1.16	31.5
6	Manufacturer's Price C. I. F.	.2464	5.92		.1853	4.45		.1539	3.70	
7	Transportation Costs	.0091	0.22		.0091	0.22		.0091	0.22	
8	Contribution to F.O.B. Plant	.2373	5.70		.1762	4.23		.1448	3.48	
9	Variable Cost of Goods: a. Raw Material	.0990	2.38		.0890	2.14		.0790	1.90	
	b. Packing	.0300	0.72		.0300	0.72		.0300	0.72	
	c. Labour	.0210	0.50		.0210	0.50		.0210	0.50	
	d. Taxes, etc.									
10	Variable Cost of Goods (Total)	.1616	3.88		.1516	3.64		.1416	3.40	
11	Contribution to Marketing Overhead and Profit	.0757	1.82		.0246	0.59		.0032	.08	
12	Total Marketing Costs	.0073	0.18	3.0	.0028	0.07	1.5	.0007	0.02	0.5
13	Contribution to Overhead and Profit	.0736	1.76		.0270	0.64		.0077	0.18	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Herring Tid-Bits

UNITS PER CASE: 24

WEIGHT PER UNIT: 6-3/4 oz - Commodity / 3-3/4 oz-Gourmet

U. S. DOLLARS

ITEM	MARKET: FEDERAL GERMAN REPUBLIC	VALUE-ADDED Per Unit	VALUE-ADDED Per Case	VALUE-ADDED %	GOURMET Per Unit	GOURMET Per Case	GOURMET %	COMMODITY Per Unit	COMMODITY Per Case	COMMODITY %
1	Shelf Price				.6300	15.12		.3500	8.40	
2	Margin on Shelf Price				.2205	5.29	35% of (1)	.0875	2.10	25% of (1)
3	Wholesale Price				.4095	9.83		.2625	6.30	
4	Var. Selling Costs: a. Allowances				.0047	0.12	1.5	.0031	0.08	1.5
	b. Importer & Broker				.0255	0.61	8.0	.0104	0.25	5.0
	c. Tariffs & Duties				.0602	1.44	18.8	.0396	0.94	18.8
5	Variable Selling Costs (Total)				.0904	2.17	28.3	.0531	1.27	25.3
6	Manufacturer's Price C.I.F.				.3191	7.66		.2094	5.03	
	Transportation Costs				.0066	0.16		.0118	0.28	
8	Contribution to F.O.B. Plant				.3125	7.50		.1976	4.75	
9	Variable Cost of Goods: a. Raw Material				.0990	2.38		.1414	3.39	
	b. Packing				.0300	0.72		.0537	1.29	
	c. Labour				.0210	0.50		.0375	0.90	
	d. Taxes, etc.				.0116	0.28		.0225	0.54	
10	Variable Cost of Goods (Total)				.1616	3.88		.2551	6.12	
11	Contribution to Marketing Overhead and Profit				.1509	3.62		(.0575)	(1.37)	
12	Total Marketing Costs				.0095	0.23	3.0	.0010	0.03	0.5
13	Contribution to Overhead and Profit				.1440	3.39		(.0521)	(1.25)	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Herring Fillets — UNITS PER CASE: 24

WEIGHT PER UNIT: 6-3/4 oz — U. S. DOLLARS

ITEM	MARKET: U.S.A.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.5900	14.16		.4500	10.80		.3300	7.92	
2	Margin on Shelf Price	.1947	4.67	33% of ①	.1260	3.02	28% of ①	.0561	1.35	17% of ①
3	Wholesale Price	.3953	9.49		.3420	7.78		.2739	6.57	
4	Var. Selling Costs a. Allowances	.0049	0.12	1.5	.0040	0.10	1.5	.0035	0.08	1.5
	b. Importer & Broker	.0264	0.64	8.0	.0216	0.52	8.0	.0117	0.28	5.0
	c. Tariffs & Duties	.0333	0.79	10.0	.0273	0.65	10.0	.0236	0.57	10.0
5	Variable Selling Costs (Total)	.0646	1.55	19.5	.0529	1.27	19.5	.0388	0.93	16.5
6	Manufacturer's Price C. I. F.	.3307	7.94		.2711	6.51		.2351	5.64	
7	Transportation Costs	.0208	0.50		.0208	0.50		.0208	0.50	
8	Contribution to F.O.B. Plant	.3099	7.44		.2503	6.01		.2143	5.14	
9	Variable Cost of Goods a. Raw Material	.1100	2.64		.0900	2.16		.0720	1.73	
	b. Packing	.0400	0.96		.0400	0.86		.0400	0.96	
	c. Labour	.0250	0.60		.0250	0.60		.0250	0.60	
	d. Taxes, etc.	.0150	0.36		.0150	0.36		.0150	0.36	
10	Variable Cost of Goods (Total)	.1900	4.56		.1700	4.08		.1520	3.65	
11	Contribution to Marketing Overhead and Profit	.1199	2.888		.0803	1.93		.0623	1.49	
12	Total Marketing Costs	.0099	0.24	3.0	.0040	0.10	1.5	.0001	0.03	0.5
13	Contribution to Overhead and Profit	.1100	2.64		.0763	1.83		.0622	1.46	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Herring Fillets UNITS PER CASE: 24

WEIGHT PER UNIT: 6-3/4 oz U. S. DOLLARS

ITEM	MARKET: U.K.	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.4900	11.76		.3500	8.40		.2400	5.76	
2	Margin on Shelf Price	.1470	3.53	30% of ①	.0759	1.93	23% of ①	.0360	0.86	15% of ①
3	Wholesale Price	.0340	8.23		.2541	6.57		.2040	4.90	
4	Var. Selling Costs a. Allowances	.0041	0.10	1.5	.0030	0.10	1.5	.0025	0.07	1.5
	b. Importer & Broker	.0333	0.80	12.0	.0246	0.63	12.0	.0168	0.40	10.0
	c. Tariffs & Duties	.0279	0.67	10.0	.0208	0.53	10.0	.0168	0.40	10.0
5	Variable Selling Costs (Total)	.0653	1.57	23.5	.0484	1.25	23.5	.0361	0.87	21.5
6	Manufacturer's Price C. I. F.	.2777	6.66		.2057	5.32		.1679	4.03	
7	Transportation Costs	.0110	0.26		.0110	0.26		.0110	0.26	
8	Contribution to F. O. B. Plant	.2667	6.40		.1947	5.06		.1569	3.77	
9	Variable Cost of Goods a. Raw Material	.1100	2.64		.0900	2.16		.0720	1.73	
	b. Packing	.0400	0.96		.0400	0.96		.0400	0.96	
	c. Labour	.0250	0.60		.0250	0.60		.0250	0.60	
	d. Taxes, etc.	.0150	0.36		.0150	0.36		.0150	0.36	
10	Variable Cost of Goods (Total)	.1900	4.56		.1700	4.08		.1520	3.65	
11	Contribution to Marketing Overhead and Profit	.0767	1.84		.0247	0.98		.0049	0.12	
12	Total Marketing Costs	.0083	0.20	3.0	.030	0.07	1.5	.0008	0.02	0.5
13	Contribution to Overhead and Profit	.0684	1.64		.0217	0.91		.0041	0.10	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Herring Fillets — UNITS PER CASE: 24

WEIGHT PER UNIT: 6-3/4 oz — U. S. DOLLARS

ITEM	MARKET: France	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.5300	12.72		.3900	9.36		.2800	6.72	
2	Margin on Shelf Price	.1590	3.82	30% of ①	.0975	2.34	25% of ①	.0532	1.28	1% of ①
3	Wholesale Price	.3710	8.90		.2925	7.02		.2268	5.44	
4	Var. Selling Costs a. Allowances	.0041	0.10	1.5	.0033	0.08	1.5	.0025	0.06	1.5
	b. Importer & Broker	.0278	0.67	10.0	.0219	0.52	10.0	.0137	0.33	8.0
	c. Tariffs & Duties	.0612	1.46	22.0	.0482	1.16	22.0	.0382	0.91	22.0
5	Variable Selling Costs (Total)	.0931	2.23	33.5	0.734	1.76	33.5	.0544	1.30	31.5
6	Manufacturer's Price C. I. F.	.2779	6.67		.2191	5.26		.1724	4.19	
7	Transportation Costs	.0130	0.31		.0130	0.31		.0130	0.31	
8	Contribution to F. O. B. Plant	.2649	6.36		.2061	4.95		.1594	3.83	
9	Variable Cost of Goods a. Raw Material	.1100	2.69		.0900	2.16		.0720	1.73	
	b. Packing	.0400	0.96		.0400	0.96		.0400	0.96	
	c. Labour	.0250	0.60		.0250	0.60		.0250	0.60	
	d. Taxes, etc.	.0150	0.36		.0150	0.36		.0150	0.36	
10	Variable Cost of Goods (Total)	.1900	4.56		.1700	4.08		.1520	3.65	
11	Contribution to Marketing Overhead and Profit	.0749	1.80		.0361	0.87		.0074	0.18	
12	Total Marketing Costs	.0083	0.20	3.0	.0033	0.08	1.5	.0008	0.02	0.5
13	Contribution to Overhead and Profit	.0666	1.60		.0328	0.79		.0066	0.16	

PRODUCT CONTRIBUTION ANALYSIS

PRODUCT: Herring Fillets — UNITS PER CASE: 24

WEIGHT PER UNIT: 6-3/4 oz — U. S. DOLLARS

ITEM	MARKET: Germany	VALUE-ADDED			GOURMET			COMMODITY		
		Per Unit	Per Case	%	Per Unit	Per Case	%	Per Unit	Per Case	%
1	Shelf Price	.3900	9.36		.2500	6.00		.1700	4.08	
2	Margin on Shelf Price	.1365	3.28	35% of ①	.0750	1.80	30% of ①	.0425	1.02	25% of ①
3	Wholesale Price	.2535	6.08		.1750	4.20		.1275	3.06	
4	Var. Selling Costs a. Allowances	.0029	0.07	1.5	.0020	0.05	1.5	.0015	0.34	1.5
	b. Importer & Broker	.0158	0.38	8.0	.0109	0.26	8.0	.0050	0.12	5.0
	c. Tariffs & Duties	.0373	0.89	18.8	.0258	0.62	18.8	.0193	0.16	18.8
5	Variable Selling Costs (Total)	.0560	1.34	28.3	.0387	0.93	28.3	.0258	0.62	28.3
6	Manufacturer's Price C. I. F.	.1975	4.74		.1363	3.27		.1017	2.44	
7	Transportation Costs	.0091	0.22		.0091	0.22		.0091	0.22	
8	Contribution to F. O. B. Plant	.1884	4.52		.1272	3.05		.0926	2.22	
9	Variable Cost of Goods a. Raw Material	.1100	2.64		.0900	2.16		.0720	1.73	
	b. Packing	.0400	0.96		.0400	0.96		.0400	0.96	
	c. Labour	.0250	0.60		.0250	0.60		.0250	0.60	
	d. Taxes, etc.	.0150	0.36		.0150	0.36		.0150	0.36	
10	Variable Cost of Goods (Total)	.1900	4.56		.1700	4.08		.1520	3.65	
11	Contribution to Marketing Overhead and Profit	(.0016)	(0.04)		(.0428)	(1.03)		(.0594)	(1.43)	
12	Total Marketing Costs	.0059	0.14	3.0	.0020	0.05	1.5	.0005	0.01	0.5
13	Contribution to Overhead and Profit	(.0075)	(0.18)		(.0048)	(1.08)		(.0599)	(1.44)	

APPENDIX B

CONTRIBUTION FORECAST SUMMARY

BY PRODUCT

CONTRIBUTION FORECAST SUMMARY

PRODUCT: LUMPFISH CAVIAR - 2 oz.

MARKET	PRODUCT TYPE	YEAR 2 Test Market Vol. in Cases	YEAR 2 Test Market Contbn /Case	YEAR 2 Test Market Contbn bef. Tax	YEAR 3 Vol. in Cases	YEAR 3 Contbn /Case	YEAR 3 Contbn bef. Tax	YEAR 5 Vol. in Cases	YEAR 5 Contbn /Case	YEAR 5 Contbn bef. Tax
			$	$		$	$		$	$
U.S.	Gourmet	5,400	4.86	26,400	203,000	4.86	988,000	227,360	4.86	1,105,000
	Value-Added	2,200	2.32	5,100	87,000	2.32	202,000	97,440	2.32	225,500
	Commodity									
	Co-Packed	30,000	0.96	28,800	75,000	0.96	72,000	84,000	0.96	80,600
	Total	37,600		60,300	365,000		1,262,000	408,800		1,411,100
U.K.	Gourmet	150	3.54	530	15,000	3.54	53,000	22,400	3.54	79,000
	Value-Added	200	3.13	630	20,000	3.13	63,000	27,000	3.13	84,400
	Commodity									
	Co-Packed	8,000	0.90	7,200	10,000	0.90	9,000	12,000	0.90	10,800
	Total	8,350		8,360	45,000		125,000	61,400		174,200
France	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
Germany	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
ALL	COMBINED TOTAL	45,950		$68,660	410,000		$1,387,000	470,200		$1,585,300

CONTRIBUTION FORECAST SUMMARY

PRODUCT: SILD SARDINES - 3-3/4 oz.

MARKET	PRODUCT TYPE	YEAR 2 Test Market			YEAR 3			YEAR 5		
		Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax
			$	$		$	$		$	$
U.S.	Gourmet	4,000	7.02	28,840	80,000	7.02	562,000	100,000	7.02	702,000
	Value-Added	8,000	1.84	14,420	158,000	1.84	291,000	225,000	1.84	414,000
	Commodity	11,800	0.83	4,950	237,000	0.83	193,000	285,000	0.83	236,000
	Co-Packed	39,400	0.09	3,546	158,000	0.09	14,220	177,000	0.09	15,926
	Total	63,200		51,800	633,000		1,060,220	787,000		1,368,000
U.K.	Gourmet	100	0.43	430	100,000	0.43	43,000	150,000	0.43	64,300
	Value-Added									
	Commodity									
	Co-Packed	50,000	0.06	3,000	80,000	0.06	4,800	85,000	0.06	5,100
	Total	50,100		3,430	180,000		47,800	235,000		69,000
France	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
Germany	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
ALL	COMBINED TOTAL	113,300		$55,230	813,000		$1,108,000	1,022,000		$1,437,000

CONTRIBUTION FORECAST SUMMARY

PRODUCT: SHRIMP - 2.5 oz.

MARKET	PRODUCT TYPE	YEAR 2 Test Market			YEAR 3			YEAR 5		
		Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax
			$	$		$	$		$	$
U.S.	Gourmet	1,500	4.60	6,330	40,000	4.60	184,000	55,000	4.60	253,000
	Value-Added	3,000	2.23	5,550	60,000	2.23	134,000	75,000	2.23	167,000
	Commodity									
	Co-Packed	15,300	.251	3,843	80,000	.251	20,000	90,000	.251	22,500
	Total	19,800		15,723	180,000		338,000	220,000		442,500
U.K.	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
France	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
Germany	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
ALL	COMBINED TOTAL	19,800		$15,723	180,000		$ 338,000	220,000		$ 442,500

CONTRIBUTION FORECAST SUMMARY

PRODUCT: SHRIMP - 5-1/2 oz

MARKET	PRODUCT TYPE	YEAR 2 Test Market			YEAR 3			YEAR 5		
		Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax
U.S.	Gourmet Value-Added Commodity Co-Packed		$	$		$	$		$	$
	Total									
U.K.	Gourmet	200	2.95	590	4,000	2.95	11,800	4,500	2.95	13,300
	Value-Added	350	2.60	910	7,000	2.60	18,200	8,300	2.60	25,600
	Commodity Co-Packed	3,100	.13	400	9,000	.13	1,170	14,000	.13	1,820
	Total	3,650		1,900	20,000		31,200	26,800		40,700
France	Gourmet Value-Added Commodity Co-Packed									
	Total									
Germany	Gourmet Value-Added Commodity Co-Packed									
	Total									
ALL	COMBINED TOTAL	3,650		$ 1,900	20,000		$ 31,200	26,800		$ 40,700

CONTRIBUTION FORECAST SUMMARY

PRODUCT: COD ROE - 21 oz.

MARKET	PRODUCT TYPE	YEAR 2 Test Market			YEAR 3			YEAR 5		
		Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax
U.S.	Gourmet		$	$		$	$		$	$
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
U.K.	Gourmet									
	Value-Added									
	Commodity	570	48.27	27,500	3,000	48.27	144,500	3,360	48.27	162,500
	Co-Packed	4,000	2.00	8,000	4,000	2.00	8,000	4,000	2.00	8,000
	Total	4,570		35,500	7,000		152,500	7,360		170,500
France	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
Germany	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
ALL	COMBINED TOTAL	4,570		$ 35,500	7,000		$ 152,500	7,360		$ 170,500

CONTRIBUTION FORECAST SUMMARY

PRODUCT: BROOK TROUT - 10 oz. cans

MARKET	PRODUCT TYPE	YEAR 2 Test Market			YEAR 3			YEAR 5		
		Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax
U.S.	Gourmet Value-Added Commodity Co-Packed	4,160	$ 16.50	$ 68,600	4,160	$ 16.50	$ 68,600	4,160	$ 16.50	$ 68,600
	Total	4,160		68,600	4,160		68,600	4,160		68,600
U.K.	Gourmet Value-Added Commodity Co-Packed									
	Total									
France	Gourmet Value-Added Commodity Co-Packed									
	Total									
Germany	Gourmet Value-Added Commodity Co-Packed									
	Total									
ALL	COMBINED TOTAL	4,160		$ 68,600	4,160		$68,600	4,160		$ 68,600

CONTRIBUTION FORECAST SUMMARY

PRODUCT: HERRING FILLETS - 6-3/4 oz.

MARKET	PRODUCT TYPE	YEAR 2 Test Market			YEAR 3			YEAR 5		
		Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax	Vol. in Cases	Contbn /Case	Contbn bef. Tax
U.S.	Gourmet	419	$ 2.64	$ 1,100	42,000	$ 2.64	$ 110,500	47,040	$ 2.64	$ 124,000
	Value-Added									
	Commodity									
	Co-Packed	62,000	.1493	8,958	83,000	.1493	12,400	92,960	.1493	13,879
	Total	60,420		10,060	125,000		123,000	140,000		137,879
U.K.	Gourmet	20	1.64	32	2,000	1.64	3,280	3,500	1.64	5,730
	Value-Added	70	.91	63	7,000	.91	6,360	8,700	.91	7,910
	Commodity									
	Co-Packed	3,000	.1475	443	5,000	.1475	738	7,000	.1475	1,032
	Total	3,090		538	14,000		10,378	19,200		14,672
France	Gourmet	3,000	1.60	4,800	12,000	1.60	19,200	13,440	1.60	21,500
	Value-Added	3,750	.70	2,960	15,000	.79	11,800	16,800	.79	13,250
	Commodity									
	Co-Packed	2,250	.1555	350	9,000	.1555	1,400	10,080	.1555	1,556
	Total	9,000		8,110	36,000		32,400	40,320		36,306
Germany	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed	10,840	.1500	1,626	21,000	.1500	3,150	23,744	.1500	3,562
	Total	10,840		1,626	21,000		3,150	23,744		3,562
ALL	COMBINED TOTAL	83,350		$ 20,334	196,000		$ 168,928	223,260		$ 192,419

CONTRIBUTION FORECAST SUMMARY

PRODUCT: HERRING TID BITS - 3-3/4 oz.

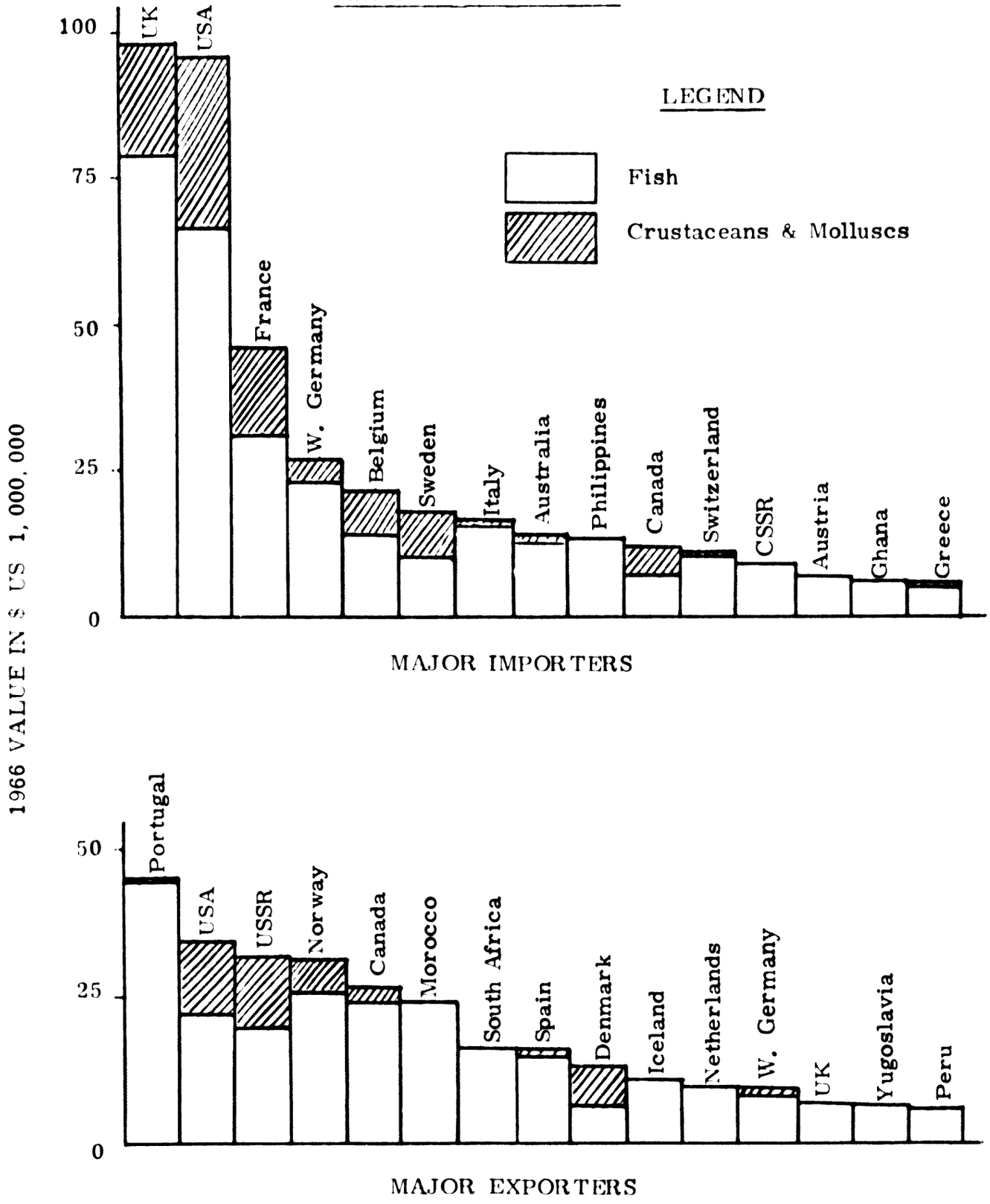
MARKET	PRODUCT TYPE	YEAR 2 Test Market Vol. in Cases	YEAR 2 Test Market Contbn /Case	YEAR 2 Test Market Contbn bef. Tax	YEAR 3 Vol. in Cases	YEAR 3 Contbn /Case	YEAR 3 Contbn bef. Tax	YEAR 5 Vol. in Cases	YEAR 5 Contbn /Case	YEAR 5 Contbn bef. Tax
			$	$		$	$		$	$
U.S.	Gourmet									
	Value-Added									
	Commodity									
	Co-Packed									
	Total									
U.K.	Gourmet	70	1.80	130	13,000	1.80	23,450	15,000	1.80	27,000
	Value-Added	180	.59	110	32,000	.59	18,850	35,000	.59	20,600
	Commodity									
	Co-Packed	8,250	.15	1,200	20,000	.15	3,000	25,000	.15	3,750
	Total	8,250		1,400	65,000		45,300	75,000		51,400
France	Gourmet	8,000	1.76	14,100	28,000	1.76	49,100	20,500	1.75	50,000
	Value-Added	10,000	.64	6,400	35,000	.64	22,500	39,500	.64	25,300
	Commodity									
	Co-Packed	17,000	.15	2,550	21,000	.15	3,150	26,000	.15	3,900
	Total	35,000		23,000	84,000		74,700	94,000		79,200
Germany	Gourmet	4,800	3.39	16,300	160,000	3.39	542,000	195,000	3.39	661,000
	Value-Added									
	Commodity									
	Co-Packed	33,000	15	4,950	40,000	.15	6,000	55,000	.15	8,250
	Total	37,800		21,300	200,000		548,000	250,000		669,000
ALL	COMBINED TOTAL	81,050		$45,700	349,000		$668,000	419,000		$799,600

APPENDIX C

MARKET STATISTICS

FIGURE 1

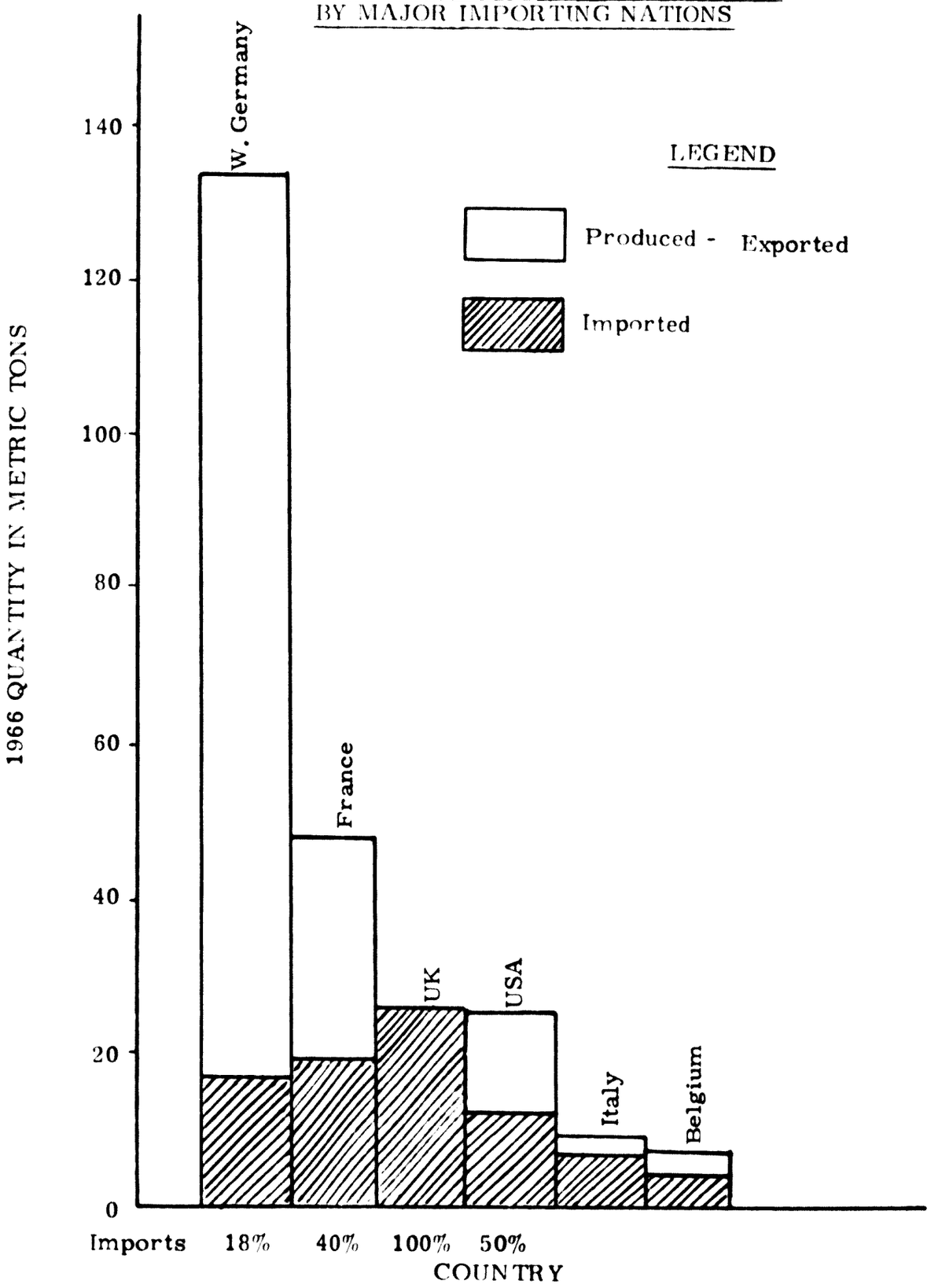
MAJOR IMPORTERS AND EXPORTERS OF FISH, CRUSTACEAN AND MOLLUSC PRODUCTS AND PREPARATIONS WHETHER OR NOT IN AIRTIGHT CONTAINERS



STEVENSON & KELLOGG, LTD.

FIGURE 2

CONSUMPTION & IMPORTS OF HERRING AND SARDINE IN AIRTIGHT CONTAINERS BY MAJOR IMPORTING NATIONS



STEVENSON & KELLOGG, LTD.

TABLE 1

WORLD PRODUCTION OF CANNED AND RELATED FISH PRODUCTS

REF. F.A.O. FISHERY STATISTICS VOL. 25

ALL QUANTITIES IN 1000 METRIC TONS

STEVENSON & KELLOGG, LTD.

Product	Year	U.K.	U.S.A.	France	W. Germany	Sweden	Norway	Denmark	Nether-lands	Portugal	Spain	U.S.S.R.	Morocco	South West Africa	Canada	Mexico	Brazil	Japan	Australia	Other	Iceland	Total	Iceland
Canned Herring & Sardine	67	4.5	13.3	-	112.6	10.2	-	3.6	5.2	48.8	22.2		43.7	81.9	10.9	19.1	23.5	3.6			.51	551	.09
	66	5.5	14.2	28.6	117.3	10.4	18.6	2.9	5.1	52.4	25.1		42.0	65.4	13.4	11.9	22.3	5.4			.69	541	.13
	65	4.3	13.6	18.0	113.2	8.7	11.3	2.8	4.0	56.2	18.9		43.8	63.2	11.6	11.2	29.5	3.8			.35	520	.07
	64	4.1	11.7	23.6	102.1	8.8	14.3	2.9	8.4	70.2	16.9		41.9	56.4	9.4	10.5	19.0	4.6			.15	505	.03
Frozen Herring	67	6.2			1.7	6.1	25.2	8.6							0.4					-	15.3	70.0	21.9
	66	5.0			4.8	10.2	33.1	7.9							0.3					-	26.0	96.0	27.1
	65	4.0			3.3	21.5	16.1	9.1							0.7					-	25.0	94.0	26.6
	64	3.3			2.5	16.8	19.2	17.1							0.4					8.6	21.0	91.0	23.1
Salted Herring	67	6.5		-	16.8	2.9	14.2	2.4	22.7			466.0			6.8					55.8	28.5	648	4.4
	66	5.3		-	21.0	3.3	11.9	2.4	26.4			523.6			7.3					78.7	42.2	730	5.8
	65	5.8		-	20.4	5.6	13.1	2.3	29.4			543.5			4.5					84.3	39.0	765	5.1
	64	3.3		13.8	26.3	2.8	16.3	1.9	39.3			724.0			6.7					79.6	46.2	955	4.8
Canned Roes	67		1.2			3.0	-				3.5										.14	7.84	1.8
	66		1.0			2.8	3.0				2.9										.26	9.96	2.6
	65		1.2			2.8	3.5				4.0										.20	11.70	1.7
	64		1.4			2.9	3.6				2.9										.14	10.94	1.3
Canned Shrimp	67		7.8		3.4		-	0.5										0.6		1.7	.03	14.03	.21
	66		6.7		4.5		0.5	0.5										0.7		-	.01	12.91	.08
	65		7.4		3.4		0.9	0.5										1.2		0.2	.06	13.66	.44
	64		4.7		3.4		1.0	0.4										1.3		0.1	.06	10.96	.55
Other Shrimp	67		61.1		5.4		2.0	0.6							0.2	55.3	8.7			32.9	.30	166.5	.18
	66		45.2		7.4		1.8	0.5							0.2	29.9	10.4			26.0	.38	121.8	.31
	65		49.1		5.7		2.6	0.4							0.1	27.0	10.9			24.3	.14	120.2	.12
	64		48.9		5.2		1.8	0.4							0.1	32.1	7.0			23.3	.06	118.9	.05
Prepared Herring	67	18.9	-				2.6	2.0	6.8											9.9	Iceland's		
	66	20.6	4.1				2.0	2.4	9.0											6.3	Production		
	65	13.4	7.2				1.9	2.8	7.8											6.3	Included in		
	64	7.4	8.2				2.1	2.9	8.8											5.8	Salted Herring		

Product	Year	U. K.	U. S. A.	France	W. Germany	Sweden	Norway	Denmark	Nether-lands	Portugal	Spain	U. S. S. R.	Morocco	South West Africa	Canada	Mexico	Brazil	Japan	Australia	Other	Iceland	Total	% Iceland
Canned Herring & Sardine	67	4.5	13.3	-	112.6	10.2	-	3.6	5.2	48.8	22.2			81.9	10.9	19.1	23.5	3.6			.51	551	.09
	66	5.5	14.2	28.6	117.3	10.4	18.6	2.9	5.1	52.4	25.1			65.4	13.4	11.9	22.3	5.4			.69	541	.13
	65	4.3	13.6	18.0	113.2	8.7	11.3	2.8	4.0	56.2	18.9			63.2	11.6	11.2	29.5	3.8			.33	520	.07
	64	4.1	11.7	23.6	102.1	8.8	14.3	2.9	8.4	70.2	16.9			56.4	9.4	10.5	19.0	4.6			.13	505	.03
Frozen Herring	67	6.2			1.7	6.1	25.2	8.6					43.7		0.4								
	66	5.0			4.8	10.2	33.1	7.9					42.0		0.3								
	65	4.0			3.3	21.5	16.1	9.1					43.8		0.7								
	64	3.3			2.5	16.8	19.2	17.1					41.9		0.4								
Salted Herring	67	6.5			16.8	2.9	14.2	2.4	22.7			466.0			6.8								
	66	5.3			21.0	3.3	11.9	2.4	26.4			523.6			7.3								
	65	5.8			20.4	5.6	13.1	2.3	29.4			543.5			4.5								
	64	3.3		13.8	26.3	2.8	16.3	1.9	39.3			724.0			6.7								
Canned Roes	67		1.2			3.0	-				3.5												
	66		1.0			2.8	3.0				2.9												
	65		1.2			2.8	3.5				4.0												
	64		1.4			2.9	3.6				2.9												
Canned Shrimp	67		7.8		3.4		-	0.5							0.2		8.7	0.6		1.7			
	66		6.7		4.5		0.5	0.5							0.2	55.3	10.4	0.7		-	.03	14.03	.21
	65		7.4		3.4		0.9	0.5							0.1	29.9	10.9	1.2		0.2	.01	12.91	.08
	64		4.7		3.4		1.0	0.4							0.1	27.0	7.0	1.3		0.1	.06	13.66	.44
																32.1					.06	10.96	.55
Other Shrimp	67		61.1		5.4		2.0	0.6							0.2	55.3	8.7				.30	166.5	.18
	66		45.2		7.4		1.8	0.5							0.2	29.9	10.4				.38	121.8	.31
	65		49.1		5.7		2.6	0.4							0.1	27.0	10.9				.14	120.2	.12
	64		48.9		5.2		1.8	0.4							0.1	32.1	7.0				.06	118.9	.05
Prepared Herring	67	18.9	-				2.6	2.0	6.8														
	66	20.6	4.1				2.0	2.4	9.0														
	65	13.4	7.2				1.9	2.8	7.8														
	64	7.4	8.2				2.1	2.9	8.8														

Iceland's Production Included in Salted Herring

Product	Canned Trout	Canned Lobster	Fresh & Frozen Lobster	Canned Clams	Canned Squid	Canned Mussels	Canned Fish Balls
Year	67 66 65 64	67 66 65 64	67 66 65 64	67 66 65 64	67 66 65 64	67 66 65 64	67 66 65 64
U. K.							
U. S. A.	0 0.1 0.1 0.1	0.4 0.3 0.4 0.3	0.2 0.2 0.1 0.1	31.6 32.7 32.2 28.8	6.6 5.1 5.6 4.7		
France							
W. Germany							
Sweden							3.5 3.4 3.4 3.2
Norway							- 11.6 10.7 10.1
Denmark			0.8 0.5 0.8 1.2				
Netherlands							
Portugal							
Spain					0.8 1.1 1.1 0.6	3.8 3.3 3.3 2.3	
U. S. S. R.							
Morocco							
South West Africa	0 0.1 0 0						
Canada		0.9 0.9 0.7 0.9	1.0 1.3 1.6 1.2	0.4 0.4 0.2 0.2			
Mexico							
Brazil							
Japan					9.8 4.2 9.0 3.8		
Australia							
Other					0.3 0.1 0.5 0.4		
Iceland	.02 .04 .04 .04	- - - -	.7 .8 .9 1.1				
Total	.02 .24 .14 .14	1.3 1.2 1.1 1.2	2.7 2.8 3.4 3.6	32.0 33.1 32.9 30.0	17.5 10.5 16.2 9.5	3.8 3.3 3.3 2.3	3.5 15.0 14.1 13.3
% Iceland	100 16.7 28.5 28.5	- - - -	26.0 28.5 26.5 30.5				

Product	Canned Fish Paste						
Year	64 65 66 67	64 65 66 67	64 65 66 67	64 65 66 67	64 65 66 67	64 65 66 67	64 65 66 67
U.K.							
U.S.A.	11.6 11.4 12.3 11.0						
France							
W. Germany							
Sweden							
Norway							
Denmark							
Nether-lands							
Portugal							
Spain							
U.S.S.R.							
Morocco							
South West Africa							
Canada							
Mexico							
Brazil							
Japan							
Australia	0.5 0.4 0.5 0.5						
Other*							
Iceland							
Total	12.1 11.8 12.8 11.5						
* Iceland							

TABLE 2

WORLD TRADE BY MAJOR NATIONS OF FISH, CRUSTACEAN AND MOLLUSC PRODUCTS AND PREPARATIONS WHETHER OR NOT IN AIRTIGHT CONTAINERS

STEVENSON & KELLOGG, LTD.

	Country	Quantity 1000 Met. Ton						Value in 1966 U. S. $1000					
		1962		1964		1966		Fish		CR & ML		Total	
		Fish	CR & ML	Fish	CR & ML	Fish	CR & ML	$	Rank	$	Rank	$	Rank
IMPORTS	U. K.	77.6	4.1	75.5	7.9	62.8	9.1	78,806	1	18,953	2	97,759	1
	U. S. A.	67.5	11.8	63.0	19.7	82.0	18.3	66,065	2	29,409	1	95,474	2
	France	32.8	3.2	35.0	6.5	37.4	7.9	30,751	3	14,818	3	45,369	3
	W. Germany	44.3	1.0	42.8	1.5	28.3	2.0	22,956	4	3,869	7	26,825	4
	Belgium	15.3	2.5	19.8	3.6	20.0	3.6	14,160	6	7,380	5	21,540	5
	Sweden	17.9	1.6	21.9	2.3	22.5	3.5	10,080	10	7,772	2	17,852	6
	Italy	27.1	0.4	22.1	0.5	28.4	0.8	15,559	5	720	11	16,279	7
	Australia	9.7	0.3	11.0	0.4	12.1	1.2	12,141	8	2,034	8	14,175	8
	Philippines	29.4	2.4	36.8	3.1	41.6	0.4	13,859	7	36	15	13,895	9
	Canada	4.7	2.5	4.8	2.6	6.3	3.2	6,577	13	4,959	6	11,534	10
	Switzerland	11.8	0.4	11.9	0.6	11.3	0.6	10,269	9	1,102	10	11,371	11
	CSSR	16.9	-	15.2	-	11.6	0.1	8,041	11	236	13	8,277	12
	Austria	8.8	-	9.8	-	10.4	0.1	6,651	12	132	14	6,783	15
	Ghana	7.5	-	8.8	-	10.7	-	5,730	14	-	15	5,730	14
	Greece	3.3	3.1	7.6	2.9	10.4	3.6	4,516	15	1,144	9	5,660	15
EXPORTS	Portugal	75.1	0.2	69.6	1.1	73.0	0.7	44,822	1	490	10	45,312	1
	U. S. A.	10.3	5.4	16.1	6.2	15.5	9.2	22,203	5	12,456	2	34,659	2
	U. S. S. R.	21.3	3.0	15.2	5.3	15.5	4.8	19,525	6	12,554	1	32,079	3
	Norway	39.1	1.9	38.8	3.3	35.3	2.0	25,749	2	5,977	4	31,726	4
	Canada	16.1	0.6	26.7	0.5	21.6	0.5	23,977	4	2,457	6	26,934	5
	Morocco	46.1	0.3	50.9	0.2	44.2	-	24,076	3	-	15	24,076	6
	South Africa	59.3	0.2	71.0	0.4	50.3	0.7	15,728	7	847	9	16,575	7
	Spain	12.2	1.0	12.2	1.3	17.5	2.3	14,395	8	1,672	7	16,067	8
	Denmark	7.6	2.6	7.7	3.1	7.9	3.8	6,419	12	6,383	3	12,802	9
	Iceland	23.2	-	25.9	-	31.1	-	10,842	9	30	13	10,872	10
	Netherlands	13.2	2.8	11.3	3.3	9.2	3.0	4,221	15	5,214	5	9,435	11
	W. Germany	4.8	0.2	6.4	0.6	8.1	0.5	7,727	10	1,344	8	9,071	12
	U. K.	8.4	-	10.2	0.1	11.1	0.1	6,488	11	109	11	6,597	13
	Yugoslavia	18.6	-	19.1	-	10.3	-	6,298	13	75	12	6,373	14
	Peru	15.1	-	14.6	-	11.7	-	5,345	14	2	14	5,347	15

TABLE 3

WORLD TRADE BY MAJOR EXPORTING NATIONS IN 1965 OF HERRING (H) AND SARDINES (S) IN AIRTIGHT CONTAINERS

QUANTITIES IN METRIC TONS

REF. F. A. O. FISHERY STATISTICS VOL. 25

STEVENSON & KELLOGG, LTD.

FROM / TO	Morocco S	South Africa S	Canada H	U.S.A. S	Mexico S	Brazil S	Japan S	Denmark H	Netherlands H	Norway H	Portugal S	U.K. H	Yugoslavia S	France S	W. Germany H	Spain S	Sweden H	Iceland H	Total Imported	% From Iceland
Australia			700							2000		1200							3900	-
Austria								200			1600		200						2000	-
Angola											400								400	-
Barbados			400																400	-
Belgium							100		800		3100								4000	-
Cuba	2200																		2200	-
C.S.S.R.								600		100			200						900	-
Celon		1800																	1800	-
Congo				100					600		1600								2300	-
Canada				800						300		100							1200	-
Domin. Rep.			900						100										1000	-
Denmark											600							3.8	604	0.6
France	7900								1300	200	4100								13500	-
W. Germany	2400								2100	800	18300								23600	-
E. Germany								400		1500			200						2100	-
Guyana			400									200							600	-
Greece											1900								1900	-
Hungary								200											200	-
Italy	600										5000		100						5700	-
Ivory Coast	600																		600	-
Jamaica			2800	100								100							3000	-
Lebanon											600								600	-
Liberia									400										400	-
Mozambique											600								600	-
New Zealand			100							400		400							900	-
Nicaragua				200															200	-
Nigeria									400										400	-
Netherlands											1200								1200	-

FROM / TO	Morocco S	South Africa S	Canada H	U.S.A. S	Mexico S	Brazil S	Japan S	Denmark H	Netherlands H	Norway H	Portugal S	U.K. H	Yugoslavia S	France S	W. Germany H	Spain S	Sweden H	Iceland H	Total Imported	% From Iceland
Australia			700							2000		1200							3900	-
Austria								200			1600		200						2000	-
Angola											400								400	-
Barbados			400																400	-
Belgium							100		800		3100								4000	-
Cuba	2200																		2200	-
C.S.S.R.								600		100			200						900	-
Celon		1800																	1800	-
Congo				100					600		1600								2300	-
Canada				800						300		100							1200	-
Domin. Rep.			900						100										1000	-
Denmark											600							3.8	604	0.6
France	7900								1300	200	4100								13500	-
W. Germany	2400								2100	800	18300								23600	-
E. Germany								400		1500			200						2100	-
Guyana			400									200							600	-
Greece											1900								1900	-
Hungary								200											200	-
Italy	600										5000		100						5700	-
Ivory Coast	600																		600	-
Jamaica			2800	100								100							3000	-
Lebanon											600								600	-
Liberia									400										400	-
Mozambique											600								600	-
New Zealand			100							400		400							900	-
Nicaragua				200															200	-
Nigeria									400										400	-
Netherlands											1200								1200	-

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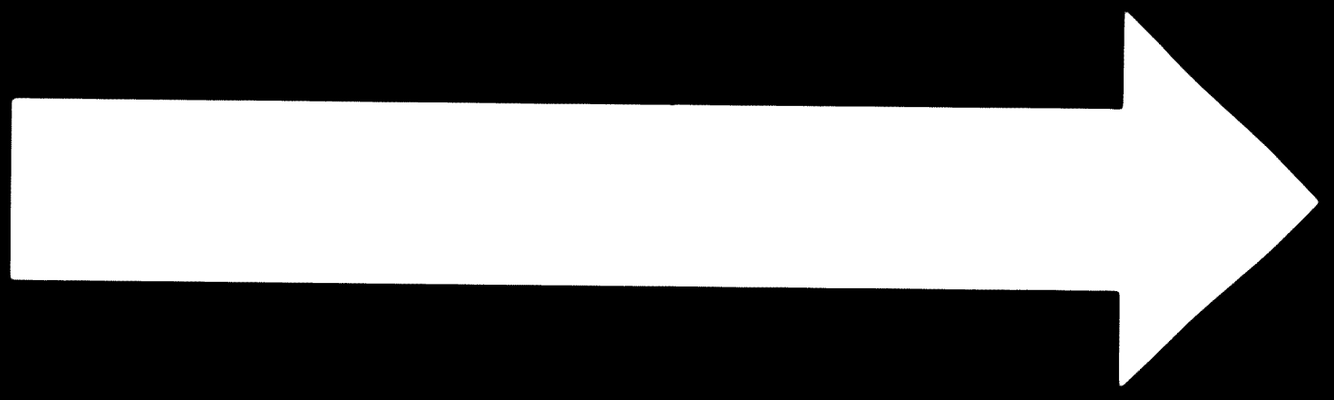

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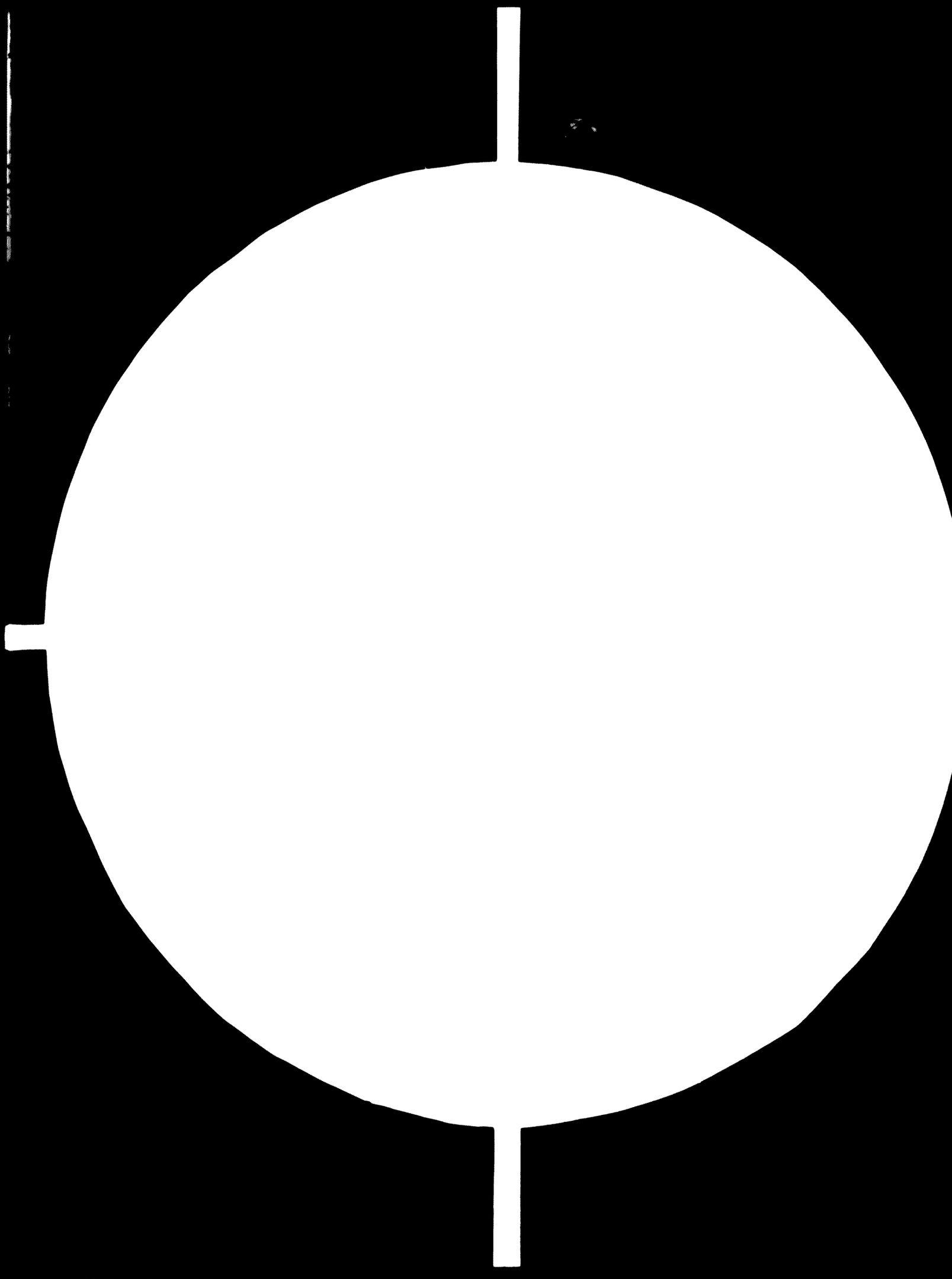

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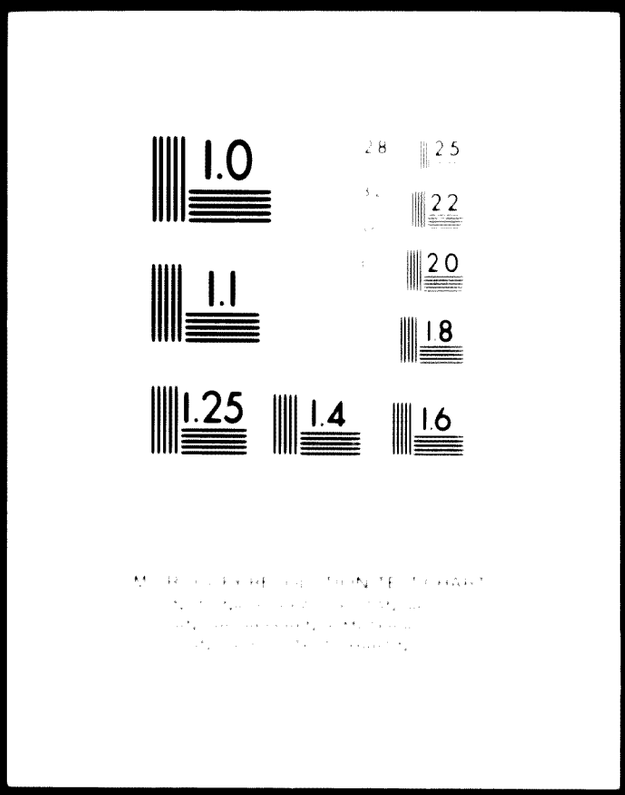

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TO \ FROM	Morocco	South Africa	Canada	U.S.A.	Mexico	Brazil	Japan	Denmark	Netherlands	Norway	Portugal	U.K.	Yugoslavia	France	W. Germany	Spain	Sweden	Iceland	Total Imported	% From Iceland
	S	S	H	S	S	S	S	H	H	H	S	H	S	S	H	S	H	H		
Neth. Antil			100																100	-
Poland													200						200	-
Panama			100																100	-
Romania								500										42.3	542	7.8
Sweden											300								300	-
Switzerland											1700								1700	-
Sierra Leone									600										600	-
Singapore							400												400	-
South Africa			200							1200									1400	-
Trinidad			400																400	-
U.S.A.		600	400				100	500		5900	3500	400						0.1	11400	~0
U.K.		12600								1200	8200							0.1	22000	~0
USSR	1200																	304.2	1504	20.2
										NOTE Negative Net Quantities are Probably Due to Inventory Changes										
Other	500		1800	300			400	1300	1800	5200	8100	900	300			4200		-		
Total Exported	22000	24700	8600	1500	-	-	1000	3700	8100	18800	61200	3300	1200	-	-	4200	-	3503		
Total Produced	43800	63200	11600	13600	11200	29500	3800	2800	4000	11300	56200	4300	-	18000	13200	18900	8700	350		
Total Imported	-	1400	1200	11403	-	-	-	604	1200	-	-	22000	-	13500	23600	-	300	-		
Net	21800	39900	4200	23500	11200	29500	2800	(-296)	(-2900)	(-7500)	(-5000)	23000	(-1200)	31500	13680	14700	9000	0		
% from Iceland	-	-	-	~0	-	-	-	( )	-	-	-	~0	-	-	-	-	-	-		

TABLE 4

WORLD TRADE BY MAJOR EXPORTING NATIONS IN 1965 OF CRUSTACEANS AND MOLLUSCS IN AIRTIGHT CONTAINERS - METRIC TONS

FROM / TO	U.S.A. L,C,S	U.S.A. Sq, SL	Norway P	Japan S,P,L	Japan Cl	Nether-lands M, Ml	W. Germany S	Brazil S	Canada L	Canada Cl	Korea Ml	Spain Sq, M	Iceland S	Total Imported	% From Iceland
Belgium						2100								2100	-
Canada	900	100			200									1200	
Denmark													16.2	16.2	100
Finland													24.2	24.2	100
France		100											9.5	109.5	8.7
Greece		3900												3900	
Malaysia		300												300	
Philippines		1100												1100	
Sweden													1.1	1.1	100
Switzerland	100													100	-
U.S.A.					200									200	-
U.K.	800		1300			700							5.4	2805	.19
Other	200	1400	700	1200	1600	400									
Total Exported	2000	6900	2000	1200	2000	3200	-	-	-	-	-	-	56.4		
TotalProduced	7800	37800	900	1200	9000	-	3400	200	700	200	500	4400	60		
Total Imported	-	200	-	-	-	-	-	-	900	300	-	-	-		
Net	5800	31100	(-1100)	0	7000	(-3200)	3400	200	1600	500	500	4400	3.6		
% from Iceland	0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-

LEGEND

C - Clam
Sh - Other Shellfish
Cl - Crab
P - Prawn
Sq - Squid
M - Mussel
Ml - Other Molluscs
S - - Shrimp
L - Lobster

NOTE Neg. Net Quantities caused by inventory changes

TABLE 5

CONSUMPTION OF HERRING AND SARDINE IN AIRTIGHT CONTAINERS BY MAJOR IMPORTING NATIONS

REF: FAO VOL. 25

(Metric Tons)

Country	Year	Produced	Imported ǂ	Exported ǂ	Net	From Iceland	% Net from Iceland	Remarks
USA	67	13,300	10,700*	600	23,400	6.6	.03	In 1966 Major supplier were: Portugal 15% Norway 28.5%
	66	14,200	11,900	1600	24,500	186.4	0.76	
	65	13,600	11,400	1500	23,500	0.1	~0	
	64	11,700	17,600	1100	28,200	8.6	.03	
UK	67	4,500	11,900*	3800	12,600	0.1	~0	In 1966 Major Suppliers Were: S. Africa 60.1% Portugal 34.6%
	66	5,500	25,300	5,200	25,600	2.7	.001	
	65	4,300	22,000	3,300	23,000	0.1	~0	
	64	4,100	18,600	4,200	18,500	-	-	
W. Germany	67	112,600	12,100*		124,700	5.4	.0004	In 1966 Major Suppliers were: Portugal 7.6% Morocco 2.9%
	66	117,300	16,400		133,700	3.6	.0003	
	65	113,200	23,600		136,800	-	-	
	64	102,100	17,300		119,400	0.2	~0	
France	67	-	4,500*		-	-	-	In 1966 Major Suppliers were: Morocco 25.0% Portugal 11.8%
	66	28,600	18,800		47,400	-	-	
	65	18,000	13,500		31,500	-	-	
	64	23,600	17,800		41,400	-	-	
Italy	67	2,500	3,500		6,000	-	-	
	66	2,500	6,100		8,600	-	-	
	65	2,500	5,700		8,200	-	-	
	64	2,400	4,500		6,900	-	-	
Belgium	67	2,500	3,500		6,000	-	-	
	66	3,100	3,600		6,700	-	-	
	65	1,800	4,000		5,800	-	-	
	64	-	3,500		-	-	-	

NOTES ǂ Figures from Major Exporting Countries Only

Figures not Comple[illegible]

project report

project report

SALES PROMOTION OF ICELANDIC FISH PROCESSING INDUSTRY

VOLUME II
IMPLEMENTING THE STRATEGY

prepared for:

United Nations Industrial Development Organization,
Vienna, Austria.

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I

INTRODUCTION AND SUMMARY

A. INTRODUCTION

This is the second of two volumes reporting on a study of "The Sales Promotion of the Icelandic Fish Processing Industry". In the first volume we developed alternative marketing strategies. The optimal strategy was seen to generate about $3.3 million profit annually on sales of $10-1/2 million. This second volume tells how to implement this optimal strategy.

In the first 6 chapters we present the results of our in-depth interviews in the U.S.A., U.K., France and the Federal German Republic. In these interviews we sought to gain an understanding of Iceland's current position. This included an assessment of the market's view of Iceland as a supplier of canned fish and fish products.

B. SUMMARY AND RECOMMENDATIONS

Iceland can benefit from its Nordic image. Its location is a strong advantage in exploiting the major markets in the U.S.A., U.K., France and Germany. However the changing nature of these markets demands that Iceland improve its marketing strategy and poor image as a supplier. Specifically, Iceland must:

- establish market priorities on the basis of the profitability of each species in each market;
- enter the markets selectively and aggressively;
- become an "ideal" supplier: serving customers the way they want to be served;
- develop a marketing strategy that will earn maximum profits;

- write a marketing plan annually;

- aggressively sell on a co-packing basis during the development period;

- sell only surplus products on a barter basis;

- re-invest profits generated in key markets in those markets;

- develop a consumer-oriented marketing organization;

- pre-test all products prior to entering the market;

- initiate a market-oriented product improvement and development plan;

- take advantage of being Nordic.

If Iceland follows this strategy in implementing our recommendations in Volume I, we believe that the fish canning industry will become profitable and earn significant amounts of foreign exchange.

II

ICELANDIC CANNED FISH INDUSTRY FACES A FORMIDABLE TASK

A. IMPLICATIONS OF GEOGRAPHIC LOCATION

1. Iceland's Location is an Advantage

Recognized product quality. No negative attitudes towards fish from Icelandic waters were uncovered during our study. Fish from Nordic waters is believed by virtually all to be very superior. Iceland's products are of Nordic quality in the opinion of key people in all countries contacted by us.

Nordic image. There is no question that the Nordic origin of the catch can be exploited. Superior texture, finer flavour in fish products are expected and will be believed.

(c) Close to major European markets. Fast service to European markets is an advantage. Most markets can be reached as quickly as from any competing country.

(d) No negative attitudes over fishing ground rights disputes. Purchasers are not interested in protection of fishing resources. Their governments and fishing fleet operators may hold strong feelings. The ultimate consumer, the producer's concern, is apathetic towards the issue.

(e) Conveniently accessible to North America. Iceland is in a good location to serve North America. Regular sea transport schedules

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rigidly adhered to will meet the requirements of United States buyers. Service to the West Coast of the U. S. A. will have to be planned very carefully to assure steady and continuous supply.

(f) Low cost transportation with good emergency alternatives. Sea transport is economical. The variable cost of goods will not be adversely affected by shipping costs. Buyers have an investment in a product's success. They expect it to be readily available from stock. Shipment by air may be necessary to prevent an out-of-stock situation. Failure to protect a customer will result in delisting. Another supplier willing to guarantee 95-97% in-stock will take over the available shelf space.

B. CHANGING STRUCTURE OF CHANNELS OF DISTRIBUTION

1. In Europe the channels of distribution are changing to meet changing market conditions. The success or failure of EEC and/or EFTA will have major impacts on the channels. The current situation is outlined in Chapter VII. A successful marketer must monitor the market continuously to keep his strategy in line with the changing patterns. Further, all over Europe, supermarkets are growing in importance -- rapidly. The situation in England, Germany and France is much like that in North America in the 1950-55 period.

2. The structure of the channels of distribution has firmed in North America, but the market has narrowed. Fewer key customers have significantly more influence than they had even five years ago. Superior relationships with these key outlets is vital to success.

C. COMMODITY PRODUCTS YIELD LOW PROFIT MARGINS TO FINANCE GROWTH

1. From the marketing point of view a commodity product is one that is marketed by many competing producers in substantially the same form.

2. Competition for shelf space among commodity suppliers is intense.

3. Profit margins are driven down by competitiors in their drive to obtain a share of the limited shelf space

D. HEAVY DEMANDS PLACED ON NEW SUPPLIERS WHEN INTRODUCING NEW PRODUCTS

1. New suppliers and new products must return more profit per cubic foot of shelf space than the products they replace. The consumer holds no favourites among products or suppliers. A product must be profitable and risk free to the buyer. The onus is on the seller of the new product to prove its superiority, profitability and housewife acceptance.

2. Test markets are mandatory in the United States. They enable the buyer to reduce his risk when he buys a new product.

3. Test markets, while not mandatory, are becoming important in Europe. In both Germany and England they are virtually a necessity. In France they are desired, but not required.

E. TREND TO VALUE-ADDED PRODUCTS PLACES ADDITIONAL DEMANDS ON PRODUCERS

1. Target group must be precisely defined. Increasing affluence and travel has created a more discriminating consumer. Her tastes have broadened. She knows what she wants. Her product choice reflects the demography (age, education, income, geographic sector of the country) of her background. Any product appeals to specific segments of the population. It is the marketer's job to decide the target group for each product or brand.

2. Product concepts must be tested for acceptability in the U.S. These low cost tests reduce the producer's risks. Before a tin is packed, the canner will know the relative chances for product success.

3. Product flavour and quality must be tested in all markets. This step, like the concept test, takes place prior to entering a test market. It will ensure that the product fits the environment in which it will be marketed.

4. Shelf packaging must be competitive in the shelf environment of the country in which the producer markets. Package suitability and its competitive impact can be determined in the design stage, again reducing the canner's risk by testing prior to commitment to the test market.

5. Cases must be clearly printed and coded for easy identification in dark warehouses.

6. Automated checkout counters are forecasted for use by 1972 in Canada and the United States. The requirements in this area should be determined. Universal product codes will be adopted -- either 4 or 7 digits depending on the system ultimately agreed upon.

These digits will automatically read the price and reported movement will control store and warehouse inventories.

F. SUPERIOR IMAGE OF ICELAND'S PRODUCTS IS OFFSET BY A POOR IMAGE OF ITS PRODUCERS

1. Icelanders are seen to be stubborn and inflexible. Buyers who have had contact with them do not believe they are really interested in meeting the market's needs, only in selling their products the way they want to sell them. This is serious: a change in attitude is essential.

2. Customers feel that Icelandic exporters do not follow through on promises or requests. Enough buyers raised this objection for it to be a cause of very serious concern. A supplier is expected to be sensitive to customer demands.

3. Icelandic producers do not make it easy for customers to buy from them:

   (a) Determine optimum case size. The size of case required varies by product and by country. The customer must be offered the case size that is best suited to his market.

   (b) Personal name problem. Some Icelandic representatives are too sensitive when asked to spell their name. This causes lost sales, especially in North America where the family name is of little importance.

III

THE CURRENT MARKET ENVIRONMENT IN KEY COUNTRIES

A. UNITED STATES

1. The upsurge in the number of supermarkets is ending. Future growth will be related to population increases and urbanization.

2. The society is becoming more affluent at an accelerating rate.

3. Ethnic or national products are growing at a significantly faster rate than products in general.

4. Volume is growing rapidly in "gourmet" items but is still relatively small. Many of these items are moving from the gourmet counter to the regular shelf. When products are located in the regular canned fish location sales increase. Products located in the canned fish section sell at from 50 - 200 times the rate of the same product in or over a cooler or refrigerated case.

5. The large number of new products being offered increases the difficulty of obtaining listings. Large stores will handle 7,000 to 8,000 items within the next 5 year. A sample new item form is found on the following page. This form is typical of the information a seller must provide to a buyer.

6. Supermarkets are becoming more responsive to differences between neighbourhoods. Some items are handled by specialized wagon jobbers that deliver directly to chain accounts. With the exception of sardines, Iceland's products will probably be handled by wagon jobbers.

TABLE 1

STOP & SHOP, INC.
NEW ITEM FORM

PLEASE PRINT

Date Item Will Be Available_____

BRAND_____ **DESCRIPTION**_____

PURCHASE ORDER TO BE MAILED TO:

Name_____ Address_____ Phone_____

City_____ State_____ Zip Code_____ C/O_____

PAYMENT TO BE MADE TO:

Name_____ Address_____ Phone_____

City_____ State_____ Zip Code_____ C/O_____

Guarantee to conform to ☐ F.F.D.A. ☐ F.L.S.A.
Amount of Product Liability Carried $_____ With Whom_____
Vendors Coverage ☐ Yes ☐ No
Name of Insurance Co.

Container..... _____
Item Size..... _____
Case Pack..... _____
Master Carton Pack..... _____
(if applicable)
Case Weight..... _____
Case Dimensions in Inches_____
(Length, Width, Height)
Case Cube Size..... _____
Pallet Pattern..... _____
(if applicable)
Reg. Case Cost..... _____
F.O.B. Point..... _____
Freight to S & S..... _____
Unit Cost Del..... _____
Point of Origin..... _____
How Shipped..... _____
Min/Max Shipment..... _____
Normal No. Days for Del. _____

Quantity Discount_____ Swell Allowance_____
Cash Discount_____ Label Allowance_____
Promotion Allowance_____
Advertising Allowance_____

Introductory Offer_____
Price Protection_____
Guaranteed Sale ☐ Yes ☐ No How Long_____

Fair Traded ☐ Yes ☐ No
Suggested Retail_____ Gross Margin %_____

If "delivered" and we elect to pick up this merchandise with our own trucks, what hauling and/or handling allowance will be made_____cwt._____case_____

PROPOSED ADVERTISING BY SUPPLIER

Producer's Advertising	Names of Media	Dates	Space or Length of Campaign
Newspapers			
Radio			
TV			
Magazines			
Couponing			
Demonstrations			

WHAT CHAINS ARE NOW HANDLING	REGULAR OR TEST BASIS	RETAIL	WHERE

VENDOR PLEASE NOTE: All above information is accurate and complete; all promotional, advertising and other allowances and benefits herein contained are being actually offered on proportionally equal terms to all other customers of the seller competing with purchaser

Signed_____ Date_____

ATTENTION SALES REPRESENTATIVES: Please DO NOT fill in information on this page.

BUYERS' INSTRUCTIONS: Buyers will please fill in the information requested below prior to presentation to the Buying Committee.

ITEM COMPARISON ANALYSIS

Item Presented	Pack	Size	Unit Cost	Unit Retail	Margin	Ave.	Weekly Movement
Comparable Items							

Date _____ Buyer _____

QUALITY				COMMITTEE ACTION				
Good	Pass	Poor	Initials	Date	OK	NO	Initials	Reasons

Items	Quantity	Ordered	Distribution	Arrv. Date	Item	Retail	Profit

7. There are wide disparities in fish consumption from one sector of the country to another. Gourmet and value-added fish product consumption is highest on the two coasts. Concentrated effort in these two areas is paying off for some packers. Products do not have to be sold nationally to succeed.

8. The types of fish products consumed vary by section. Local brokers know their local markets. The products to be emphasized must initially conform to local taste. Over time, tastes can be expanded to include a wider variety of products.

9. Good packaging is vital to success. Shelf impact is a function of graphic design. Product stability on the shelf is important to sales success. Case size should relate to product movement so as to provide a turnover of 12 - 17 times annually.

10. Except for salmon and tuna, there is virtually no promotion of canned fish items by manufacturers.

11. There are strong doubts about the Icelander being able or willing to do the things, from both a product and marketing point of view, required to achieve success. Buyers are very concerned about his inflexibility. We were frequently told: "Icelanders try to sell us what they want to sell, not what we want to buy". This negative image must be overcome, if the new strategy is to succeed.

12. Private label products are growing in importance, especially in high volume, low margin commodity products. Private label products are products packed by a canner using a chain or voluntary group's label. The product must meet the product standards of the chain or group.

13. Co-packing is an accepted procedure by full-line producers. The supplier normally initiates the contact. The product specifications are set by the purchaser. Normally these specifications are rigidly enforced.

14. Chains and wholesalers are rapidly upgrading the quality of buyer personnel. A key criteria in personnel selection -- for both canners and the selected brokers -- must be very high calibre personnel.

15. Although the supermarkets are the major outlets, department stores are important for specialty/gourmet products. These stores reach the highest socio-economic levels. They are important from a prestige point of view.

16. In spite of fears about Iceland's willingness to serve customers the way they want to be served, chains and wholesalers are willing to provide an opportunity for a market-oriented approach. The Icelandic industry can succeed, providing it does the right things. If it fails to market successfully now, the loss will be a growing market for a long time.

17. The institutional market in the U.S. is large, but it is of relatively low importance for canned fish.

B. UNITED KINGDOM

1. The U.K. market for canned fish is large and expanding.

2. Unlike the U.S. which will not tolerate specific items out-of-stock, the U.K. will accept temporary out-of-stock. However, buyers, supermarket and department store personnel report that this condition is changing. They predict that out-of-stocks will not be tolerated within three to five years.

3. There is a "filter down" process in U.K. marketing. A product can be introduced as a gourmet or specialty item. If popular, it will then move down the line and onto the regular shelves.

4. Icelanders have apparently neglected the U.K. market. This is an advantage. Negative attitudes are not as strongly held as in the United States.

5. There are great opportunities for upgrading the canned fish market. The Whitefish Marketing Board and the stores themselves are working to this end. Quality and package improvements are key.

6. The institutional market does not use significant amounts of canned fish at present. Shrimp and cod roe do represent opportunities in the long-term however.

7. The fishing grounds problem between Iceland and the U.K. does not affect the buyer or housewife.

8. Sardines and other fish products have greater acceptance at higher socio-economic levels than canned salmon. Sardines find their greatest acceptance among older consumers. "All other" canned fish is accepted more by younger groups. The "all other" group will require promotion.

9. Food tastes are widening. Trips abroad and television are changing the taste preference among U.K. homes.

10. Sales promotion is accepted and used. The consumer is influenced directly by point-of-sale material and on-and in-package promotions. She is influenced indirectly by home economists and columnists for newspapers, magazines, radio and TV who use material provided by suppliers.

To be effective, sales promotion material must be professionally developed and consistent with the environment. Contrast this with Icelandic brook trout. The package contains a recipe booklet which has been translated literally. It reads neither like a British recipe nor an American recipe. It should be revised to conform to the accepted pattern in the respective countries.

11. A wide selection of individually branded items is required to make advertising possible. A single brand name with a number of products in the line will generate enough marketing dollars to support advertising. Separate brand names dilute the marketing impact.

12. Test marketing is growing in importance. The reduced risk and improvement of the chance of success in the market place makes this step a must. Suppliers that identify with this trend are looked upon as progressive. They are seen as good business partners.

13. Chains are becoming an increasingly important factor. Delicatessens are entering the field. Department stores are important. Marks and Spencers does $250,000,000 annually on 350 items. Not one of these is a fish product.

14. Fish in general has an "image" problem. It cannot be ignored by any producer. We suggest that Icelandic producers work with other marketers, such as John West, and with the Whitefish Authority to create a better image.

15. In spite of this, there is a supply, not a demand problem in the U. K. The Englishman is a fish eater. Once his wants are determined and the products to meet those wants developed, he will buy. This is the producer's responsibility.

16. The increasing affluence among U.K. consumers creates opportunities for value-added products now.

17. The range of fish products consumed varies regionally. Herring sells best in Scotland, sardines in England, Northern Ireland and Wales. Metropolitan centre stores will buy gourmet products.

18. Salmon dominates among imported products with 69% of the units and 51.5% of the dollars.

19. Current forecasts indicate supermarkets will account for 45% of the turnover by 1972 and 60% by 1977.

C. FRANCE

1. France is the largest importer of canned fish in the Common Market.

2. The franc value of canned fish has been rising heavily and steadily. The French look upon fish as an expensive form of protein. This is a basic attitude. When selling gourmet or value-added products this cultural value is a plus. For commodity products it is a minus factor.

3. Canned fish accounts for over 1/6 of total fish consumption in France.

4. Fish consumption is greatest in large urban centres. There are wide regional variations in the consumption of canned fish. Paris, Lyon and Marseille are key fish consuming centres. Even in these centres shelf space is relatively limited.

5. Canned fish consumption reaches its peak among the "Middle Executive" socio-economic group. Buyers believe this fact can be exploited through

marketing. People further down the socio-economic scale follow the pace setters.

6. The institutional market in France is not a major opportunity market.

7. Influential people believe fish is "not a meal". There is a prejudice against fish. Fish is an appetizer. It is either a course in the main meal of the day or it is used in the secondary meal.

8. Among those interviewed there were no negative reactions toward Iceland, its people or its products. Housewives are thought to have a favourable impression about Iceland. This impression could be carried over to Icelandic products.

9. Fear was expressed that Iceland was apt to be an "in-and-out" supplier. This could not be tolerated. Iceland's entry, to be successful must be on a continuous basis.

D. GERMANY

1. The German market for imported processed fish in cans has been relatively static since 1957.

2. Herring sales have declined recently. This is believed to be a temporary phenomena. It is related to the catch rather than to a change in housewife preference.

3. The selling price of branded merchandise can be 80 - 100% above the "normal" price level. This price must be established with the pricing authority in Berlin.

4. Low price branded imports are not normally negotiated and have no bearing on the overall price situation.

5. Three of every four fish sales are of the low cost commodity product. The obverse is the key: 25% are not sold as a commodity. There are opportunities for superior products. German products are very good. The non-German competitors product will have to be better than the best of domestic production. This is true from both a quality and marketing point of view.

6. Turnover at the wholesale level amounts to 13 turns per year. New products have to equal or better this turnover rate.

7. Canned Icelandic products are virtually unknown in the market place. Consequently there are no prejudices against canned fish products from Iceland. Nor are there any preferences. Iceland must therefore build a superior image for its products. The specialty market is difficult to compete in -- the German canners produce a wide range of superior products at low prices. This market will have to be carefully assessed for a foreign entry to be successful.

8. The main meal in Germany is normally the noon meal. Fish is used during evening meals. This knowledge is important in positioning a product image.

9. There is a trend to better quality products and specialty products. Germany's affluence creates product opportunities. Part of the value of quality and specialty products is the high price paid. Duties and tariffs that normally work against a product can work for high value products.

10. Key people in the trade held three strong views about canned fish:

    (a) Ready-to-serve convenience is critical.

    (b) Good taste is vital to success. As taste is subjective, tests must be carried out to achieve the taste level desired by a product's target group.

    (c) Digestibility is always mentioned by home economists. However, unless there is an illness in the family, it is not an important factor in the housewife's purchasing decision.

11. There is a major opportunity for an importer who converts a semi-preserved product into a fully preserved one. This moves the product to a more favourable shelf location.

12. Packaging is critical to success. It must compete successfully in the German environment. The design should be developed locally.

13. The trend to supermarkets is accelerating. New products must meet the exacting demands of large, well managed supermarket organizations.

14. Advertising has been weak and inadequate. Providing sufficient funds can be generated there could be an opportunity. The potential return will have to be weighed against the cost. Brokers do not believe that Iceland can generate enough funds to succeed in this market.

15. The use of canned fish products by institutions is extremely small.

16. The prices for fish preserves have increased at the same rate as food in general.

17. Importers are not optimistic about the success of an Icelandic entry into the German market. All elements in the product and marketing strategy will have to create a synergistic effect for an imported product to succeed.

E. EASTERN EUROPEAN NATIONS

1. There are barter opportunities.

2. Eastern European countries do buy products. Prices for purchased products can be higher than for the same product obtained on a barter basis.

3. The world market price for commodities is well known. Eastern nations start negotiations from this point.

4. With increasing affluence there is an opportunity in certain Eastern European nations for value-added products. A close watch must be kept on both political and economic realities to take advantage of these opportunities.

IV

BARTER

A. BARTER IS IN A STATE OF FLUX

The rapid changes taking place in Eastern European economies affects barter. A good assessment of the effect of these changes is required to take advantage of them.

2. Political realities affect barter. Czechoslavakia is a case in point. In 12 months they moved from being a relatively poor barter partner to a better than average one back to poor.

B. BARTER AGREEMENTS MUST BE FULFILLED EXACTLY AS NEGOTIATED

1. Changes cannot be made by the producers. Strict monitoring of products purchased by barter is the norm. Products that do not meet the barter deal exactly as negotiated will be returned to the producer.

2. The buyer will honour his agreement. Just as he expects you to honour your part of the deal he will honour his. A supplier can negotiate with confidence.

C. BARTER IS A LOW PROFIT TRANSACTION

1. A barter sale is a last resort sale.

2. Barter is a means of disposing of surplus.

3. A conscious trade-off decision should be made between holding the product in inventory for one season and bartering now. This is an economic decision. Each case has to be examined on its own merits.

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D. ICELAND IS NOT LOOKED UPON AS A SUPERIOR NEGOTIATOR

People interviewed in Europe judged Iceland to be relatively poor at negotiating barter transactions or taking advantage of bilateral trade agreements. This opinion was based on a comparison between Iceland's barter agreements with the U.S.S.R. and other countries' trade with other eastern countries. Iceland was not felt to be obtaining a comparable price for its products.

V

CHANNELS OF DISTRIBUTION

A. THE CHANNELS OF DISTRIBUTION

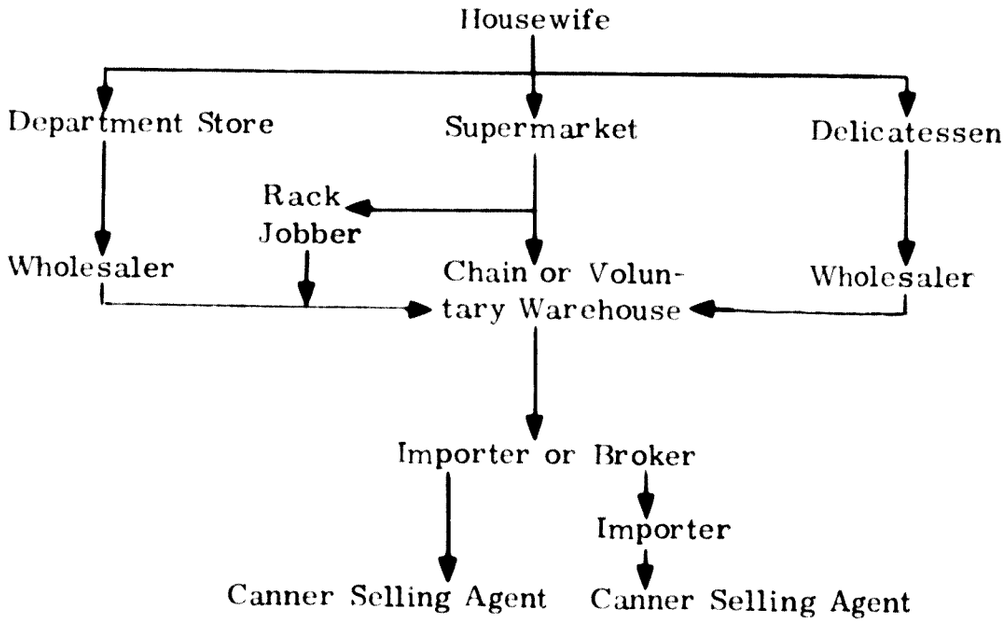
1. There are variances between countries and within countries.

2. The nature of the sale determines the channel of distribution.

B. UNITED STATES

1. Consumers Channels

(a) National Brand



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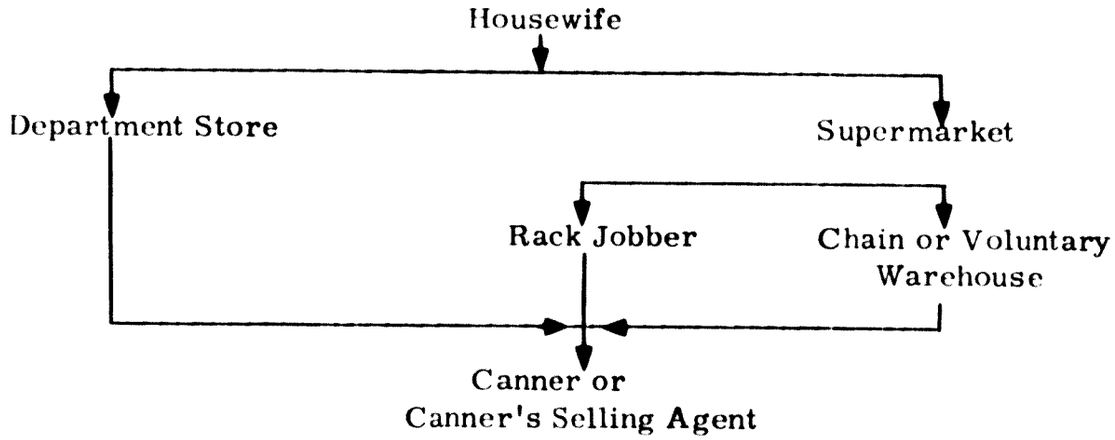
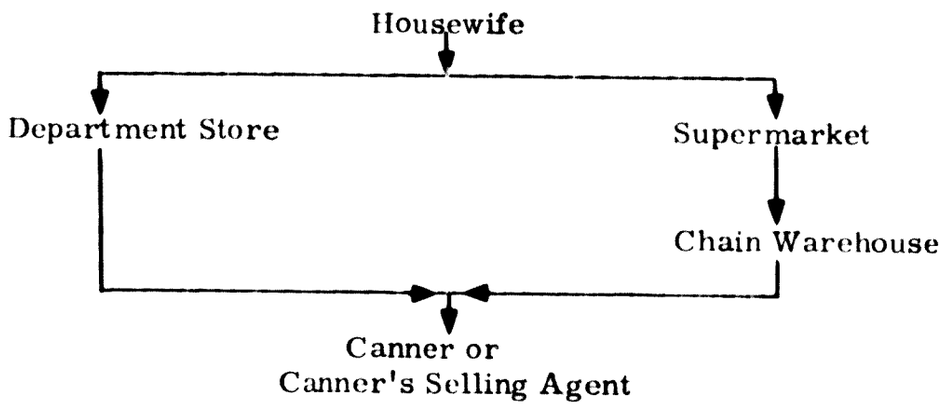
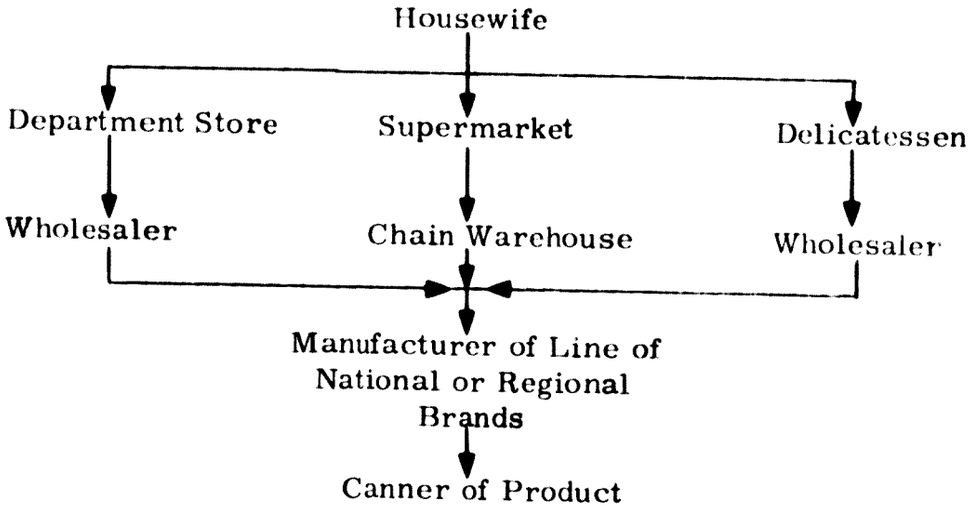
(b) Private Label (sold solely by the supermarket, voluntary group or department stores).



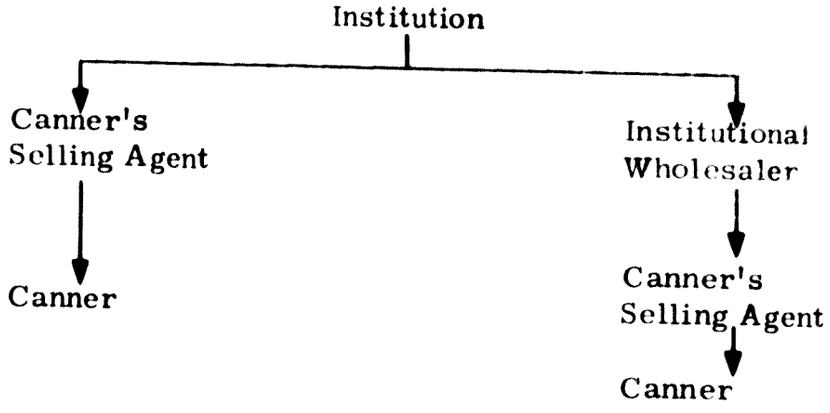
(c) Controlled Label (sold to a single chain in one area and to other non-competing chains in other areas).



(d) Co-packed product (packed to another manufacturers specification under the other manufacturers label and product specifications).

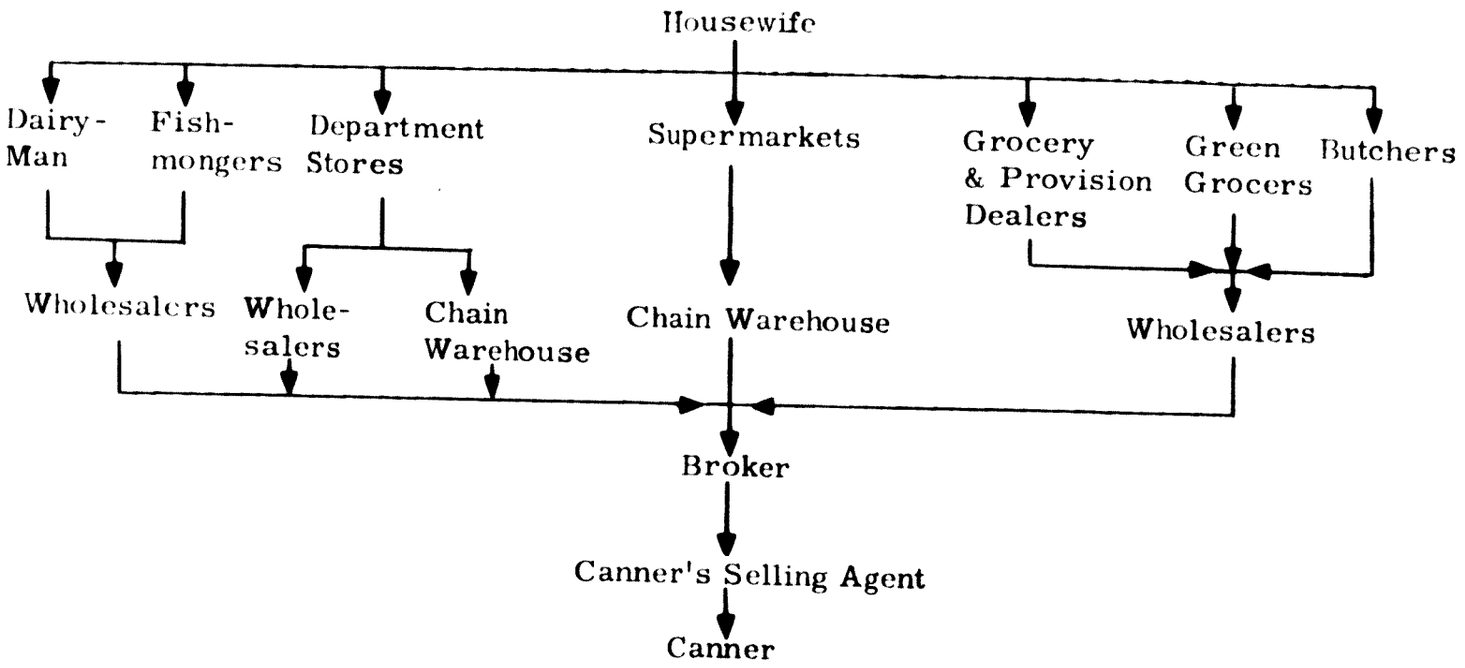


2. Institutional Channels



C. UNITED KINGDOM

1. Consumer Channels

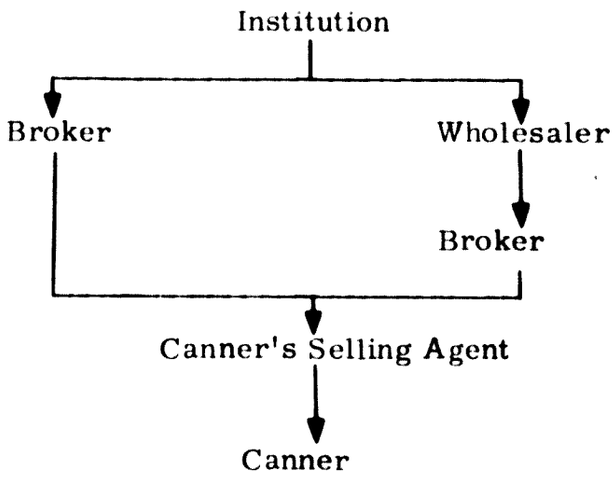


2. Certain manufacturers, such as John West operate under co-packing arrangements similar to those in the United States.

3. Department stores like Marks and Spencers buy products under their own label directly from canners. Canners must pass rigorous quality control specifications and product tests. Production facilities are carefully inspected. Marks and Spencers does $250,000,000 per year on 350 items -- none of which is fish. They have not been able to find a canner that meets their rigorous requirements for production quality control.

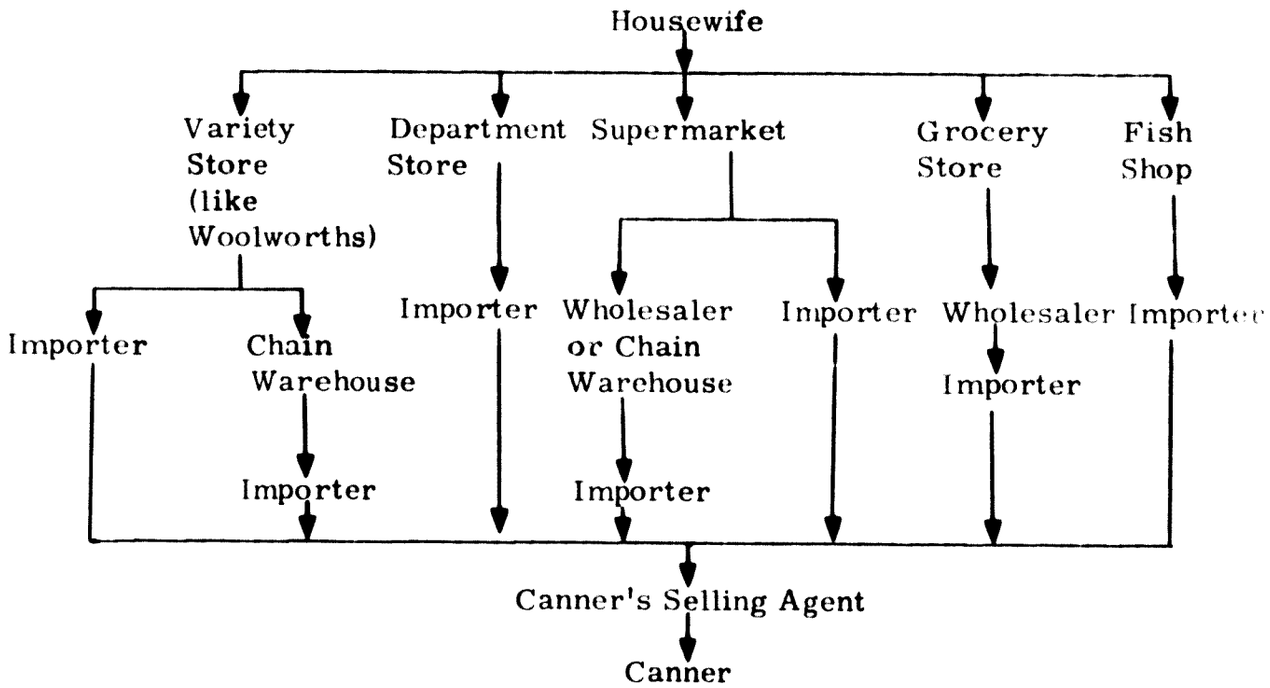
   Some department stores in the United Kingdom do sell national brands.

4. Institutional Channels



D. FRANCE

1. Retail Channels



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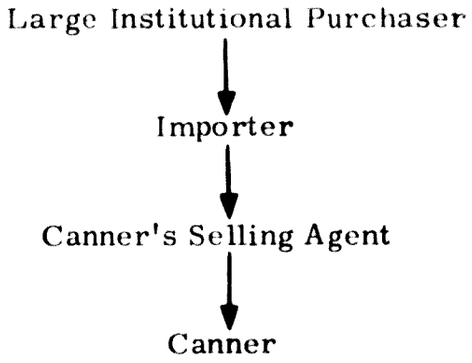
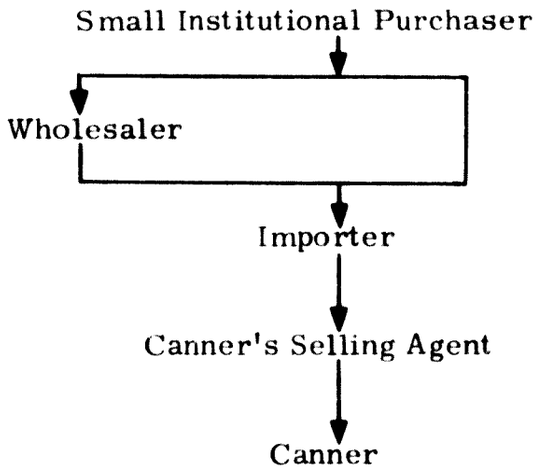
2. Institutional Channels

(a) Large

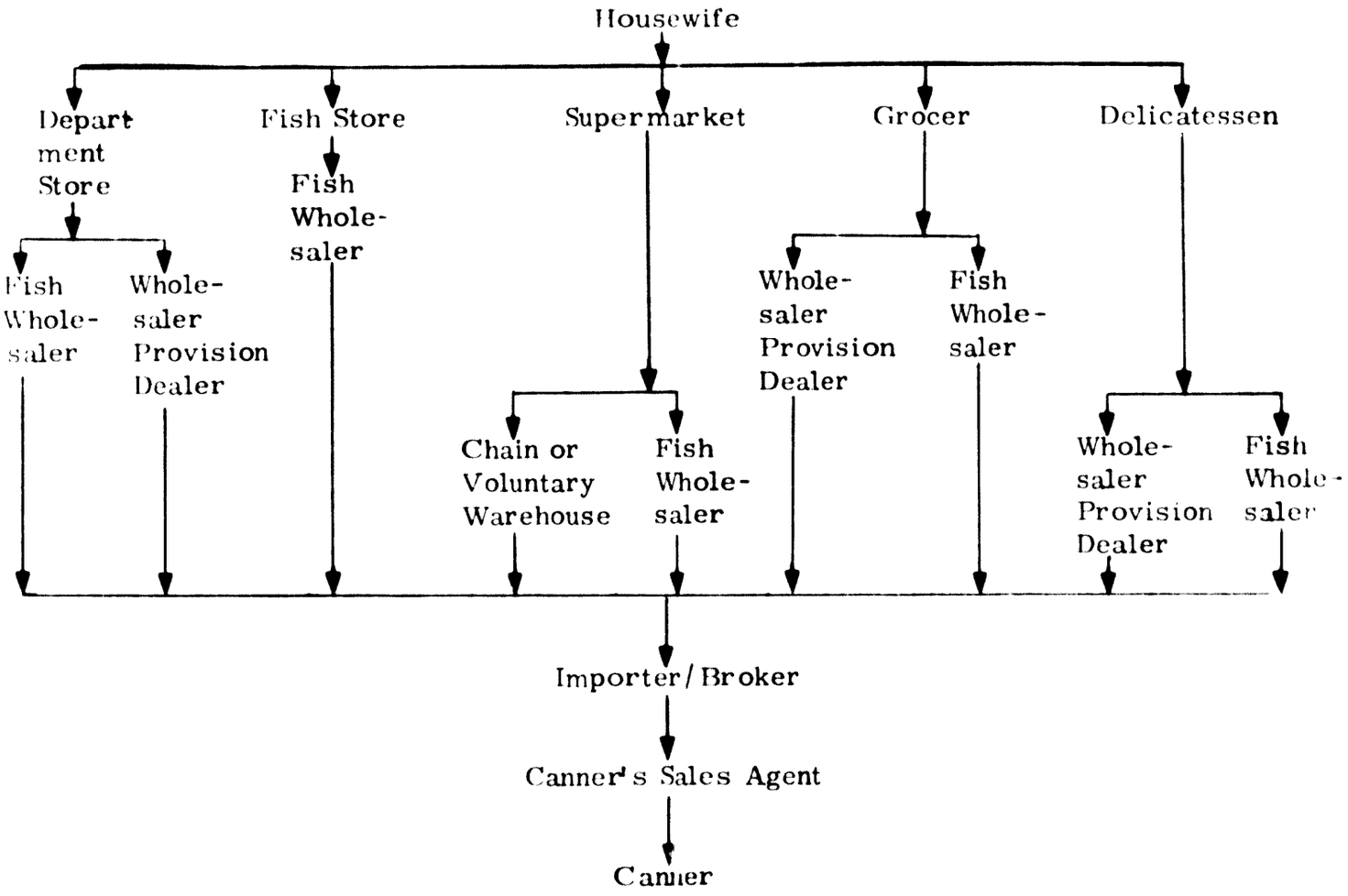


(b) Small



E. GERMANY

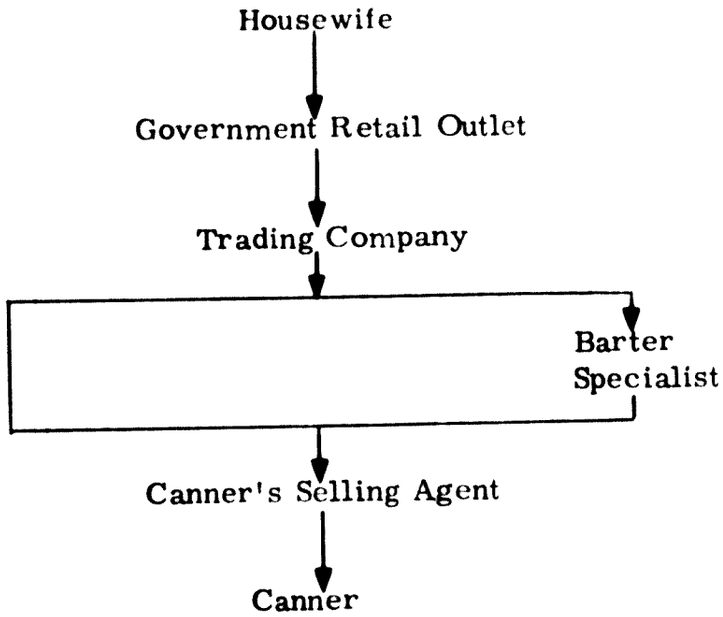
1. Retail Channels



2. The institutional market is trying specialty products. For canners this does represent an opportunity. Additional research is required to identify the products with the greatest opportunity.

F. EASTERN EUROPEAN NATIONS

1. Retail Channels



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VI

PROBLEMS WITH FOREIGN SUPPLIERS OF FISH

A. FEAR OF FAILURE TO MEET QUALITY STANDARDS

1. Supermarket buyers have had bad experiences when comparing cans offered as samples with delivered product. When the buyer cuts a can taken at random from an order, the buyer expects the product to equal the quality of the sample from which he has bought. Only by positive action -- equalling or exceeding the quality of the sample -- can a reputation be built and held.

2. Iceland does not have this problem. Buyers have not had enough experience with Icelandic goods. Where they have, they believe that product promises are fulfilled.

B. POOR PACKAGING

1. Packaging in a self-service store is the key to the sale. This makes superior package design and shelf utility critical. With the growth of supermarkets this will increase in importance.

2. Buyers are concerned about the quality of:

   - Containers
   - Package design
   - Tolerances set for colour control on labels
   - Stability on the shelf
   - Ease of opening consistent with housewife safety

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- Shipping Case:
  - product identification clearly visible
  - withstands normal handling
  - of such a size as to generate the required turnover.

C. FEAR OF FAILURE TO MEET DELIVERY COMMITMENTS

1. Out-of-stock at the retail level causes consumers dissatisfaction -- the housewife blames the store.

2. Out-of-stocks are very costly to the retailer, not just in terms of lost sales. Lost customer goodwill is equally critical.

3. The retailer's image as well as the canner's is at stake.

4. Computerized store ordering/warehouse inventory control systems increase the cost of out-of-stocks.

5. The buyer looks bad in the eyes of chain management. Buyers will delist consistent offenders.

D. FEAR THAT SUPPLIER DOES NOT UNDERSTAND THE ENVIRONMENT

1. Foreign suppliers are expected to conform to the environment in which they are marketing.

2. The pace and style of business in a country is not always recognized by the foreign supplier.

3. Canner's policies do not necessarily meet the requirements of a specific national market. Buyers believe

it is the exporter's responsibility to adapt to the local environment. It is the seller's job to conform, not the buyers.

4. Many suppliers do not react well to suggestions by buyers. This fear was expressed sufficiently frequently for it to be a genuine source of concern.

E. SLOW RESPONSE TO INQUIRIES

Foreign suppliers often ignore requests for information. Buyers are often intermediaries for senior management. Suppliers ignore requests for information at great risk. Foreign suppliers often fail to realize that quick, good responses will be rewarded.

F. LACK OF FLEXIBILITY IN APPROACH

1. The markets and products sold in the markets are changing at a very rapid rate. Canners are expected to understand this. They are expected to react.

2. Some foreign suppliers have a tendency to reject requests for product modification without studying the feasibility of fulfilling the request. Nothing irritates a purchaser more. An apparently stupid request is not stupid in the eyes of the man who made it. A well conceived rejection after careful study is never a problem. Outright rejection always is.

3. Some foreign suppliers are viewed as rigid. Once this attitude takes hold it is very hard to break. Purchasers do not want to take risks. They know they will find a compatible organization to work with.

4. In both the United States and the United Kingdom, Iceland is looked upon as an irresponsive, rigid, dogmatic supplier.

G. FEAR OF FAILURE TO SUPPLY ALL REQUIRED DOCUMENTS

1. Customs clearance is slowed.

2. Costly out-of-stocks occur.

3. Buyers believe some sellers are sloppy distributors. It is the seller's responsibility to meet all legal and regulatory requirements. Once a supplier is blacklisted it is virtually impossible to redeem his lost position. This is especially true in North America. There is a trend in this direction in all countries studied. The trend is accelerating.

H. FEAR THAT FOREIGN CANNER IS NOT MAKING A LONG-TERM COMMITMENT TO THE MARKET

1. A chain cannot afford to build a market for a product and then have the supplier pull out.

2. The buyer's space and monetary investment in an Icelandic brand must be protected.

3. The proof is in the performance of the supplier. Buyers talk to one another. A good reputation becomes known quickly, a bad one even faster.

4. If necessary to keep the product available, the buyer would expect a supplier to obtain raw material wherever it is available in the world. Similarly he is expected to deliver it on time. This can mean shipment by air, rail or even bus as well as by sea.

5. This concern is great with commodity products. It is even more important for value-added products.

VII

ESTABLISH MARKET PRIORITIES ON A VARIETY BASIS

A. PHILOSOPHY

1. Complete flexibility must be maintained to earn the greatest return from every catch. Once a fishing boat has left port, operating costs are incurred regardless of the size or type of catch.

2. When a boat returns the goal should be to market whatever is caught, wherever it is wanted, in the form it is wanted.

3. The object: To sell everything, waste nothing.

4. Given this attitude, the problem is one of supply rather than demand. Critical examination of the markets for a specific catch must be undertaken. Immediate judgements to optimize the monetary contribution of the catch must be made. The decision criteria must be predetermined to speed the decision.

B. HERRING AND SILD SARDINES

1. United States imports have ranged between 25, 000 and 30, 000 metric tons in the 1964-67 period.

2. The German Federal Republic has imported from 12, 000 to 23, 000 metric tons during this same period.

3. France's imports have ranged between 13, 000 and 19, 000 metric tons.

4. The U. K. imports between 19, 000 and 25, 000 metric tons annually.

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5. We believe the markets for sardines and herrings in order of priority should be:

   - United Kingdom
   - United States
   - France
   - German Federal Republic

   Virtually all Germany's imports are from southern Europe. The United Kingdom is also a heavy importer from southern Europe. To the extent possible the sild sardine flavour should match the flavour of the Portuguese product when marketing in Germany and the United Kingdom.

C. SHRIMP

1. There is a world wide shortage of shrimp. Prices will eventually reflect this shortage.

2. The key opportunity market for shrimp is the United States. Total imports have grown from 10 to 21.4 thousand metric tons between 1958 and 1967. Icelandic shrimp are "tiny". This size is becoming more important, although it is still a relatively small segment of the market.

3. France, the United Kingdom and Germany follow in that order.

D. LUMPFISH CAVIAR

1. The United States should be the number one target market for Lumpfish Caviar. The milder flavour of

the Icelandic product compared with sturgeon caviar should be an advantage. Caviar is a high status product. High status and relatively low price when combined with the blander North American flavour preference should yield success.

2. The United Kingdom, France and Germany should be secondary targets in that order.

E. TROUT

1. The United States should be the target market for trout. This is a gourmet item. It should be priced high and sold very selectively.

2. Should any product remain, it could be allocated to the German Federal Republic, the United Kingdom and France.

F. COD LIVER PASTE

1. France is the key market for Cod Liver Paste. The opportunity for this product in the United States, United Kingdom or Germany is negligible.

2. Eastern European countries, particularly Czechoslovakia and Hungary are secondary opportunity markets.

G. COD ROE

1. The United Kingdom is the market for cod roe. Contrary to other products, institutions, particularly fish-and-chip shops, are the key outlets for cod roe.

H. FISH BALLS

1. As with lumpfish caviar, cod liver paste, cod roe and fish loaf, there are no statistics on this product. It is our belief that fish balls can be profitably marketed as a part of fish chowders and fish soups.

2. On the basis of marketing fish balls as part of a soup the priority markets should be the United States and France. Private label and co-packing opportunities should be explored.

3. There may also be an institutional market opportunity in the United Kingdom. This should be explored with institutional buyers and major distributors.

I. FISH LOAF (FISH PUDDING)

1. Current purchasers should be concentrated on. There is not a sizeable market for this product in the U.S. or the Federal Republic of Germany.

J. CLAMS

1. The major shortage of clams in the United States is expected to continue. Whole and chopped Icelandic clams can be sold profitably. The long-term opportunity appears to be good as a result of their increasing popularity and pollution-reduced supply.

VIII

ENTER THE MARKET SELECTIVELY AND AGGRESSIVELY

A. ICELAND'S RESOURCES ARE LIMITED

1. The risk of market entry with an Icelandic branded product must be minimized. Associated Canneries' and Iceland's resources must be protected from undue risk. This can be done if :

   (a) Icelandic national brand products are tested for:

   - Concept
   - Product
   - Packaging
   - Marketing Strategy

   The concept of testing is covered in Chapter XVI.

   (b) Iceland supplies premium quality products. On branded products it is vital to set and maintain superior product standards. Only by doing this will it be possible to earn higher than standard prices for the non-value-added products. Further, by doing this the markets become receptive to value-added goods produced in Iceland.

2. Subsidize market entry by co-packing and packing private labels. This is a key element in the marketing strategy. Supplying other packers and packing chain private labels make important and needed contributions to overhead. As the demand for successful national brands makes increasing demands on plant and raw materials, Iceland should gradually phase out of this lower profit business.

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B. ENTER PRIORITY MARKETS WITH PREMIUM QUALITY AND VALUE-ADDED PRODUCTS

1. United States

a. Iceland should enter the United States with:

- Brook Trout
- Lumpfish Caviar
- Cross-packed Sardines in Olive Oil
- Shrimp
- Clams
- Pet Food

These products, except for pet food, should all be branded. They should represent the best of the pack. They will not be value-added products. This strategy builds on current strengths. It will lay the foundation for acceptance of more profitable value-added products. Pet food should be co-packed.

b. Iceland should adopt a common brand name which will identify the products with their Nordic origin. This will take advantage of the favourable attitude towards, and image of Nordic fish products. Once a suitable name has been found it should be registered as a trade-mark. This will protect Icelandic products from poor quality imitations.

c. Co-packers and private labelers should be the first target. The benefits and the strategy are outlined in Section A-2 of this chapter. These

sales will have to be made directly to the national brand packers and to the chains. Private labels can help to obtain listings for the national brand if both are negotiated concurrently.

d. After basic products are established, canned value added herring products should follow. This will mean introducing the taste to most people and setting the taste standards. These products can be very profitable when well marketed.

e. Next should come value-added items. Products like pate of smoked crabs, where the fish or crustaceans are a fraction of the total product, represent a very important opportunity. Here profits escalate. Appendix A lists additional value-added opportunities. The list is not all inclusive, it is indicative.

f. Pack all products for the Icelandic national label so that no refrigeration is required. This will permit them to be sold from regular shelves. In turn, the volume will be 20 to 200 times greater than a comparable refrigerated item. Since there is no established taste it is not necessary to match the flavour of the refrigerated product.

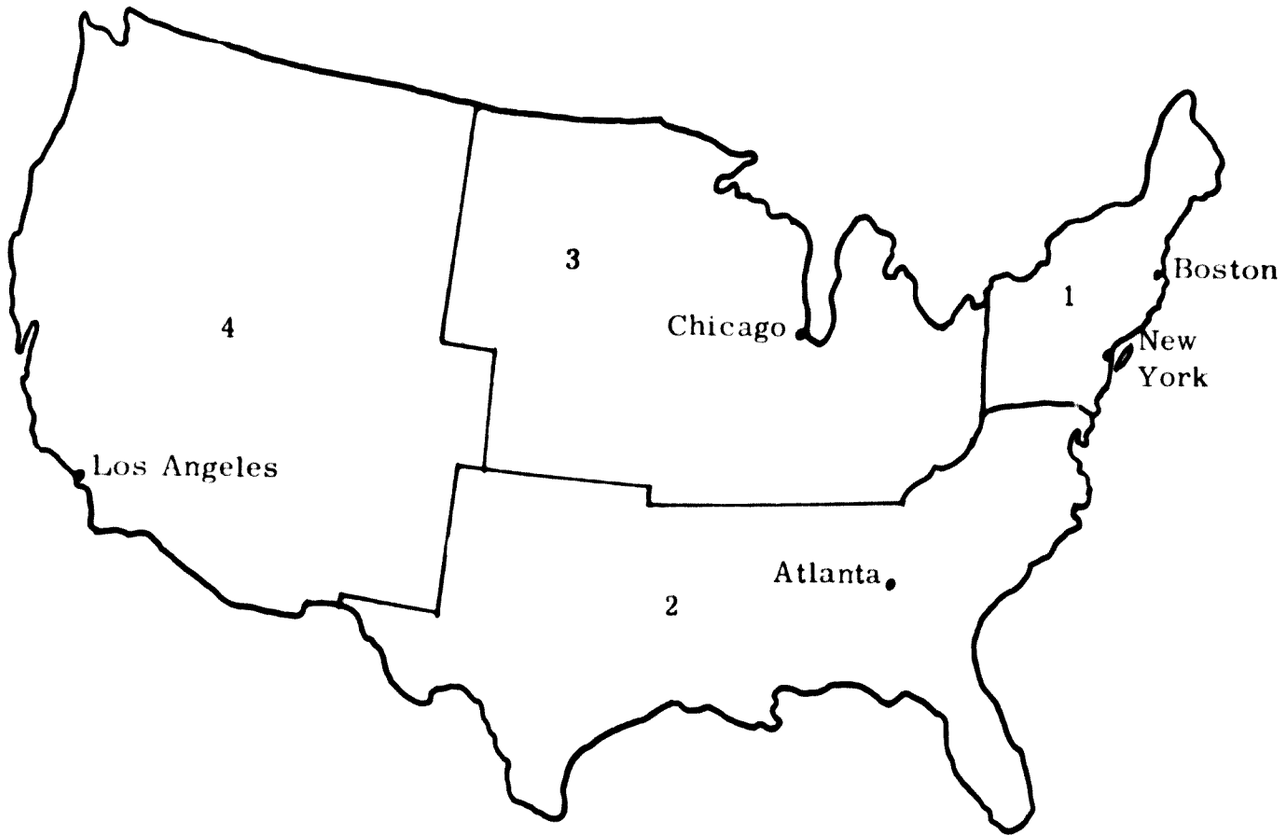
g. The tables on the next two pages identify the major markets in the United States. We recommend that the east should be the first target, the west second, the mid-west third and the south last. The high socio-economic characteristics of the west and its cosmopolitan nature make it an opportunity market in spite of its lower per capita canned fish consumption.

TABLE 2

U.S. MARKET ESTIMATES

(a) Geographic segmentation.

Ref: Home Maker Guild -- Cross Section of Average American Home Life.



(1) East: 9 states -- 25.9% of population

(2) South: 16 states -- 30.4% of population

(3) Midwest: 12 states -- 29.4% of population

(4) West: 11 states -- 14.3% of population

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(b) Total consumption of canned fish products and portions imported. (1964 - 1967 averages).

Product	Consumed	Imported	% Imported
Sardines	35,200	22,700	64.5%
Herring	4,120	4,120	100.0%
Shrimp	8,100	1,020	12.6%
Clams	32,600	750	2.3%
Roe & Caviar	1,340	200	15.0%
Balls, Cakes & Puddings	850	515	60.5%

(Figures in metric tons)

(c) Estimated consumption patterns

Area	% Pop.	% Total Canned Fish Consumption	% Total Imported Canned Fish Consumption
East	25.9	35	40
South	30.4	30	20
Midwest	29.4	25	30
West	14.3	10	10

(d) Estimated present market in East (40% of total)

Product	Consumed	Imported
Sardines	14,080 metric tons	9,080 metric tons
Herring	1,650	1,650
Shrimp	2,470	408
Clams	12,160	300
Roe and Caviar	530	50
Cakes, etc.	340	206

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2. United Kingdom

a. A similar strategy should be used in the United Kingdom. Sardines, both Portuguese style and Scandinavian style, should spearhead the entry to this market, in conjunction with caviar.

b. Herring and herring tid-bits can be added. Herring, especially kippered herring, is popular in Scotland. With good marketing herring sales should be extended to all parts of the United Kingdom.

c. Firms like John West should be contacted for co-packing.

d. Marks and Spencers are a key target for Icelandic products providing their production standards can be met. They do not sell canned fish now, but they will, if an acceptable product is available.

e. Pet food is an opportunity product class. This rapidly growing market provides an opportunity for co-packing. Spillers should be a key prospect. Thus armed with the knowledge of this specialized market, Iceland will eventually be in a position to develop and test its own brand.

3. France

a. A gourmet, value-added product approach to this market offers the only chance of success. France is a large importer and a very large packer nation. However, to succeed Iceland will have to identify a distinctive sector in the market and create products for that sector.

b. Herring fillet, herring tid-bits, cod liver, lumpfish caviar and shrimp are opportunity products. Entry should be based on a full line.

4. German Federal Republic

a. This market will be very difficult to enter. It is well served with superior domestic products.

b. The only opportunity is for gourmet products. Iceland should market only products that can be registered with the pricing board.

c. Products that are commodities in the German Federal Republic are value-added in all other countries. Hence, it is an important market to maintain contact with. New product ideas for sale in other countries can be identified here, especially with respect to herring. To some extent, the German market's products can serve as a product research and development idea generator. This will make a profitable contribution to your marketing efforts in other countries.

C. PRODUCT AVAILABILITY AND MARKETING SUPPORT MUST BE ON A PERMANENT BASIS

1. Iceland must enter its selected markets on a permanent basis. In the past it has earned a reputation for entering and withdrawing from a market. This has resulted in a strong negative attitude on the part of buyers.

To overcome this attitude, we recommend that Iceland's marketers share their long-term plans with buyers on initial calls. Subsequent calls should be used to follow-up on these plans: to show how they

are being executed, and to explain any variances.

Iceland must be prepared to buy raw material from other nations in order to maintain a year-round supply to the market. This is especially important if the catch in some year is too small to meet the market's needs. Unless Iceland is prepared for such a contingency, and develops plans accordingly, much of the investment in developing the market will be wasted.

2. Iceland will be expected to support its products in the market place. Buyers will not expect it to compete with the John West's and the General Foods. But, it will be expected to buy promotion packages, supply point of sale material and if possible, advertise to the target group.

3. Key buyers must know Iceland's marketing plans for the year. They want to tie-in with its peaks in activity. The purchaser is vitally interested in selling as much of a product as possible. He can only do this if he is part of the marketing team.

D. THE RETAIL MARKET IS THE PROFITABLE MARKET

1. In all countries studied the retail market for canned products outstrips the institutional market. This is true from both a volume and a profit point of view. We are not saying "Do not sell institutions". We are saying "Concentrate market building efforts on the retail market". Products should be tailored to retail needs. Only in the United Kingdom should a product (cod roe) be packed solely for institutions. In all other markets institutional products should be the same as retail products except that they should be packed in institutional sizes.

2. Lumpfish caviar has an institutional opportunity. This is a unique and easily exploitable opportunity.

E. MAINTENANCE OF SUPPLY IS NOT CRITICAL IN BARTER

1. It is important to maintain barter contacts. If a contact is lost so is the opportunity to sell. Barter falls behind private label co-packing in the long-term order of priorities.

2. It is not necessary to sell to barter purchasers every year. Iceland can be in and out of the market without suffering any adverse reactions.

3. The barter opportunity will be greatest if a "barter broker" is retained. He should be placed on a fee basis and paid whether or not he is used in a particular year. The important thing is to have a good broker available when his services are needed.

F. SECTIONS OF NATIONS CAN BE ENTERED

1. Iceland need not enter entire nations at one time.

2. In the United States the prime markets are New York and New England in that order. This covers the east, referred to above. It should be followed by a "role-out" to the remainder of the nation in the identified order -- West Coast, Mid-west (Chicago first), and finally the South.

3. In the United Kingdom the targets are Metropolitan London, the remainder of England, Scotland, Wales and Northern Ireland in that order.

4. Similarly in France and Germany the markets should be entered selectively. In France, Paris should be the starting point. In Germany, it is Munich, Stuttgart and Frankfurt.

5. Primary efforts should be centred in Metropolitan areas of the larger cities. This is true in every surrounding market.

G. ICELAND MUST DIRECT THE ACTIONS OF IMPORTERS OR IMPORTER/BROKERS

1. Importers must execute Iceland's plans. Only outstanding brokers should be selected. Their activities should be based on Iceland's marketing plan objectives. Frequent contacts will be necessary to monitor their performance to ensure it conforms to the agreed plan.

2. Importers' knowledge of the market is an important input to Iceland's planning. Prior to the writing of a plan they should be contacted for their latest knowledge of the market. This should include the problems and opportunities they observe, and their recommendations for action.

3. They should participate in setting sales goals. These goals must be realistic because they are the basis of financial planning. Consequently one of the criteria in judging an importer is his willingness to participate in setting sales goals, and the reliability of his estimates. If the broker or importer is unwilling to accept this responsibility he is not a suitable partner for the Icelandic exporters.

IX

TO BE SUCCESSFUL ICELAND MUST BECOME AN "IDEAL" SUPPLIER

During our interviews we received many unfavourable comments about Iceland's unwillingness to bend to meet the market's needs. Such inflexibility will be disastrous if continued. Instead we recommend that Iceland attempt to become an "ideal" supplier.

In the eyes of the buyer -- the only important judge in this matter -- an ideal supplier:

- serves customers the way they want to be served;
- meets quality commitments;
- maintains a constant supply;
- meets delivery commitments;
- uses test markets;
- adapts his products to meet local or cultural needs;
- organizes his distribution and marketing systems so that they respond quickly to market demands;
- sets tight reply standards for handling customer correspondence -- written and verbal;
- has all the required information ready on the first sales call;
- designs labels in the country in which the product is to be sold;

- prints shelf packages only in the language of the country in which the product is sold;

- advertises and promotes new entries;

- uses advertising and sales promotion to pull established products through the market;

- knows and uses existing channels of distribution in each country.

X

DEVELOP A MARKETING STRATEGY TO EARN OPTIMUM PROFITS

A. PLAN AS CAREFULLY FOR MARKETING AS FOR PRODUCTION

1. Fish marketers are becoming much more sophisticated in all markets. These are Iceland's competitors. The Gortons, the John Wests, the Richters are as knowledgeable and as aggressive as their environment will permit.

2. Fish buyers are becoming more selective. As supermarket chains become more dominant they upgrade the quality of their buyers. When this happens they become more demanding. They set higher performance standards. They buy from suppliers that appear to them to be eager to meet their needs.

3. As the total market develops the demands on suppliers will increase. As volume increases purchasers expect more from their suppliers. This is particularly true with respect to buying their promotion packages. A profitable supplier sticks to his marketing plan. If the plan calls for this type of promotion, it should be used. If not, the broker's job is to convince the buyer that the supplier's plan is in his interests. This may result in the sales manager having to assist the broker in negotiating with strong-willed buyers. Such a visit should be part of the sales manager's plan to contact key customers regularly.

4. A supplier must plan to satisfy the housewife. When he does, his products will be in demand. The buyers will support such a supplier. As volume increases, the supplier will be subjected to demands for concessions and promotional allowances. Iceland's plan must cover such a situation.

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B. DEVELOP A LONG-RANGE GOAL FOR MARKETING FISH

1. Annual marketing plans should be stepping stones to the achievement of long-term goals.

2. The long-term goals should reflect the philosophy on which the business is based.

3. Long-term planning will prevent the Icelandic fish industry from making expedient short-term decisions incompatible with the long-term opportunity. Doing this will pay major dividends. Growth will be planned and controlled profitably.

C. RECOGNIZE SHORT-TERM LIMITATIONS

1. Short-term limitations must not be allowed to prevent planning for profitable growth. Cultural, financial and product line limitations do exist but they are not insurmountable. The long-range plan and the complementary annual marketing plans are the means to dynamic growth from the present and temporary limitations.

2. Co-packing and private labelling can contribute to short-term cash flow.

3. Returns from these two areas should be invested in marketing national brands. This concept is discussed at greater lengths in Chapter XII.

D. RELATE CANNED PRODUCT PLANS TO ALL OTHER ICELANDIC FISH MARKETING ACTIVITIES

1. The ultimate goal is to improve Iceland's balance of payments position. Consequently the canned fish

industry must be seen in relation to the remainder of the fishing industry's output.

2. The Canned Products Marketing Plan should relate to all other plans. The Canned Products Plan cannot be developed in isolation. This plan should be part of the overall Fish Marketing Plan.

3. An industry board should be established to set priorities. This board should have representatives of all facets of the industry as well as government. Conflicts in priorities should be handled at this level.

E. IN ADDITION TO THE FOREGOING IN THIS STRATEGY SECTION WE RECOMMEND THAT:

1. Iceland establish itself as a supplier of premium quality branded products.

2. Broaden the market by providing new taste opportunities to consumers.

3. Use public relations through newspapers, magazines, and TV food editors and communicators.

XI

A MARKETING PLAN SHOULD BE WRITTEN ANNUALLY

A. THE ANNUAL PLAN PROVIDES THE BASIS FOR MANAGEMENT CONTROL

1. A detailed, annually revised marketing plan will provide a "road map" to keep the industry on course. A well conceived marketing plan will outline the current competitive environment in each country. All significant information regarding a product is collected in one convenient document. The plan will analyze the reasons for variances in actual performance versus the current operating year's plans. Quarterly reviews of performance versus the plan and the plan's objectives will enable operating management to make needed changes.

2. All firms in the industry will know and have agreed to the year's goals. Iceland's success in the market place is dependent on the performance of all its processing plants. Operating decisions in decentralized plant locations must be consistent with overall industry objectives. This will only happen if all know, understand and agree to the canned products marketing plan.

3. All functions within a firm will know the industry objectives and the company objectives for the year. With decentralized production and centralized marketing and financial management it is vital that all functions know what is to be done, when, in what volumes and at what cost.

4. While saying this, a marketing plan cannot become a strait-jacket. It starts to go out-of-date the moment

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it is approved. Changes must be made to adjust to the needs of a dynamic market place. The important thing is that the changes are made consistent with the year's goal.

B. MARKETING PLANS EXERT CREATIVE DISCIPLINE ON THE PLANNING PROCESS

1. The planners must provide complete information on the current environment.

2. The market's wants and needs are clearly identified. Personal visits by General and Marketing Management to key markets, a well conceived reporting system and broker, importer and barter broker information inputs are all vital knowledge sources. They must be tapped regularly. Without them the so-called "feel of the market" is absent. This "feel" is as important as the statistical data gathered. It is the tempering agent that puts the statistical data into perspective.

3. The years' objectives are set in relationship to financial and production capability. Market plans take into account the ability to produce. Planning is not done in a vacuum. When well executed, a synergistic effect will result.

C. MARKETING PLANS ENABLE MANAGEMENT TO SELECT THE MOST PROFITABLE

1. Marketing plans will be prepared for the industry.

2. Each operating unit will know in advance what is required and plan to provide it. Profitability is maximized when a plant operates according to plan. Longer runs, more efficient utilization of staff and higher

morale result. This has a positive effect on product quality. Buyers become more confident of Iceland's ability to meet commitments. The result: more sales, greater profits.

XII

CO-PACKING WILL GENERATE NEEDED PROFITS DURING THE DEVELOPMENT PERIOD

A. ICELAND SHOULD CO-PACK FOR MANUFACTURERS IN ALL FOUR COUNTRIES

1. The manufacturers know their countries. They will provide insights unavailable in any other way. Iceland can start executing this part of the strategy as soon as the senior marketing executive is hired. Both national brand packers and private label packers know what sells best in their country. Valuable strategic insights will be gained.

2. Funds generated will be available to help establish the national brand. They should be used for this purpose. Profits should not be repatriated until the cost of an additional sale is greater than the return on the sale. When this point is reached profits could be withdrawn.

3. The return will normally be higher than the return on barter. However, co-packing profits are lower than National Brand profits.

B. AND FOR BOTH TYPES OF PURCHASER

1. The National or Regional Brand Manufacturer.

2. Chains and Voluntary groups. The key here is to tie the National Brand listing into the co-packing agreement. Not all will agree. However, sufficient supermarket organizations will agree to a tied-in sale to make the effort worthwhile.

C. PROPER QUALITY/PRICING RELATIONSHIPS ARE VITAL

1. An important benefit of co-packing is that recipes for value-added products will be obtained. Iceland's record as a barter bargainer is not felt by knowledgeable observers to be a good one. The highest level of bargaining skill is required to yield optimal prices and profits. The Marketing Manager must have bargaining skills as well as planning and management skills. The broker must not be involved in this sale. If he is, the price will not be competitive. He will introduce an additional cost that will raise the break-even point. This luxury is unnecessary in a co-packer pricing situation.

2. Quality demands will vary from the highest to the lowest. Iceland must provide product, label, and outer case at the quality, time and price agreed upon.

D. CO-PACKING WILL PROVIDE RECIPES FOR KEY VALUE-ADDED ITEMS

Co-packing has many additional advantages. It provides the Icelandic canning industry with recipes for value-added products. It enables the industry to see how established firms act in the market.

Iceland should seek out marketers of superior products such as S. S. Pierce of Boston. It should convince them of its ability to meet their quality standards. It should seek out value-added products. This needed production and marketing knowledge will provide the basis for preparing market plans, and selecting and testing markets.

XIII

ONLY SURPLUS PRODUCTS SHOULD BE BARTERED

A. BARTER YIELDS THE CANNER THE LOWEST RETURN ON HIS INVESTMENT

1. A barter sale is a last resort sale. All other alternatives should be explored before entering into a barter agreement. Holding product in inventory may be a better decision.

2. Only products that cannot be sold any other way should be bartered. Barter can be used to dump products that cannot be sold profitably. If a product fails in the free market place, it may be able to break even on a barter transaction. Even if it does not break even, bartering the product is better than allowing it to be scrapped.

B. HARD BARGAINING PAYS OFF

1. Many barter alternatives exist. Sales effort should not be confined to current barter partners. Other nations in Eastern and Western Europe and in America may provide opportunities. It is possible, for example, to make a mutually satisfactory transaction with Saskatchewan -- their wheat for fish-based fertilizer.

2. Firms that will improve barter opportunities and returns should be selected. Some barter brokers have achieved excellent results for their clients. Careful selection is an absolute necessity.

C. MEANINGFUL CONTACTS CAN BE ESTABLISHED WITHIN EASTERN EUROPEAN TRADING COMPANIES

1. Profitable bartering means reaching the real decision-maker behind the negotiater. These people are being reached regularly by other bartering nations. Iceland should be able to succeed in breaking through a negotiator curtain. It may demand a new strategy. The payoff is in a better deal.

2. Key individuals should be invited to Iceland. Their visits should be planned as for a visit from a co-packer. They must take into consideration the visitor's wants. Especially important is the need to allow sufficient time for plant inspection.

D. BARTER IS COMPLEX

1. Different countries and trading companies have different barter styles. It is much like negotiating a co-packing agreement. The approach has to be tailored to the needs and wants of the governments and trading companies.

2. A good barterer must be flexible enough to adapt to the different styles. The diplomatic factors are almost as important as the physical factors. The problem is no greater, though, than the problem of maintaining good relationships with key chain and warehouse buyers in Europe and North America. In both the East and West it is the job of the marketing man to serve the customer the way the customer wants to be served profitably.

3. The representatives of the canned fish industry must be critically aware of the political and economic environment in each Eastern European nation. When unforecasted changes take place, the existing relationship will hold fast to the end of the contract. New

influentials may have to be cultivated. Whether or not there is a continuing need to barter, a start should be made now to develop a strategy. A good barter broker can be a great help.

E. BARTER TRADING SPECIALISTS SHOULD BE USED

1. These companies play a role similar to the importer/broker. They will live within guidelines. They are accustomed to handling complex negotiations. They organize transactions involving three or more nations as well as direct two-nation transactions. It is probable that the more complex trading situations would be far too costly to negotiate by Iceland alone because of the dependence on one product. Barter brokers deal with many products and serve many nations.

2. They maintain a network of contacts in Eastern Europe. Family relationships that transcend national boundaries still exist. These blood ties are often stronger than political philosophies. Consequently, superior Vienna-based barter brokers have excellent contacts with top Eastern European people.

3. They know how to get to the decision-maker. Their personal relationships are important here.

4. Vienna is a key meeting ground. Vienna is the most neutral city in Europe. Barter brokers located in this city are particularly effective in arranging personal meetings for their clients. Berlin brokers undoubtedly do a better job in the German Democratic Republic. If only one broker is to be used, he should be located in Vienna.

XIV

PROFITS GENERATED IN KEY MARKETS SHOULD BE REINVESTED IN THOSE MARKETS

A. PROFITS SHOULD NOT BE TAKEN OUT TOO EARLY

1. Iceland faces a shortage of marketing funds. The costs of successful market entry are rising. It will need all the funds it can generate. Contributions to overhead and profit are an important source of marketing funds. They should be used on an investment spending basis.

2. Once products are successfully launched, profit before taxes should be viewed as a cost. This will discipline marketing spending. Profits greater than the budgeted profit should be re-invested in speeding the national brand's development. If profit realization falls below forecast, spending should be reduced. Marketing personnel should not be asked to return more profit dollars than budgeted. They should return the profit as budgeted.

B. THE DIFFERENCE BETWEEN BREAK-EVEN AND REALIZED PRICE ON CO-PACKED PRODUCTS SHOULD BE INVESTED IN THE MARKET

1. The excess over break-even is an important source of funds. The market goal is to reach the National Brand market penetration goal as fast as possible. intelligent use of "profits" on co-packer sales will help to finance the National Brand entry.

2. Maximum profits over the life of the products is the ultimate goal. Consequently, it is not critical to

repatriate profits initially. The expectation of larger future profits from a solidly built National Brand franchise makes this investment worthwhile.

C. PROFIT WITHDRAWAL SHOULD BE REVIEWED ANNUALLY

1. Long-range and annual plans should include a section on profit withdrawal. A conscious decision must be made with respect to repatriating profits.

2. The profit decision will relate to the total plan. It will be made in the light of the best available information at the time of reviewing the annual marketing plan.

XV

THE MARKETING ORGANIZATION SHOULD BE CONSUMER ORIENTED

A. THE MARKETING PROCESS STARTS WITH THE ULTIMATE CONSUMER

1. The channels of distribution determine the type of organization required. Importers, importer/brokers and barter brokers will handle sales. Those selected must be consumer-oriented. They must recognize that business exists to serve the ultimate user profitably. The marketing process then starts with the housewife and works back to the producer. Iceland is about to create a new marketing organization. It is not fettered with the problems of adapting an existing organization. It can be designed therefore around the need to sell National Brands through brokers or importers and co-packing directly.

2. The market sales potential determines the extent of the organization required. The commercial world is becoming a network of trading blocks. GATT may mitigate the tariff effects of these blocks, but the blocks are there and should be used to advantage. The United States, EEC, EFTA are in existence now and NORDEK is in the process of formation. SEATO may become an economic as well as military body. Iceland's primary concern is with the United States, the EEC, EFTA and NORDEK. They must be recognized in the marketing organization structure.

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B. THE ORGANIZATION SHOULD BE CAPABLE OF ACTING AS AN "IDEAL SUPPLIER"

1. The characteristics of an ideal supplier are virtually the same in all countries. The selection of marketing personnel is critical to success. They must recognize the value of the marketing concept. They must be committed to becoming an "Ideal Supplier" as outlined in Chapter IX.

2. A valuable sales advantage is gained by knowing the characteristics of an ideal supplier. From the market's point of view, the broker will be the primary contact. He, also, must be committed to the marketing concept and be viewed as an "ideal supplier" in his area. In addition, all Icelandic members of the team, regardless of their functional role, must demonstrate their commitment by their actions. This is critical to success.

C. A HIGH TALENT INTERNATIONAL CONSUMER PRODUCTS MARKETING MANAGER IS REQUIRED

1. Obtaining a person to fill this role is essential. There is no more important role in your organization. During the initial years, the success of the industry will be dependent on the plans and actions of this person. There can be no compromise on quality.

2. He will be hard to find. There are very few qualified persons outside major multi-national corporations with the breadth of knowledge required. The search will of necessity be world-wide. Ideally the person should be an Icelander or in the first generation away from Iceland. But it may be impossible to find an Icelander with the needed skills. In the highly competitive marketing environment, ability must transcend ethnic origin.

3. Iceland's location is a disadvantage. It is not in the main stream of world commerce. The Marketing Manager must be located in Iceland. To be successful he must be sensitive to the local environment. He must also serve as the eyes and ears of the industry in world markets.

4. A salary above the "going rate" will be necessary to attract this type of person. A high base salary, a share of the profits and stock options are all required. Further, he will expect home leaves on a regular basis, a suitable home and a car. These are not unreasonable demands. The right man, in all probability, will be currently receiving these perquisites in his current job if he is living overseas. We estimate a salary of $40-60,000 U.S. will be required.

D. INITIALLY THREE REGIONAL SALES MANAGERS WILL BE REQUIRED

1. One should be assigned to the United States, one to the European Common Market and one to EFTA.

2. These managers should be closely identified with the area they sell in. They should have spent the majority of their business lives in the area they are to serve. Their background and experience must be in the grocery product manufacturing field. The European Sales Managers should be multi-lingual.

3. Each should be well known to the market they serve. When hiring these managers, Iceland is purchasing their ability to open doors and sell its products. They have to be disciplined to sell according to a plan. They must be capable of making an important contribution to the development of the plan. Their

contacts should cover the entire region in which they are selling. They must know the key personnel throughout the channels of distribution.

4. Each should have the capacity to lead brokers and importers. In addition they should be part of the selection process. Successful marketing through brokers requires regular contacts to be sure that Iceland is getting a fair share of the broker's time. They must be capable of translating the master marketing plan into a tactical operating plan. They must do this in the context of the market they serve.

5. The responsibility for selling your National Brand and co-packing contracts should be theirs.

E. BROKERS OR BROKER/IMPORTERS MUST BE CAREFULLY SELECTED AND DIRECTED

1. All levels of management should be involved in this selection process. It is second only to selecting marketing personnel in its importance for the success of the industry. The quality of broker will determine the initial success and will play a key role in building on that success. Consequently, this decision can not be delegated. All members of the management team should meet and interview the final candidates selected by the marketing managers. These meetings should be held in the brokers offices. The sales managers should accompany the brokers' salesmen on actual calls to observe them. The observed salesmen should be picked at random to ensure a representative selection.

2. Key potential customers will identify the strongest brokers. Both prior to narrowing the choice of brokers to the final few and after contacting key chain and warehouse headquarters, customer

recommendations in the early stages and their in-depth assessments in the later ones are invaluable. In addition, headquarters personnel, store managers, selected at random, can provide valuable insights into broker performance.

3. Regional Sales Managers' market knowledge is important and should be used. Further, the selected broker has to be one with whom the Regional Sales Manager can work successfully. Consequently it is better to have the number 2 broker in a market if the Regional Sales Manager has good rapport with him than with the number 1 broker operating under strained or neutral relationships.

F. A BARTER SPECIALIST SHOULD BE RETAINED

1. The selection process should be planned as carefully as for brokers.

2. The barter plan should be established jointly. The barter broker should be involved in the planning process. He should be prepared to measure his performance against the agreed upon objectives.

3. Barter brokers should be on a minimum fee basis so that they do not resign the account when all Icelandic products can be sold elsewhere for hard currency. This is vital. Unless their economic interests are protected, they will resign the account. They are like firemen. Firemen serve no useful function until there is a fire. So, too, with barter brokers. They are not needed until the barter sale is the best sale. Then they perform a vital role. Putting the broker on a fee basis assures that he will be available when needed.

XVI

PRE-TEST ALL PRODUCTS PRIOR TO ENTERING THE MARKET

A. PRODUCT CONCEPTS ACCEPTABLE IN ONE COUNTRY MAY NOT BE ACCEPTABLE IN ANOTHER

1. Product concepts are ideas about products. Initially the concepts will be simple: olive oil versus peanut or soya oil in a sardine pack, for example. Later more complex concepts like a weight watcher's sardine hors d'ouvres might be considered. The acceptability of these product ideas will vary by country. Further, within countries they may vary regionally or socio-economically.

2. Ideas can be tested successfully. New packaging, totally new products, marketing tactics can all be pre-tested. Doing this reduces risks: product development time and cost is saved if the idea is eliminated before any technical development work has been done. Conversely, resources are concentrated on the concepts with the greatest chance of succeeding in the market plan.

B. TASTES VARY FROM COUNTRY TO COUNTRY

1. Once a concept has been proven to be acceptable, product development begins. As many similar products as are available in the world market should be examined. Fisheries research laboratories should be encouraged to place their primary emphasis on product development as opposed to basic research. Pragmatic product development will pay profit dividends when

disciplined to develop products that meet tested concepts.

2. Taste tests should be conducted to be sure the taste lives up to the concept. The product idea and the product have to match. A large share of product failures in the market place are traceable to a product not living up to the concept. The housewife is a tyrant. "She wants what she wants when she wants it." Failure to deliver means the product fails. When operating under a single national brand, particularly during the brand franchise development period, a product failure cannot be permitted. The consumer will normally reject the entire product line if her first experience is a bad experience.

3. Taste tests will also serve to reject products before excessive development funds have been spent. Taste tests have the added value of comparing the developed product with a norm. They measure a specific product against its competition. Their relatively low cost makes them an affordable insurance policy to reduce the risk of failure which would result from the taste not satisfying a large enough section of the target group.

4. The same product may have its taste modified to satisfy differing national tastes. Coca-Cola, for example, markets Coke with varying degrees of sweetness depending on the section of the world in which it is being sold. Taste tests can identify the variations, Icelandic management can then make a conscious decision on whether there is or is not a payback from varying the flavour.

C WITHIN A COUNTRY TASTES VARY REGIONALLY

1. It may be necessary to modify product flavour for different regions of the country in which it is being sold. In the United States, Coca-Cola also varies its product regionally. The market is large enough to make this affordable. Iceland would be able to take advantage of its improved knowledge by developing regional product flavour strategies.

2. This is particularly true of value-added products. Iceland's marketing sophistication will grow at a rapid rate. The risks and rewards are higher with value-added products. To reduce the risk and increase the rewards, taste tests will ensure that products meet the flavour demands of the target group.

D. TASTES VARY SOCIO-ECONOMICALLY

1. It is important to identify the socio-economic target group. Every product the housewife buys is positioned in her mind. The image of the product is either consciously developed by the manufacturer or emerges by chance. Iceland should not want its image to emerge by chance. Defining the socio-economic target group is the vital first step in creating an image. All decisions with respect to taste, texture, packaging, pricing will be made with the target group clearly in mind.

E. PACKAGE DESIGN SHOULD BE TESTED

1. The package must:

   . Have strong shelf impact.

- Attract the target group.

- Be designed in the cultural framework of the nation in which it is being sold.

- Be executed in the language of the country in which it is being sold.

- Meet all legal requirements.

- Meet the requirements of the supermarket.

- Stand on the shelves, not lie flat, for maximum impact.

2. The package design can be pre-tested. There are market research firms that specialize in this. If it is planned to use an unusually shaped package, its shape should be cleared with supermarket management in advance.

F. THE TRADE WILL ADVISE THE OPTIMUM NUMBER OF UNITS PER CASE

1. Too many units per case will reduce case turnover and increase the risk of delisting. This fact cannot be stressed too strongly. Buyers relate to turnover. Some chains in the U.S. have a target of 17 turns per year. If a product falls below 12 turns it is automatically delisted. Iceland's case should neither be too large nor too small.

2. Too few units per case causes an out-of-stock risk. Buyers are not only judged on profit and turnover. They are also judged on percent of out-of-stocks. The case size should be small enough to fill the allocated shelf space.

3. Many of Iceland's products will not be stocked in chain or voluntary warehouses unless it is easy for the rack jobber to sell a full case. One suggestion we received was to design cases in a master case containing 96 units. These cases should be capable of being split into four cases of 24 units each. The key: no product should be exposed when breaking the case down into 2, 3 or 4 units.

G. ADVERTISING SHOULD BE PRE-TESTED

Services are available to do this for both print and television. Again, it reduces risks and increases the chance of success. Prior to authorizing the advertising agency to execute this recommendation, it is essential that the specific advertisement meets the advertising strategy and tactics set forth in the marketing plan. Then, the concept can be tested with the target group. Providing the proposed advertising passes this test, the agency could be authorized to execute the advertisement. Having done this, the execution should be tested. If the finished advertisement does not live up to specified criteria, the process should be repeated. Nothing is more costly than advertising that does not achieve the objectives set for it.

H. A TEST MARKET IS A VITAL STEP IN MINIMIZING RISK OF FAILURE

1. The test market is an accepted and wanted part of marketing in all four countries. This is the final step prior to a regional or national launch. The costs are high. The rewards are great. Costly failures are avoided if the product fails to meet its objectives. More important, a product that over-achieves can be clearly identified. A marketer can afford to be as aggressive in his marketing as the results indicate Iceland can be.

2. Test markets will enable Iceland to improve plans in the light of actual market experience. The value of a test market in this respect is large. Like a new machine, a new product's marketing strategy requires fine tuning and a break-in period. Test markets enable the marketer to do both. He should stay in the test market long enough to establish the repeat purchase cycle. Long-term success is dependent on the frequency of repeat purchases. This must be known in order to plan production. It must be known to advise customers on the number of cases required to fill the pipeline in the channels of distribution and to forecast the repeat order cycle.

   When we talk about "filling the pipeline" we mean that at each level in the Channels of Distribution inventory is required. In the store, it is enough units to fill the allocated shelf space plus one-half to one week's backroom stock. In the warehouse it will be three to four weeks supply. As one moves closer to production operations the number of cases in inventory increases. This "pipeline" inventory does not create value. Profits are only earned when a product is purchased for consumption. Hence, our emphasis on the repeat purchase that grows out of initial trial.

3. Test markets are expensive. But they are far less costly than a product market failure. And they do increase product success in the market place.

XVII

WE RECOMMEND A MARKET-ORIENTED PRODUCT IMPROVEMENT AND DEVELOPMENT PLAN

A. EACH PRODUCT NOW PRODUCED SHOULD BE COMPARED WITH ITS COMPETITION

1. Market growth depends on a knowledge of product strengths and weaknesses. The information gathered in the taste and concept tests can be used to eliminate weaknesses and to develop products according to Iceland's criteria.

2. Only the very best product should be sold under the gourmet National Brand Label.

3. Lesser quality products should be sold on a co-pack or barter basis. In each market Iceland should strive to co-pack for the top of the line national or regional packer. Its marketers can learn product requirements from him.

B PRODUCT QUALITY SHOULD MATCH PRODUCT STRAGEGY

1. The product and the marketing plan to sell the product should be consistent with one another. This is vital. When we speak of products, we are not referring solely to the formulation inside the can. We are talking about that plus the package, the price, the advertising, the sales promotion, the introductory or special sale allowances. We are talking about the total product on the shelf, being advertised and in the home.

2. This will assure optimum profits. When the strategy and the execution of the strategy conflict, profit loss results.

C. THERE SHOULD BE A SYSTEM FOR COLLECTING PRODUCTS USING FISH

1. Iceland should develop a product library. We have purchased the beginning of a product library. This library should be a creative idea generator. In addition to keeping all key people aware of new products, it will keep them aware of new packaging developments. Brokers could assume the responsibility of sending new products to Iceland.

2. New product opportunities must be identified quickly. The opportunity to look at and taste competitive products will help to determine whether or not Iceland's products meet market requirements. The library will also help to identify products that appear to have an opportunity to succeed. This may result in beating another canner into a different market. Although Iceland is a follower as far as the product is concerned, it can be an innovator in a market a competitor has not yet entered.

3. This is a substitute for costly original research and development. This is particularly important as the branch franchise is established. Dollars must be conserved for marketing, and profitable markets must be developed quickly.

D. PROFIT AND VOLUME POTENTIAL SHOULD BE ESTIMATED

1. The Marketing Manager and Regional Sales Managers should be assigned the volume-estimate task.

2. The Marketing Manager in cooperation with production and senior management should assess and forecast profit potential. This forecast becomes part of the plan for the new product.

E. PACKAGING IMPROVEMENTS AND INNOVATIONS MUST BE CONTINUALLY EXPLORED

1. The product library will pay for itself in this area alone.

2. Other product areas should be screened for ideas that can be adapted to Iceland's canned fish products.

XVIII

ICELAND SHOULD TAKE ADVANTAGE OF BEING NORDIC

A. BEING NORDIC IS AN ASSET

1. Nordic products have a good image. Buyers and influentials in all countries emphasized the superiority of products from Nordic countries.

2. Nordic countries are associated with products from the sea.

3. Products from North Atlantic waters of the world are viewed as being cleaner than most.

B. FISH CAUGHT IN COLD WATER IS BELIEVED TO BE SUPERIOR

1. This view is particularly true of buyers. They know that fish caught in northern waters is better than fish caught in southern waters.

2. Influentials hold the same view. If they are told why, they will tell the housewife. This is an opportunity. Icelandic brands may not be named, but the product they talk or write about will be clearly identified.

3. This is a major opportunity as it makes any gourmet claim more believable.

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C. THE BRAND NAME SHOULD TIE THE PRODUCT TO THE NORDIC COUNTRIES

Housewives will react favourable to the Nordic name. A brand name like "Viking" will quickly position Icelandic products as being of Nordic origin.

XIX

FIRST YEAR OF OPERATION

Profits should not be expected during the first year except from co-packing agreements. Primarily this period is a time of development and planning:

1. Products, packaging and marketing mix should be tested in each country.

2. The organization should be formally established and key manpower hired. This is especially true of the senior executive -- the President -- and Marketing Vice President.

3. Long-range marketing objectives should be completed for each major market.

4. Market entry plans, based on the results of test marketing, should be completed

APPENDICES

APPENDIX A

VALUE-ADDED PRODUCT OPPORTUNITIES

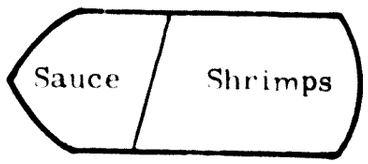
SARDINES

Dips: Plastic dip dishes
chips, etc.

Sell broken sardines and bits in tin for:
spreads
dips
sandwich spreads

SHRIMPS

Curry
Rice (pilaff)
Tin of Newburg sauce
or any cream soup
Packaged with a scallop shell
(coquilles de crevettes creme gratin, etc.)
Packaged with "Shrimp Boats"



Chili Sauce

CAVIAR

Cream Cheese
Gelatin - caviar mould
"a little caviar goes a long way"

TROUT

Almonds

FISH CAKES

Fancy toothpicks
- cubed for hors d'oeuvre
Creamed soup
Bread crumbs
"Shake and Bake"
Tartar sauce

HERRING

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APPENDIX B

BARTER

Compensation, or Barter transactions are the most primitive forms of trade. They are based on the direct exchange of goods whose value or price is not only determined by the international market value, but also by the exchanging country's need for these goods. In the last decades, currency exchange regulations have complicated this form of trade, a form which came into practice again in Europe after the Second World War. The trade-form of Transit- and Switch-transactions has originated from the compensation trade with third or fourth countries.

TRANSIT- AND SWITCH- TRANSACTIONS

Transit trade transactions are transactions which are subject to a movement of goods between two locations involving foreign customs territory in which the goods may touch the customs territory of the concerned transit-trader, but do not necessarily have to do so.

Switch-transactions amount to an arbitrage between free currencies and closed currencies. When the arbitrage is in the form of two market-transactions, one speaks of a switch of goods. In addition to this, there is the financial switch which occurs when a company buys free currency by agio in the Eastern European States, for instance, against payment in accounting dollars, and brings it into his domestic bank.

Generally, a country sells its goods directly to countries that consume these goods; that is, through direct foreign trade. However, as soon as a third country acts as trade country or arbitrator between the producer and the consumer country, an indirect foreign trade is established. A distinction is to be made here between active and passive indirect foreign trade. As soon as a country practices transit-trade, it is indirect foreign trade. Passive indirect foreign trade, however, is based on import and export negotiations by third countries.

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Switch-transactions appear mainly where West-East transactions are involved, but also where large parts of a state with free currency are involved in shipments of goods to the East. Normally, in the fishing trade, one covers 25% of the export-value by switch-transactions where active job-processing is involved. The bigger the share of switch-transactions, the higher the gains in comparison to normal exports of goods to the Eastern European States. At the same time, switch-transactions contribute to the balancing of clearing accounts with the different Eastern European States.

Switch-transactions require extensive experience, and are usually handled by firms (Switchers) specializing in this field. In general, banks or bank branches that have been founded for this purpose act as switchers. Most Western European countries do their clearing transactions with the Eastern States in free currency whereby an intensification of the East-West trade also favours the use of switch-transactions.

Of the European States, only Austria, Switzerland, Finland, Greece, Spain, Iceland, and Cyprus have retained the bilateral clearing system with the Eastern States.

Switch-transactions also contribute to the balancing of the different clearing accounts with different Eastern States. A similar function fulfills the balancing of surplus currency agreed upon by the issuing banks, by the ECE arrangement in Geneva.

A great number of transit-transactions are handled in such a manner that the transit cannot be separated from the actual transit transaction, and therefore a direct foreign trade transaction exists because the producer delivers goods into the consumer country which contains a substantial amount of transit goods (Off-Shore-Transactions).

As a rule, banks give their consent to a switch-transaction with the Eastern States only if a transit-trader has a contra-transaction, and sells the same value of Eastern European goods to Western Europe in this manner. The amount of payment in free currency required for the purchase of Western European goods is raised by the sale of Eastern European goods in Western Europe. While the clearing account is credited due to West-East transactions, it is also debited by the East-West transit. The contra-transactions involving losses for the

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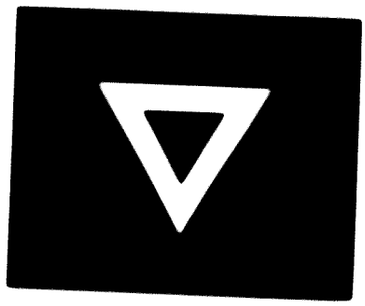
profitable West-East transit are characteristic of the switch-transactions.

Some European countries confer switch-tax on all transactions connected with the trade with the East. Some banks, such as the Austrian National Bank, arrange to have a compulsory licencing of all compensations, for new team- and transit-transactions embodied in law.

The compulsory contra-transaction results in local products and, in addition, normal quota of West imports, being exported to Eastern European States through the clearing system, to avoid an abnormally high efflux of currency.



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