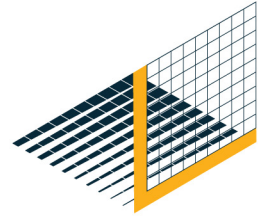


# ***FINAL REPORT***



## ***From Trap to Table - A Long Term Value Strategy for the Canadian Lobster Industry***

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## **BACKGROUND**

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### **1.1 Atlantic Canada lobster industry and its challenges**

Lobster ranks as Atlantic Canada's most important marine species by landed value and exports, and also in terms of the employment and income it generates in hundreds of coastal communities throughout the region. Landed value has been as high as \$685 million, with an overall product value at times exceeding \$1.0 billion. About 25,000 are employed on vessels, and another 10,000 in shore-based shipping and processing facilities. The health of the lobster industry is vital to the health of the region's coastal economy.

The position of the industry, and of the individuals and communities dependent on it, has deteriorated over the past several years. Conditions are worse in some areas than others, but no corner of the industry has been left untouched by the reversal of fortune. Worth noting is that the downturn in the industry is not about a collapse of the resource; indeed, in most areas, the resource appears to be in good shape, with catches rising overall.

While it may be tempting to point to the global recession as the source of the challenges facing the industry, this would be simplistic. The recession is certainly a major factor, but it is only the most recent one. Weighing on the industry since 2003 has been the rising value of the Canadian dollar against the currencies of our key export markets, the U.S. in particular. As well, prices in the U.S. had begun to decline in 2006, suggesting that demand has not kept up with supply. Industry revenues have dropped by \$200 million in the past five years.

There is little the industry can do about global recessions and exchange rates, but the issues affecting the industry are both broader and deeper than this. Ultimately, it is a question of how industry deals with these other issues that will determine how effectively it is able to recover from its current position, and go on to gain market strength and increase profitability.

These issues may be summed up in two words: marketability and marketing. They represent areas of weakness. To market effectively, you need a product that is marketable. But marketability goes beyond simple product characteristics to include the ability of the industry to respond to the needs of its customers. Customers want predictable and stable pricing. They want consistent quality. They want timely delivery.

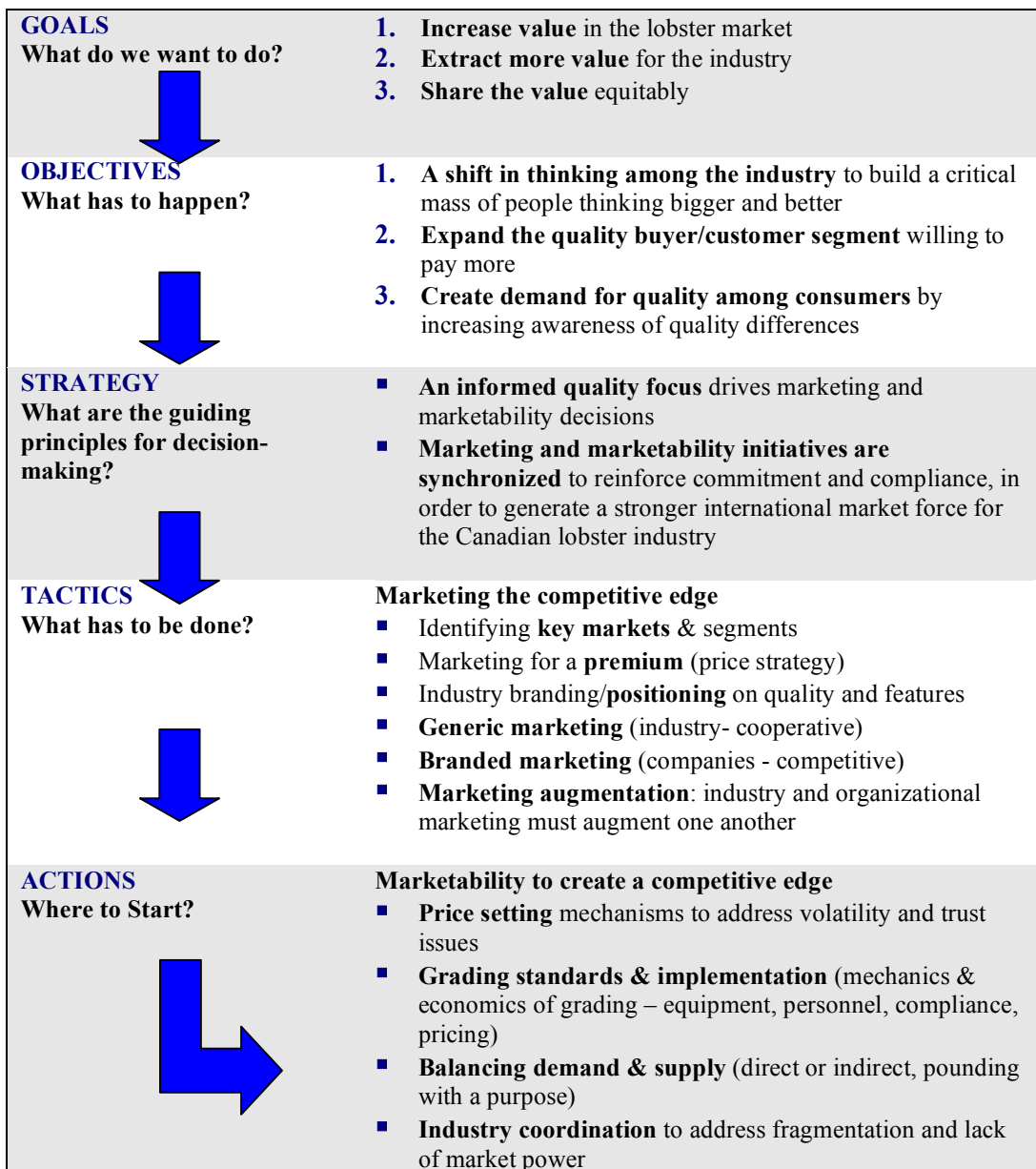
Measured against these criteria, the Atlantic lobster industry falls short. It is highly fragmented, with thousands of vessels trying to maximize their share of the resource and competing for buyers, and hundreds of shippers and processors trying to secure raw material and then often engaging in destructive competition in product markets. The industry operates on the Wal-Mart principle, "*We sell for less*". It seems to be doing its best to turn a luxury food item into a commodity. It presents a disorganized and weak face to large and powerful customers. Both factors contribute to lower prices. In short, this billion-dollar industry is *structured* to under-perform.

If the industry wants to increase value, it needs to change the way it does business – from the trap to the table. It has to focus on marketability as a pre-condition to effective marketing.



## 1.2 Objective – developing a long-term value strategy

This report is part of process initiated by the Lobster Council of Canada. It is aimed at developing a long-term value strategy for the Atlantic lobster industry. By value strategy, we mean a set of initiatives the industry would implement to increase the market value of lobster products, and to increase the industry share of that market value. The main elements of the strategy are set out below. The process is about securing industry and stakeholder support.



## **1.3 Report Contents**

This report is divided into two main parts, each divided into several chapters or sections, with several supporting appendices.

### **1.3.1 Part I. State of the industry**

- ❑ The first section (Chapter 2) takes a look at the global context for Atlantic lobster, showing the quantity and value of the various species, main importing countries, and where Canada fits in the international market from the perspectives of product form and export markets.
- ❑ This is followed by a close look at the Atlantic Lobster industry (Chapter 3). We describe the supply side: resource conditions, landings, and the U.S. role in supplying the Canadian processing industry. We also examine the demand side, highlighting shore prices and conditions in product markets (wholesale prices). The effects of weak markets and exchange rate shifts are assessed in terms of harvesting economics and margins in the shipping and processing sectors.
- ❑ The third section (Chapter 4) examines the structure and competitive environment in the Atlantic lobster industry and how these affect the marketability of lobster. It concludes that marketability issues flow from structural weakness, and unless and until these are addressed, the industry will find it difficult to market its products effectively.

### **1.3.2 Part II. Value strategy**

- ❑ The first section of Chapter 5 provides a summary of the marketing situation currently facing the Atlantic lobster industry, containing insights into the context for change (the situation analysis of industry strengths, weaknesses, opportunities and threats) and setting out a broad framework for developing the marketing strategy.
- ❑ This is followed by an elaboration of the marketability strategy, described and understood as the foundation of effective marketing. This section sets out the steps the industry must take to improve marketability in terms of the products and the industry capacity to respond to market needs.
- ❑ The third section contains the marketing strategy. It follows conventional form in examining closely what has to happen and why with respect to the 6 Ps that form the core element of marketing: Price, Product, People, Place (market), Place (channels) and Positioning.
- ❑ Section 4 sets out roles and functions, explaining who is responsible for implementing the various elements of the strategy.
- ❑ The report closes with a roadmap, outlining milestones and budgets for implementing the Value Strategy.

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## THE GLOBAL LOBSTER MARKET

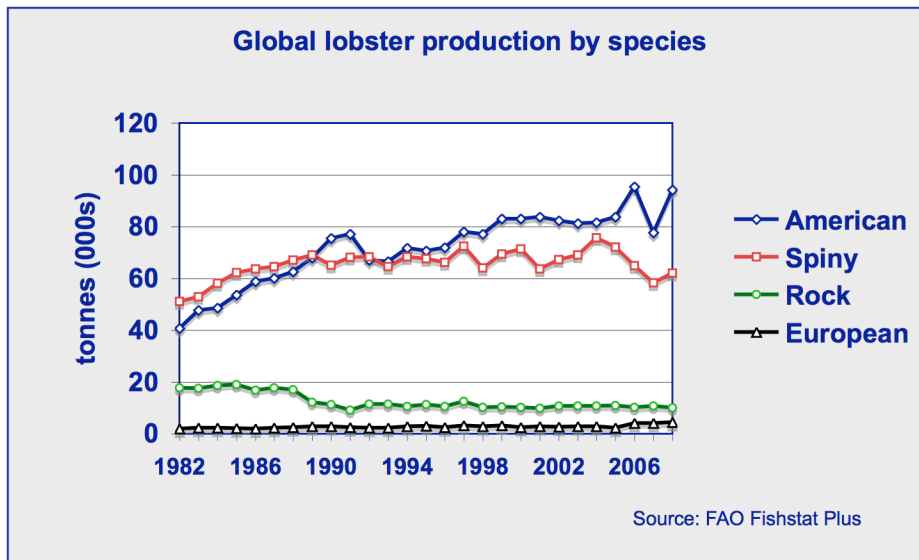
### 2.1 The global market

#### 2.1.1 Supply

The global market is supplied with about 170,000 t of lobster. There are four main species or species groups: American (the name given to the species caught in Atlantic Canada and the U.S. northeast), spiny, rock and European. American lobster accounts for about 55% of total supply, with spiny lobster (a clawless warm water species) accounting for 36% (Fig. 2.1). Rock (also clawless) and European lobster are much less abundant, accounting for about 6% and 3%, respectively.

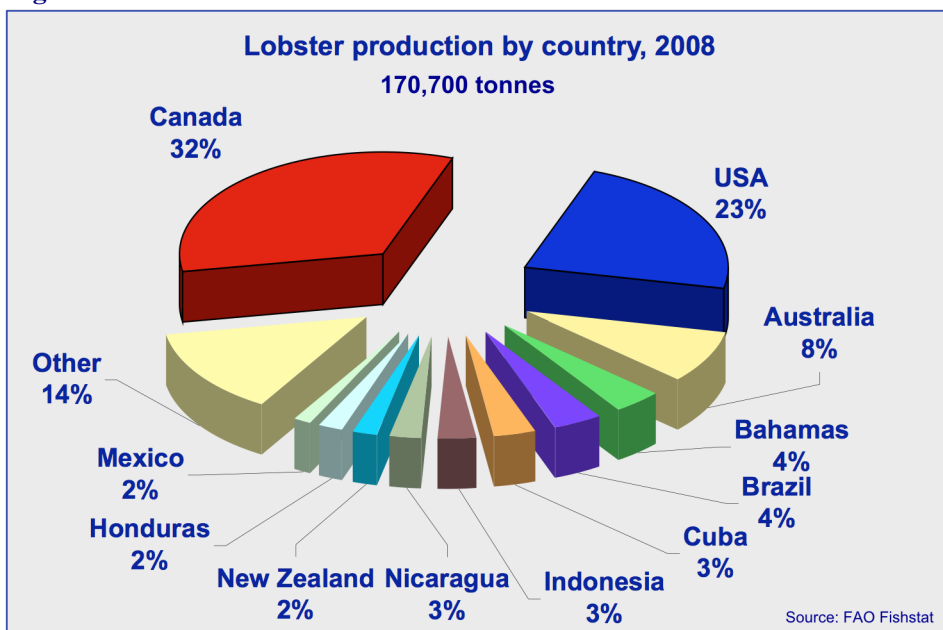
Overall production has increased by about one-third over the past 25 years, though almost all of that increase can be attributed to American lobster whose supply has more than doubled (rising from 40,000 t in 1982 to 94,200 t in 2008). Spiny lobster production remained fairly stable in the 60-70,000 t range, though in recent years landings have dropped resulting in concerns about overfishing. Rock lobster supply declined by half during the late 1980s, dropping from 20,000 to 10,000 t, and then stabilizing at this level until recent years when abundance and catches have dropped.

Figure 2.1



Canada (32%) and the U.S. (23%) are the world's leading suppliers – the only sources of American lobster. Australia follows with 8% of supply (rock lobster), while several Caribbean and South American countries produce spiny lobster, each accounting for 3-4% of global supply (Fig. 2.2).

Figure 2.2

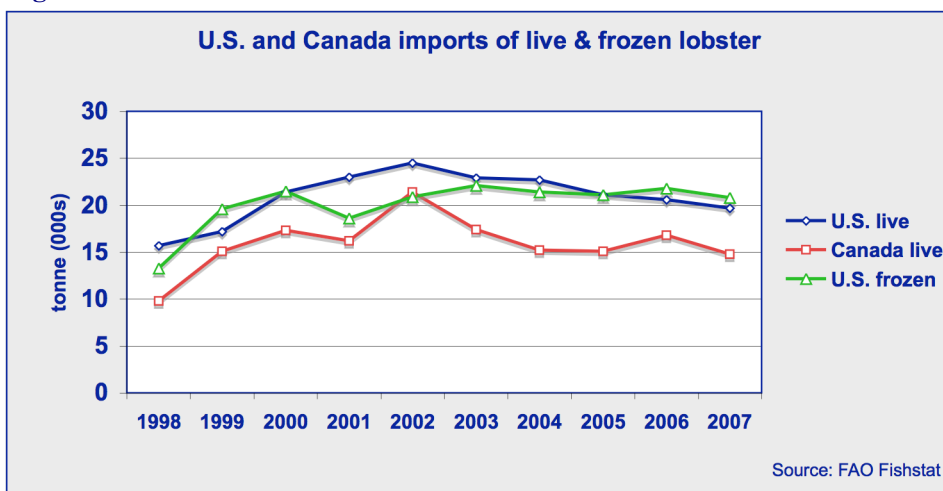


### 2.1.2 Demand

Lobster is consumed in some 60 countries worldwide, but mainly in high-income areas: North America (U.S. and Canada), Western Europe (UK, France, Belgium, Spain, Italy, Netherlands and Germany) and Asia (mainly Japan, Hong Kong and South Korea).

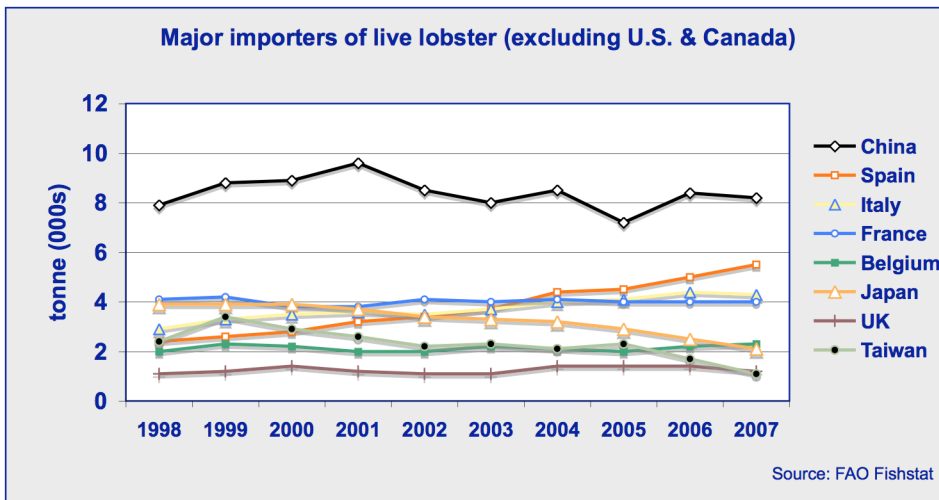
The U.S. is the dominant market for live lobster, though imports have declined from their peak in 2002, dropping from steadily 25,000 to 20,000 t in 2007. The declining value of the U.S. dollar explains the reduced imports. Canadian exporters (who account for 75% of U.S. imports) shifted to stronger markets. The other 25% consists of mainly of spiny lobster from the Caribbean and South America, with smaller quantities of rock lobster from Australia. Canada imports live lobster from the U.S. as raw material for its processing industry in the Gulf of St. Lawrence (Fig. 2.3). This is then exported as frozen product, showing up in Fig. 2.3 as part of U.S. imports.

Figure 2.3



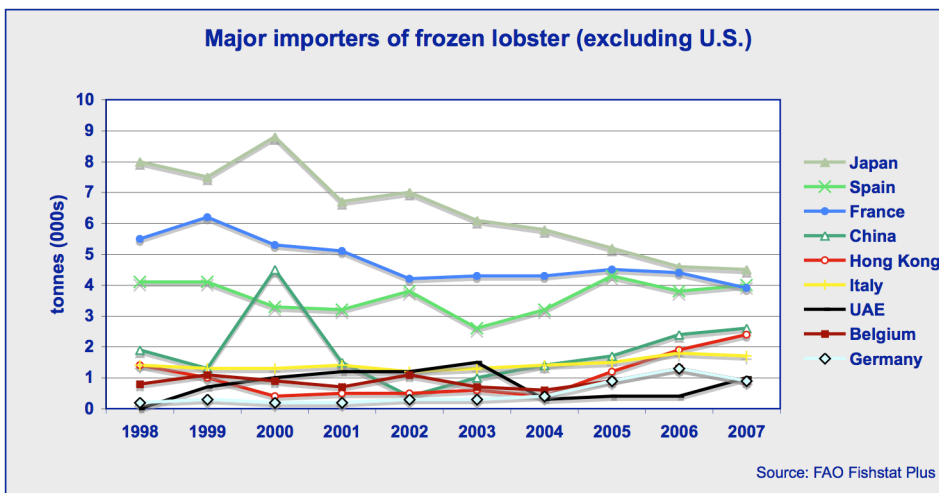
Eight other countries may be considered major importers of live lobster, where major means importing at least 1,000 t per year. China is the largest of these, importing in the range of 8,000 t (mostly spiny and rock lobster for processing and re-export). Spain and Italy follow in the 4-5,000 t range, with import levels rising over the decade (much of this consisting of American lobster imported from the U.S.). Imports into France and Belgium have remained fairly stable, while demand in Japan and Taiwan has dropped by at least half due mainly to economic conditions (Fig. 2.4).

**Figure 2.4**



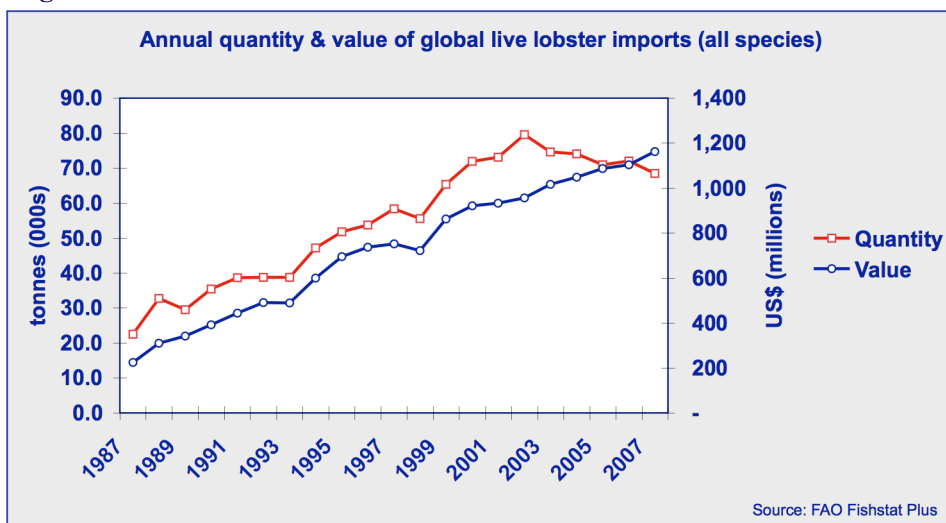
The U.S. is also the dominant market for frozen lobster (Fig. 2.3), with another nine countries importing at least 1,000 t (Fig. 2.5). Japan continues to be the second largest market, even though its imports have dropped by half during the past decade. Imports by France have dropped by one-third from the 1999 level, though they have been stable since 2002. Offsetting these declining market are China, Hong Kong, Italy and Spain, where imports have increased fairly steadily since 2003.

**Figure 2.5**



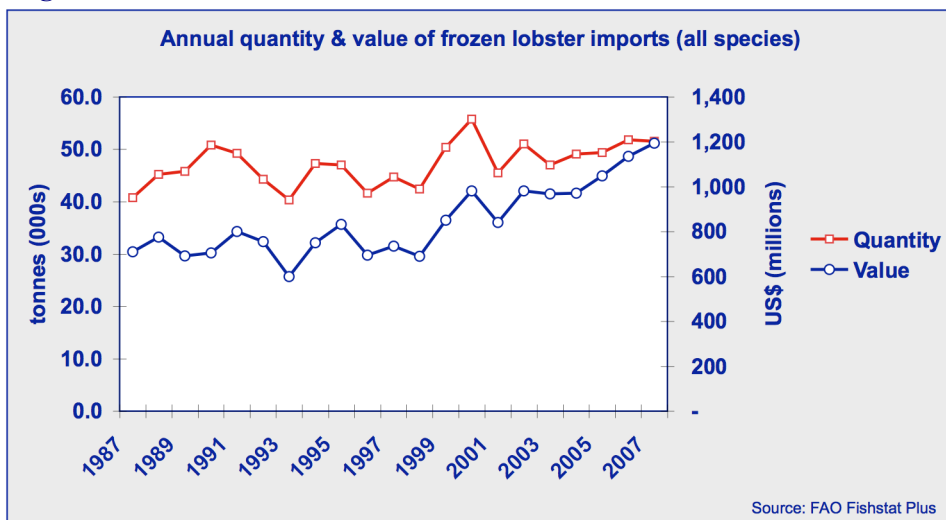
In general, the demand for lobster has kept pace with supply, providing a basis for rising prices over the long term. But the data indicate that the rate of price increase has only just kept up with inflation (at about 3%), implying that prices have not changed *in real terms* since the late 1980s. Fig. 2.6 shows that global imports increased three-fold between 1987 and 2007 (from 22,500 to 68,500 t), while value jumped five-fold (from US\$225 to US\$1,165 million. The import price increased from US\$10.00/kg to US\$17.00/kg, an average of 3% per year.

**Figure 2.6**



The level of imports for frozen lobster has fluctuated widely since the late 1980s, with only a modest upward trend since 1999 (Fig. 2.7). This increase is attributable mainly to the growth in processed production in Atlantic Canada based on imported U.S. landings. Total quantity increased by about 25% (from 40,000 to 50,000 t) between 1987 and 2007, while value increased by 70% (from US\$700 to US\$1,200 million). Prices increased at an annual average of 2% over the period, slightly below the rate of inflation. In other words, prices declined slightly in *real terms* when change is measured over the whole period, 1987 to 2007.

**Figure 2.7**





The trend after 1999 appears to be more encouraging for both live and frozen products, as prices increased at a rate higher than the long-term average. This suggests strengthening demand in global markets. But this is somewhat misleading, particularly if you are a Canadian exporter. The values in Figures 2.6 and 2.7 are denominated in U.S. dollars, and the U.S. dollar was declining in value against most currencies after 2002.

In simple terms, demand has only just kept up with supply over the long term. But between 1987 and 2007 at least, there had been no real growth in the value of industry output (and prices actually declined in the U.S. starting in 2006). Of course, the market deteriorated sharply for the lobster industry (and many other industries) after 2008, as the global recession caused consumers to retreat from restaurants and high priced goods, pushing lobster prices down to levels not seen since the 1980s. Lower prices made it attractive for mid-range and even fast food restaurants to offer lobster to a wider range of consumers. This exposure is a good thing, but the real test is whether it translates into on-going demand as prices begin to improve.

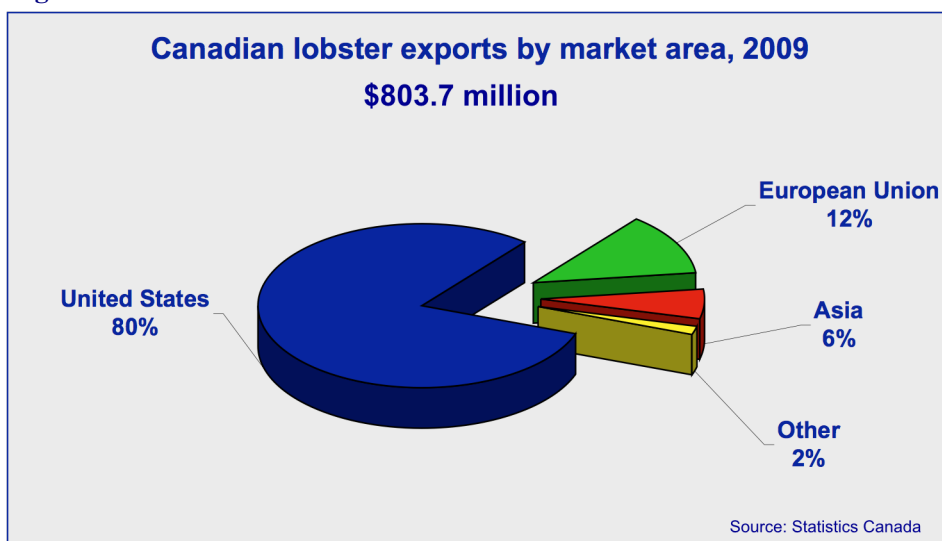
The challenge facing the industry in the short run is to sustain itself in this market until the economy recovers, and in the long run to position lobster to attract higher prices and generate improved margins for harvesters, shippers and processors.

## 2.2 Atlantic lobster

### 2.2.1 Overview

Canadian shippers and processors supply the domestic market as well as exporting lobster to some 55 countries. Data limitations make it difficult to come up with precise estimates of the respective sizes of the domestic and export markets, but shippers and processors suggest that 80-85% of total Canadian output (in live and processed form) is exported. In 2009, Canada's lobster exports were valued at \$803.7 million (suggesting that the total value of production ranged between \$900-950 million). Canada's lobster exports were just over \$1.0 billion in 2006, a drop of 20% in just three years.

Figure 2.8



Though Canadian shippers and processors export to 55 countries, just 15 of these markets account for 99% of the total. The U.S. is by far the dominant market, accounting for about 80% of total value (Fig. 2.8). This percentage has changed little over the past several years, despite the challenges created by the weakening U.S. dollar. Europe and Asia are the other major market areas, taking 12% and 6% respectively.

It is worth noting that when it comes to exports to the U.S., the official data may not reflect accurately the ultimate destination. Shippers and processors believe as much as 20% of live product shipped to the U.S. is re-exported as U.S. product. This is because American companies with operations in Canada find it more efficient to use Boston and New York rather than Halifax for airfreight.

Live lobster represents about 40% the total Canadian lobster production by value. This is down from about 50% ten years ago. The shift is explained by two key factors: limited development of the live market in the face of increasing supply (including supply from Maine), and changing market requirements (consumer preferences). Fig. 2.9 shows the long-term trend in product form, as well as the general decline in the total value of production. Since 2006, the industry has lost about \$200 million in revenues. The key factors are the declining value of the U.S. dollar and the economic downturn.

**Figure 2.9**

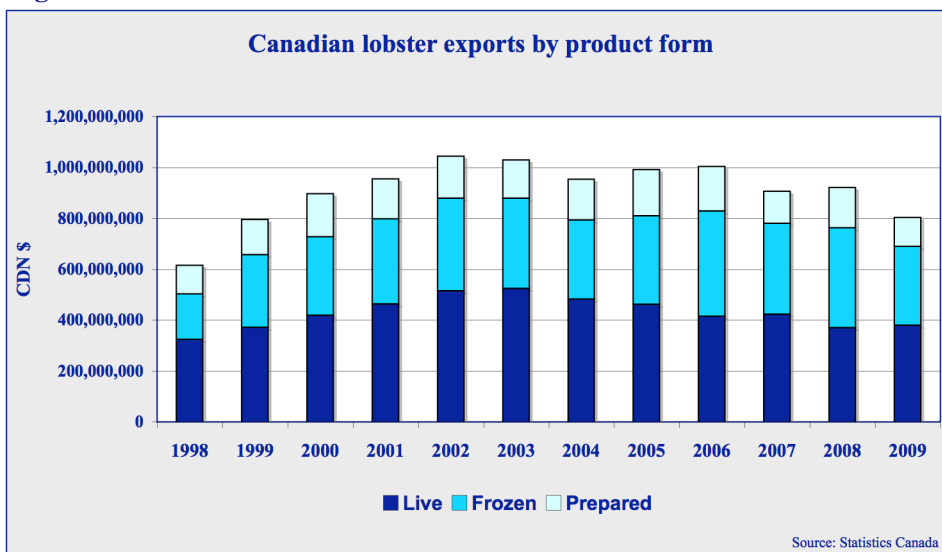


Table 2.1 provides a breakdown of markets by product form, showing the 15 countries that take 99% of the lobster. Three things of interest in Table 1 are: the dominance of the U.S. market in all products (75% of live, 80% of frozen, 98% of prepared); that the same 10-12 countries account for the bulk of live and frozen exports; and that Prepared and Preserved products (accounting for about 14% of total value) are exported almost exclusively to the U.S.

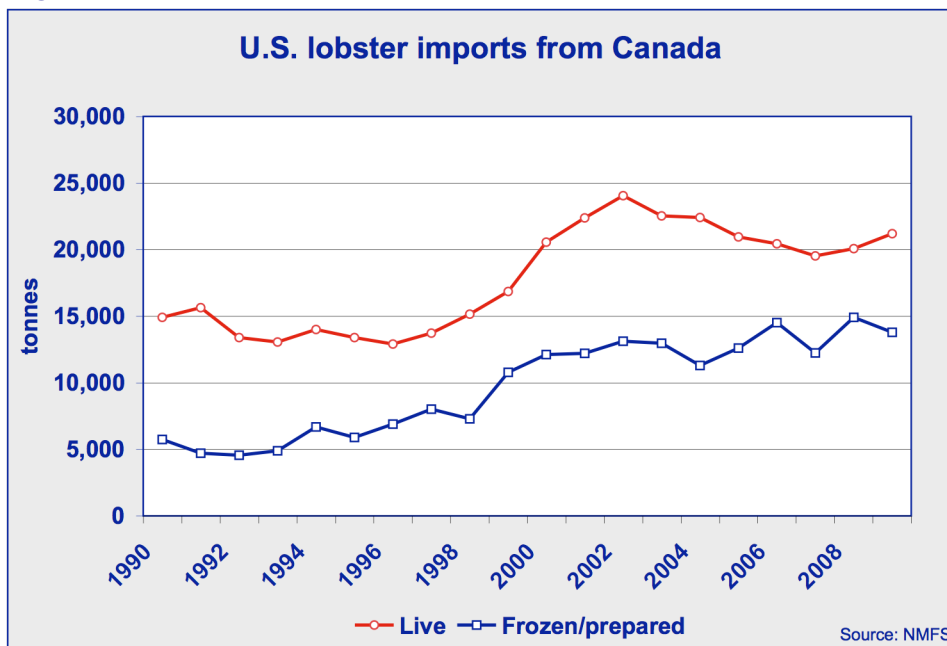
**Table 2.1**

<b>Canadian lobster exports by country, 2009 (CDN\$)</b>					
	<b>Live</b>	<b>Frozen</b>	<b>Prepared</b>	<b>Total</b>	<b>% of total</b>
United States	286,710,498	247,000,622	111,785,231	645,496,351	80.3%
Belgium	17,794,308	3,529,830	723,796	22,047,934	2.7%
Korea, South	12,067,645	3,378,057		15,445,702	1.9%
France	8,077,238	10,544,407	338,785	18,960,430	2.4%
Japan	7,431,660	12,116,530	320,732	19,868,922	2.5%
Hong Kong	6,787,406	1,696,470	114,816	8,598,692	1.1%
Netherlands	6,608,324	1,271,783	70,732	7,950,839	1.0%
Spain	5,517,684	4,104,480		9,622,164	1.2%
United Kingdom	5,217,179	7,390,512	148,804	12,756,495	1.6%
Germany	4,960,880	6,969,850		11,930,730	1.5%
Italy	3,729,659	4,008,074		7,737,733	1.0%
China	2,778,561	1,678,046	44,800	4,501,407	0.6%
United Arab Emirates	2,312,912	1,106,648	270	3,419,830	0.4%
Sweden	1,597,753	2,749,593	41,142	4,388,488	0.5%
Denmark	1,172,580	748,865		1,921,445	0.2%
Other (±40 countries)	6,931,449	2,144,094	19,452	9,094,995	1.1%
<b>Total</b>	<b>379,695,736</b>	<b>310,437,861</b>	<b>113,608,560</b>	<b>803,742,157</b>	<b>100.0%</b>

Source: Statistics Canada

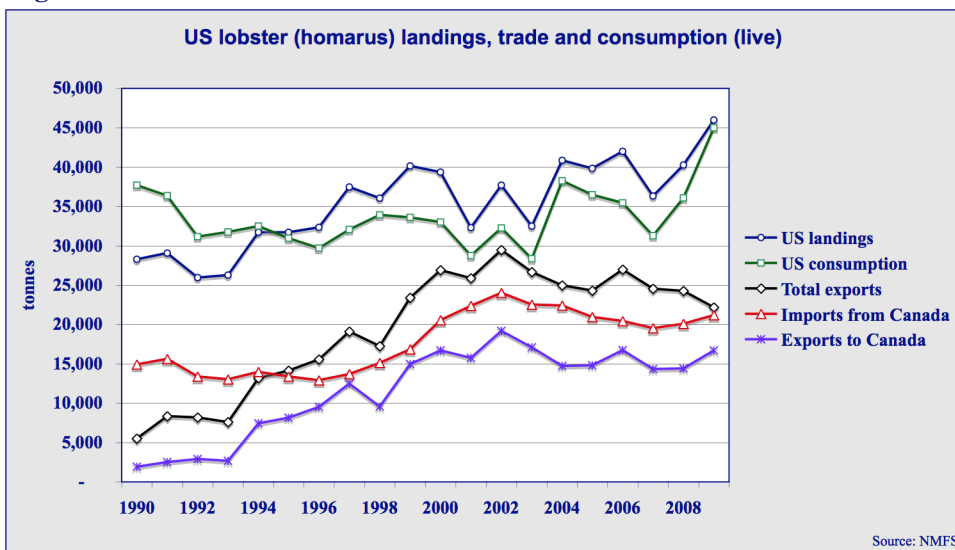
## The U.S. market

U.S. imports of live lobster held fairly steady at about 14-15,000 t during much of the 1990s, then climbed to almost 25,000 t as Canadian landings increased and the rising value of the U.S. dollar made that market more attractive (Fig. 2.10). A similar pattern held for frozen and prepared products, with exports rising from the 5-6,000 t range to about 13,000 t (the equivalent of about 37,000 t in live weight). Live exports declined after 2002 as the U.S. dollar weakened and the market softened. Prices for frozen and prepared products strengthened, offsetting the adverse exchange rate shift, resulting in stable and gradually increasing exports late in the decade.

**Figure 2.10**

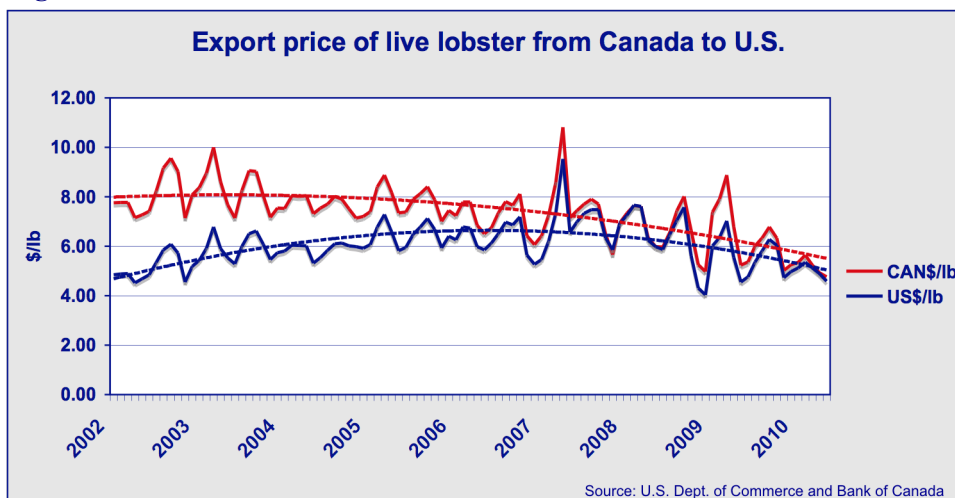
To gain a more complete picture of Canada's position in the U.S. market, it is helpful to show U.S. trends, since it also a major producer – as well as consumer – of American lobster. The U.S. had landings in the 35-40,000 t range and consumption in the 30-35,000 range over most of the past decade. Landings increased sharply in 2009, as did consumption in response to sharply lower prices (Figure 2.11). The substantial trade between Canada and the U.S. is explained by differences in lobster quality. Canada exports hardshell lobster preferred by the food service industry, while the U.S. exports lower quality Maine lobster for processing in New Brunswick, PEI and Québec. Of course, not all U.S. landings are lower quality; U.S. shippers rely on higher quality Maine lobster for the export trade, competing with Canada in many of the same markets in the EU and Asia.

**Figure 2.11**



One of the greatest challenges facing the Canadian industry over most of the past decade has been the declining value of the U.S. dollar. We can see from Fig. 2.11 that imports from Canada declined steadily after 2002. As the U.S. dollar weakened, the value of trade with the U.S. declined. This is illustrated in Fig. 2.12 by showing the import price of sales to the U.S. in Canadian and U.S. dollars.

**Figure 2.12**

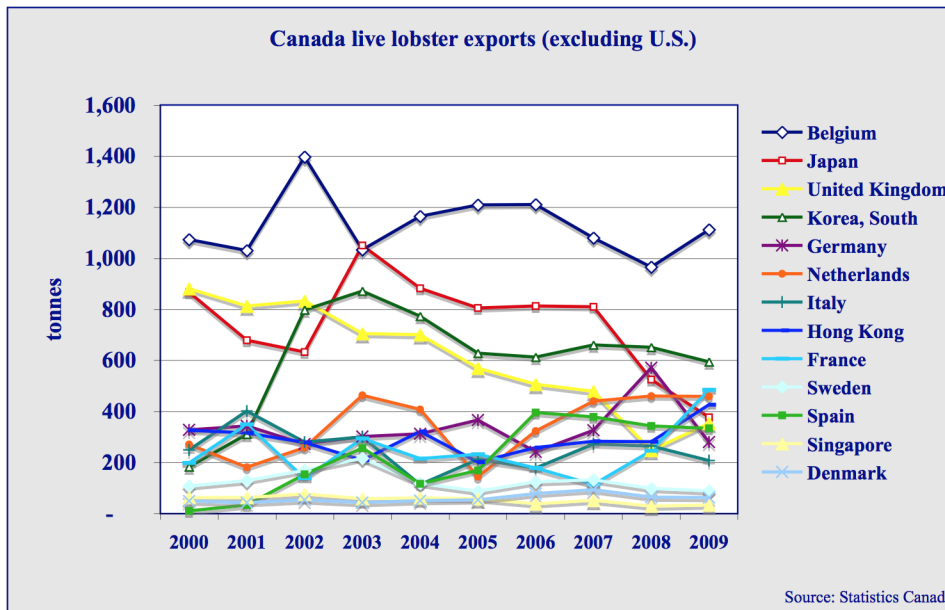


The red line in Fig. 2.12 shows the price obtained by Canadian shippers in Canadian dollar terms (after the exchange rate is taken into consideration). A U.S. dollar price of \$4.75/lb in 2002 was worth about \$7.25/lb in Canadian dollars. As the U.S. dollar weakened and the Canadian dollar strengthened, the gap between them narrowed. So, even as the U.S. lobster prices were increasing during the early 2000s, prices in Canadian dollars were declining. By 2006, even on the shift in the exchange rate alone, the Canadian lobster industry had lost 35-40% of its revenue on U.S. sales. The U.S. market hit a peak in 2006 and then U.S. prices began to drop. This created a “double whammy” for the Canadian industry – declining U.S. prices and a weaker U.S. dollar.

## The EU and Asian markets

Unlike the U.S., where the lobster trade has been relatively stable over time, one of the striking things about exports to other markets is the lack of stability in the trade from one year to the next. Figure 2.13 shows how the quantity of Canadian live lobster exports changed from year to year between 2000 and 2009 for the countries in Table 2.1. There has been a sustained drop in exports to three important markets: Japan, South Korea and the United Kingdom. Belgium (a key entry point for the EU) also declined but recovered somewhat in 2009. Some of these shifts are exchange rate driven, others reflect more fundamental market adjustments due to changing consumer preferences (UK) and declining economic circumstances (Japan). The inability to develop and hold markets is also the result of the way Canadian companies do business (a marketability issue).

Figure 2.13



Exports of frozen tails display a similar pattern of wide fluctuations year-over-year in most markets, with a declining trend in the major ones: Japan, France and Belgium (Fig. 2.14). The year-to-year variability is attributable largely to inventories, but also to opportunistic selling in response to exchange rate adjustments. Sales of lobster meat and lobsters frozen in brine (popsicles), the other main frozen products, tend to be concentrated in just a few markets: meat almost exclusively in the U.S. (Fig. 2.15) for the food service trade, and popsicle packs in the EU (Fig. 2.16) where it is positioned largely as a holiday retail loss leader.

Figure 2.14

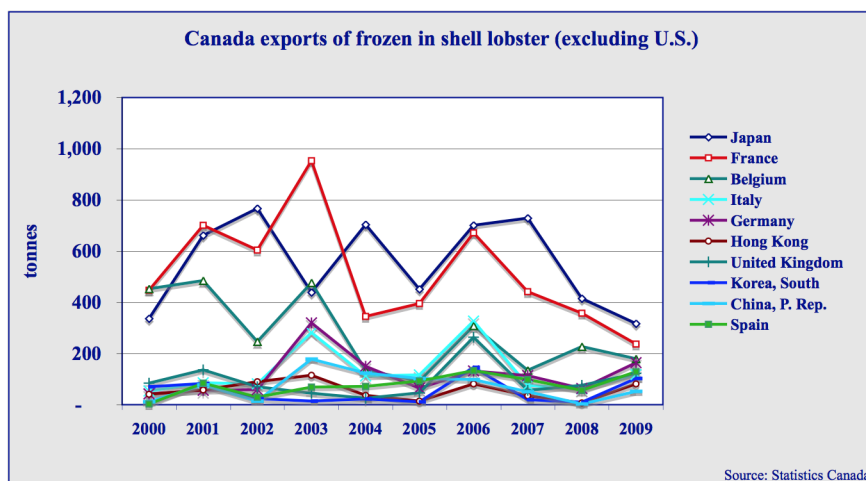


Figure 2.15

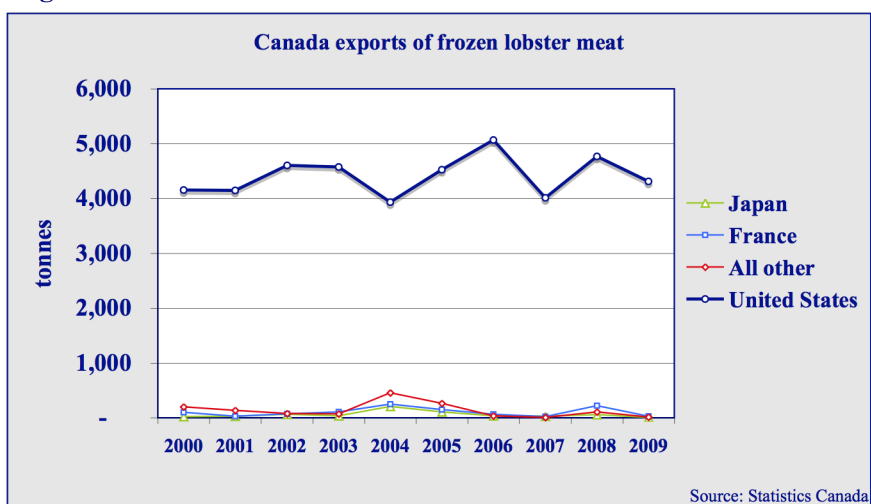
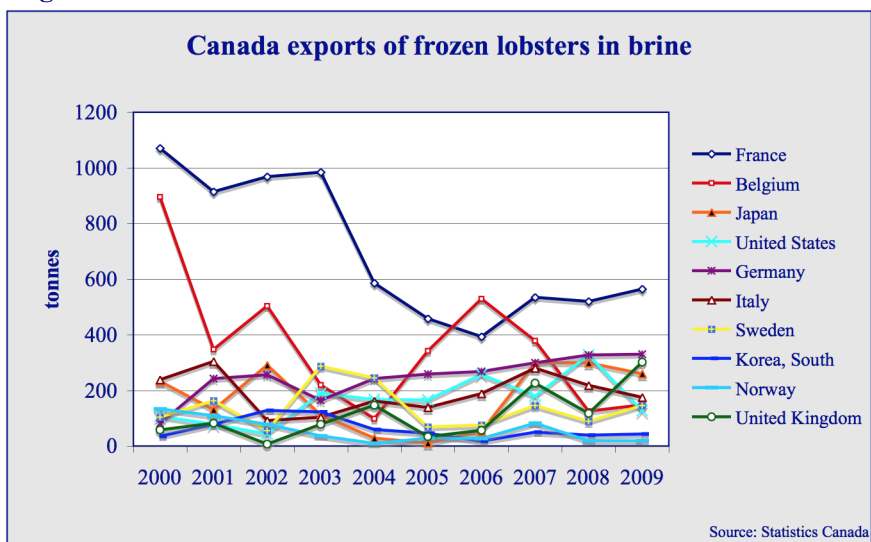


Figure 2.16



## 2.3 Concluding observations

This overview of global markets and Canadian exports reveals several important points:

- ❑ Overall supply of lobster (all species) has increased by one-third over the past 25 years. The supply of Atlantic lobster has *doubled* and accounts for 55% of global supply.
- ❑ In general, the demand for lobster has kept pace with supply, providing a basis for rising prices over the long term. But the rate of price increase has only just kept up with inflation (at about 3%), implying that prices have not changed *in real terms* since the late 1980s.
- ❑ Canada accounts for about one-third of global lobster supply, providing shippers and processors with a potentially strong position in price negotiations with distributors and customers in export markets. Industry fragmentation leading to cut-throat competition amongst Canadian companies nullifies any potential market strength.
- ❑ Canada exports lobster to 55 countries, but the distribution among them is highly concentrated. The U.S. takes 80% of Canada's shipments (all products), while the next 10 each take 1-2%. The other 44 countries account for 3% of Canada's exports. This extreme dependence makes Canadian exporters highly vulnerable to exchange rate shifts, changing tastes, and the market power of large distributors and customers.
- ❑ Canadian shippers have lost ground in major European and Asian markets since the early 2000s. This has less to do with a lack of awareness about Atlantic lobster, than it does about various challenges the industry faces in marketing its products. Few companies have the resources to engage in market development, and even those who do, see this as a poor investment. The industry tends to devalue the product through aggressive competition for sales, where price and only price has become the deciding factor.
- ❑ The current economic crisis has intensified, not created, the current financial weakness of the industry. The industry is structured to under-perform because nothing that matters in developing market relationships, supply, quality, price, is stable or predictable. This is partly due to the nature of the resource, but fishery management, industry structure, and destructive competition all serve to intensify the uncertainties.



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# 3

## **ATLANTIC LOBSTER INDUSTRY**

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### **3.1 Supply side**

#### **3.1.1 Resource**

Lobster is widely distributed in Northwest Atlantic coastal waters, from southern Labrador in the north to North Carolina in the south, and throughout the Gulf of St. Lawrence. The greatest concentration is in the Gulf of Maine, which supports substantial fisheries in southwest Nova Scotia, southern New Brunswick and the States of Maine and Massachusetts.

Scientists are unable to produce a reliable estimate of lobster abundance, and nor are they able to provide a complete explanation for why stocks appear to have increased over the past 20-30 years. But judging from the upward trends in landings in most areas, the resource generally appears to be healthy. While landings may serve as a useful proxy of abundance, it is an imperfect guide because other factors influence landings including lobster availability, catchability, changes in fishing effort (intensity and location) and fishing efficiency. In other words, the increase in landings may be due as much to changes in fishing effort as growth in abundance.

Another concern is that exploitation rates, the ratio of landings to the biomass of commercial size, appears to be above 75% in some lobster fishing areas (LFAs). This is high by comparison with lobster fisheries in other jurisdictions (U.S. below 50%; Western Australia rock lobster about 30%), and also high by comparison with the snow crab fishery (generally less than 50%). One implication of a high exploitation rate is that the fishery relies heavily on animals that have just reached legal size. Not only does this imply resource risk, but it also means that the fishery produces a narrow size distribution. This may be good from a market perspective, but may be shortsighted in terms of sustainability.

An issue of great concern among industry participants is how little is known about lobster population dynamics and stock size given that the fishery supports an industry valued at about \$1.0 billion. In its most recent report, *Sustainability Framework for Atlantic Lobster 2007*, the Fisheries Resource Conservation Council (FRCC) made several recommendations to address this concern, as well as issues related to conservation and management:

- ❑ Improve knowledge through monitoring and reporting systems
- ❑ Reduce exploitation rates by reducing effort
- ❑ Reduce fishing effort by reducing seasons, days, licences, traps, trap-hauls
- ❑ Adjust seasons to ensure optimal quality
- ❑ Collect better fishery and research data to improve management
- ❑ Improve Monitoring, Control and Surveillance and impose stricter sanctions

### 3.1.2 Management

Canada closely regulates the fishery, using various input controls and conservation measures including limited entry licencing, trap limits, size limits, returning berried females and specified seasons ranging from two to eight months. With the exception of increases to size limits and related conservation measures in some LFAs, the controls essentially have not changed appreciably over the past 25 years.

The lobster fishery is a matter of federal jurisdiction, with overall management responsibility resting with the Department of Fisheries and Oceans (DFO) and exercised through its four administrative regions. Regulations governing international trade also fall with the federal purview, as does food safety (the responsibility of the Canadian Food Inspection Agency – CFIA). Regulation of trade within the province, including the licencing of buyers and processing facilities, is a matter of provincial jurisdiction.

Given the apparent health of the resource, the industry is generally pleased with management of the lobster fishery. Nonetheless, during workshops conducted in the course of this study, several issues were raised, reflecting the diversity of conditions and perspectives across LFAs and within the industry:

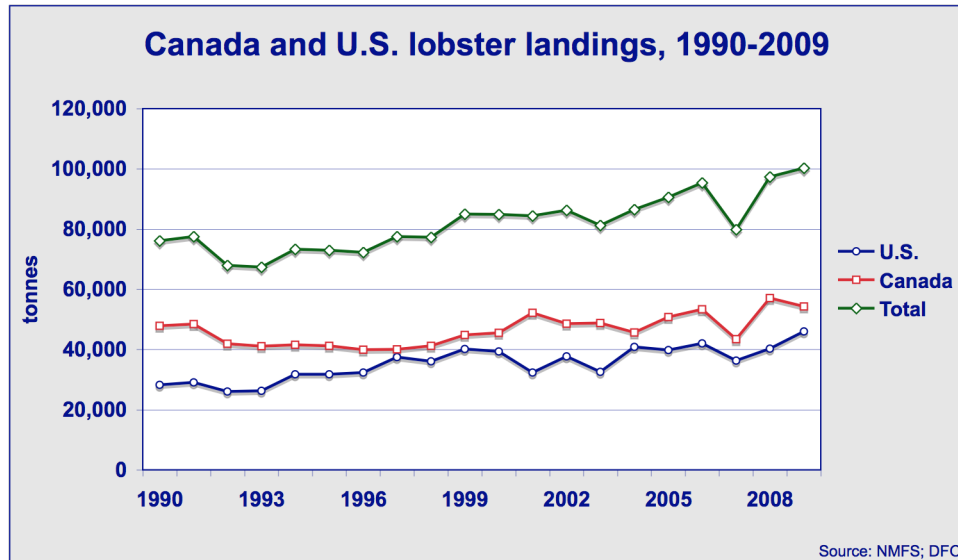
- ❑ **Fleet capacity** – economic conditions have deteriorated in many LFAs to the point where harvesters indicate fishing is no longer viable at recent catch levels and current prices. Many believe that mechanisms to reduce the number of vessels/capacity should be introduced. Partnerships, though possible, are not widely used, in part, because they do not significantly improve the economics. Among the other options are buy-backs (internally or externally funded) or fleet rationalization mechanisms including tradable quotas and traps, though many harvesters do not view these measures favourably.
- ❑ **Seasons** – several shippers/processors believe seasons should be reviewed and adjusted where necessary to ensure they are aligned with optimal quality and market conditions.
- ❑ **Effort** – the 2007 FRCC report expressed concern about high exploitation rates in some LFAs. Options put forward by the FRCC for addressing this include measures to reduce fishing effort such as shorter seasons and reduced trap limits.
- ❑ **Reporting** – there are concerns about the accuracy of landings data. Inaccuracy affects the quality of science and management, and would also affect the prospects for eco-certification. Mechanisms for addressing this include logbooks and/or dockside monitoring. DFO is taking steps to address deficiencies through the Sustainability Fisheries Framework.

### 3.1.3 Landings

Atlantic lobster forms the basis of a \$1.0 billion industry in eastern Canada and ranks as the most important species in the Atlantic fisheries. The lobster resource is among the most widely distributed of all commercial species, providing the basis of a fishery to Canadian harvesters along the coasts of all five provinces in Atlantic Canada ranging from southern Labrador, into the Gulf of St. Lawrence, along the Scotian Shelf into the Bay of Fundy, and onto Georges Bank.

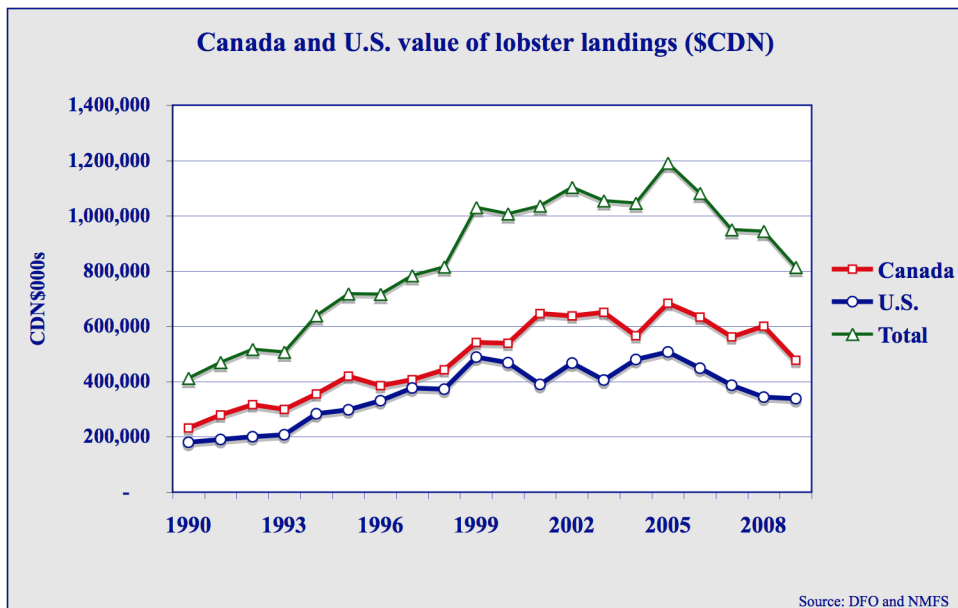
The lobster fishery has endured the ups and downs of environmental change, and despite relatively high exploitation rates, has produced fairly stable landings during the 1990s and 2000s, following a rapid rise in catches during the late 1970s and 1980s. Landings rose through the 1980s in Canada and the U.S., reaching a combined total of almost 80,000 t in 1991, and then dropping back to the 70,000 t range in the mid-1990s (Fig. 3.1). With some fluctuations, total supply climbed to about 100,000 t in 2009, a 40% increase in a decade.

**Figure 3.1**



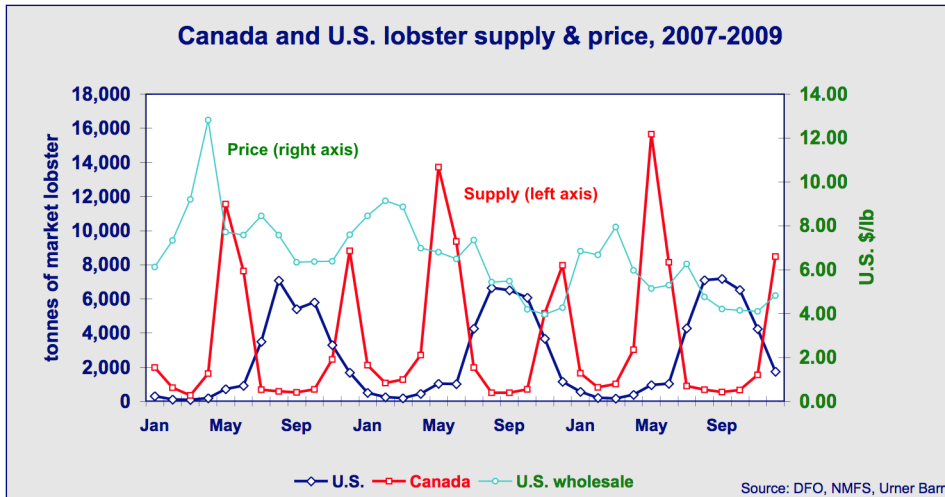
The value of landings in both Canada and the U.S. increased steadily through the 1990s, buoyed by strong market conditions and stable supply. Between 1990 and 1999, combined landed value more than doubled, rising from \$410 million to just over \$1.0 billion (all values in Canadian dollars). Canadian landed value reached a peak of \$685 million in 2005 (fig. 3.2). It declined thereafter, dropping to \$475 million in 2009, a reflection of weakening markets and the declining value of the U.S. dollar.

**Figure 3.2**



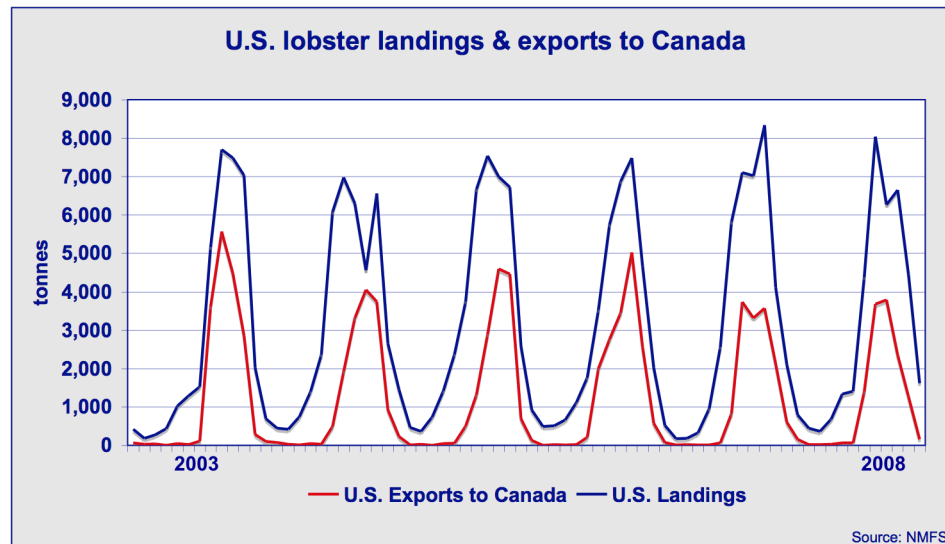
Lobster grounds in Canada are divided into fishing areas, each with its own season. Seasons last from two to eight months, with the timing and length determined by biological, economic and climatic factors. The seasons in all but one LFA (LFA 25) are timed to avoid the moulting and growth periods (mid-summer/early fall in most areas), and where possible, to coincide with favorable market conditions. This results in two peaks in fishing and landings (Fig. 3.3), one in the spring (May-June) and again in early winter (December).

**Figure 3.3**



This pattern limits the overlap with the U.S. fishery, with its peak in July-October. Fishing in the U.S. is permitted year-round, but nonetheless effort and catches are concentrated in the post-moult period. This is when lobsters are hungriest and most trappable, though also when their quality is poorest. It also coincides with the peak tourist season in the U.S. northeast. But supply greatly exceeds demand during this period, causing prices to decline to an annual low point (Fig. 3.3). These low prices make it attractive for Canadian processors to import lobster from Maine when most seasons are closed in Canada. Fig. 3.4 shows that 35-50% of landings are exported to Canada for processing.

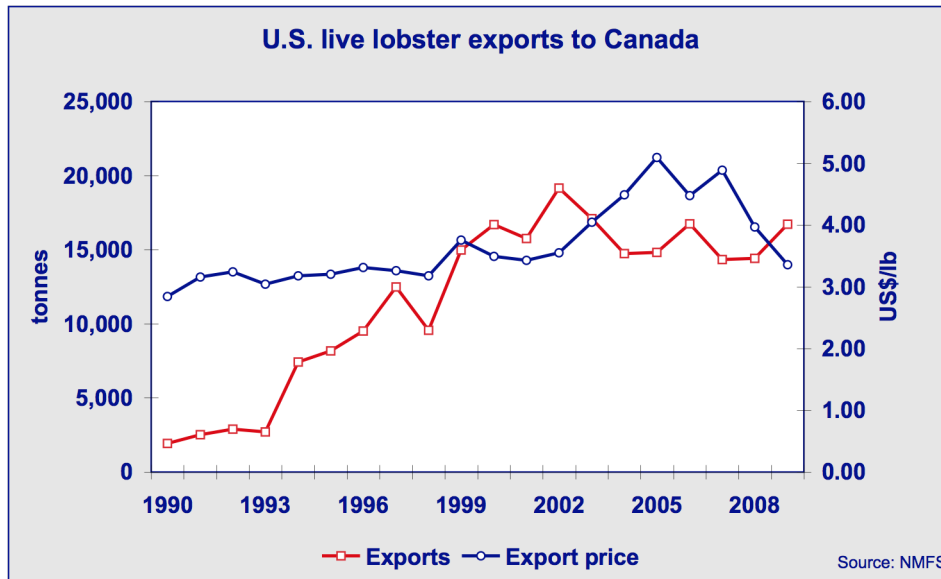
**Figure 3.4**



### 3.1.4 Live imports from the U.S.

The export trade supplying Canadian processors began in the early 1990s and climbed sharply as the U.S. supply exceeded local seasonal demand. Much of the supply was unsuitable for export for the live trade and offered limited scope for pounding in anticipation of higher seasonal prices as landings declined. Exporting for processing provided the best option. Exports peaked at about 20,000 t in 2002 and then declined to the 15,000 t range as prices increased (Fig. 3.5). There was some recovery in 2009 as prices dropped sharply.

Figure 3.5

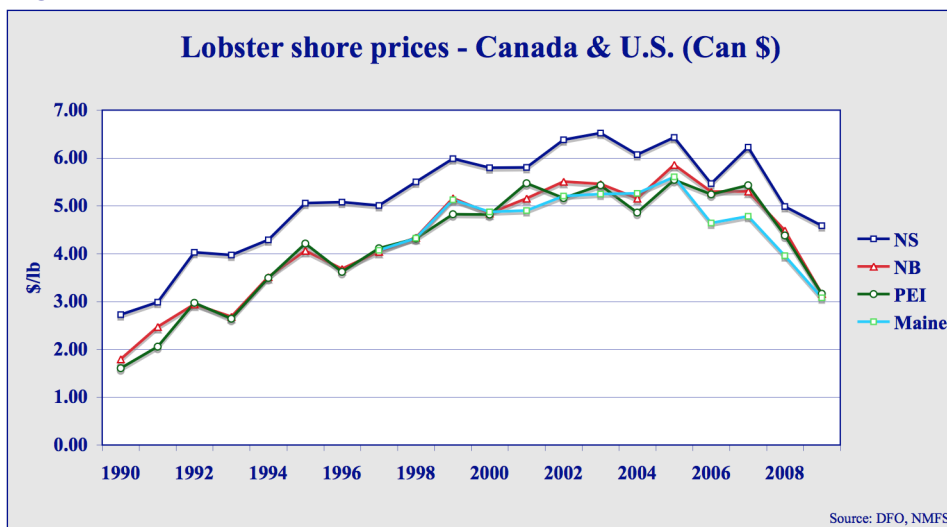


## 3.2 Demand side

### 3.2.1 Shore prices

Shore prices follow market conditions. Prices increased fairly steadily between 1990 and 2002, with minor fluctuations in response to shifting economic conditions. With the decline in the value of the U.S. dollar, the unit value of each pound of lobster exported to the U.S. dropped, causing shore prices in Canada to fall between 2003 and 2007. The global recession caused prices to plummet in 2008, dropping to levels last seen in the mid-1990s (Fig. 3.6).

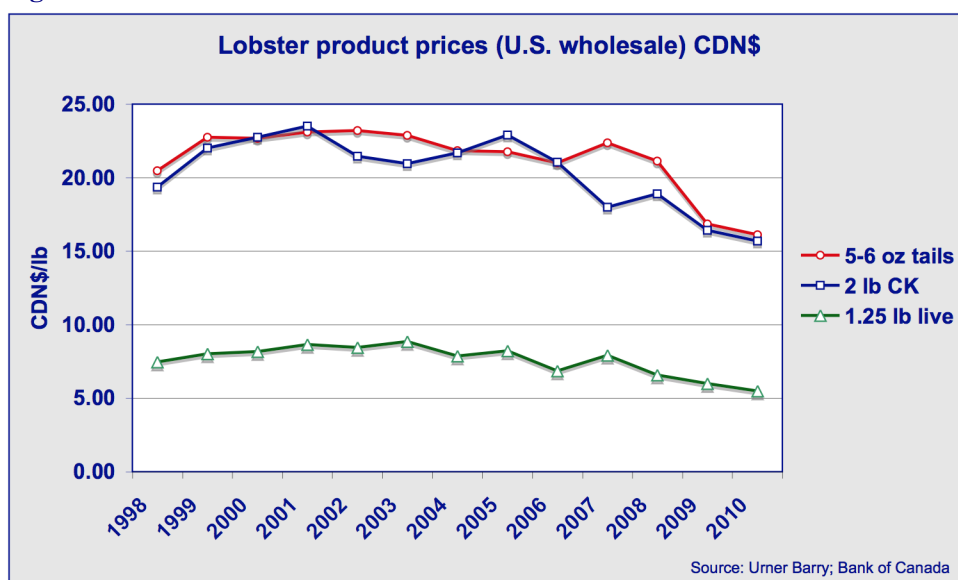
Figure 3.6



### 3.2.2 Wholesale prices

The main determinants of these shore prices are product prices in the U.S., the dominant market for Atlantic lobster. In addition to supply and demand for Atlantic lobster itself, these prices also reflect the influence of substitute products, including lobster from the U.S. fishery (competing mainly with live) and spiny and rock lobster products (competing mainly with tails). U.S. wholesale prices (in Canadian dollars) for live lobster increased from the \$7.50/lb range in 1998, peaking at \$8.85/lb in 2003 and then declining as the U.S. dollar weakened (Fig. 3.7). Frozen tail prices fluctuated within a \$1.00/lb range of \$22.00/lb between 1999 and 2007, and then fell sharply as the recession took its toll on the food service industry. The standard 2 lb claw and knuckle (CK) meat pack gained strength after 2003, but price also tumbled as food service demand dropped after 2006.

Figure 3.7





Prices are set competitively through the forces of supply and demand. Competition occurs at each stage of the market, from wharf to final sale. Harvesters look for the highest prices. Buyers work on commission, so they are driven by volume. Within the limits dictated by their costs and commission, they pay more to get more. Likewise, shippers and processors are driven by volume. They also put upward pressure on prices within the limits imposed by their costs and margin requirements, and of course, the market. This level of competition ensures that the shore price does not stray very far from prices in final product markets\*.

Fig. 3.8 illustrates this point by tracking monthly average U.S. wholesale prices (in the northeast) and the Nova Scotia shore price (both in CDN\$/lb) over the past six years. The prices move in tandem, with the spread between them ranging from as little as \$0.60/lb in very tight conditions, to as much as \$2.50/lb in conditions of oversupply. These conditions tend not to last long; the difference between the shore and wholesale price averaged \$1.60/lb over the period.

**Figure 3.8**

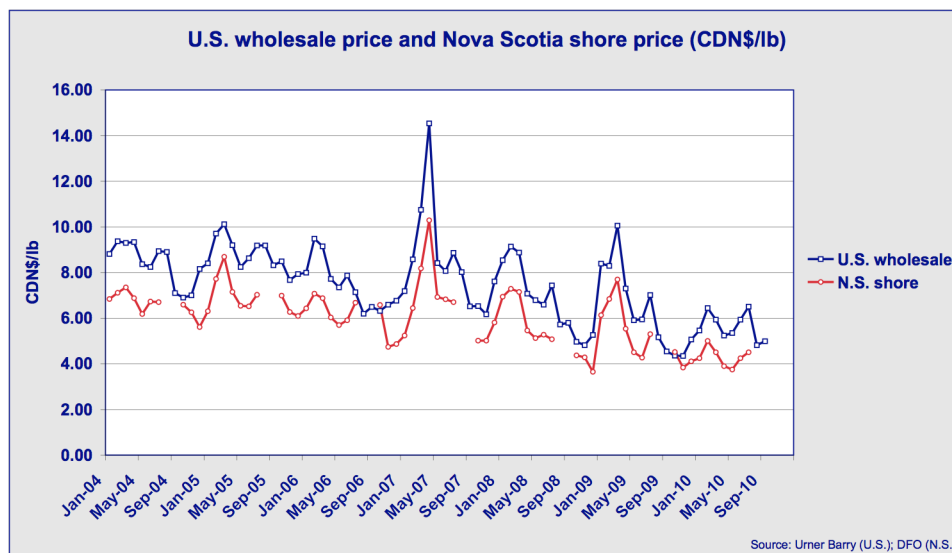


Fig. 3.8 also illustrates the key point that the size of the spread is relatively *insensitive* to the strength of the market. Even when the market is strong (2004-2006), the spread is not significantly different from when the market is weak (2008-2010). Competition keeps shore prices high because each level in the supply chain, harvester, buyer, shipper and importer is driven by volume.

Harvesters are the winners in this competitive environment, even though they see themselves as losers when the market turns down as it did in 2008. In consultations conducted as part of this study, harvesters in all areas pointed out that they were the ones to bear the full brunt of lower market prices; that shipper's margins changed little if at all. And there is an element of truth in this, since the shore price dropped from about \$7.00/lb in January 2004 to \$4.00/lb in January 2010. But the more relevant point is that shippers' margins don't change much *because they can't*. As Fig. 3.5 shows, *margins are about the same in a strong market as a weak one*. In other words, competition sees to it that harvesters get the same 75-80% share of the wholesale price regardless of the state of the market.

\* Live lobster illustrates this relationship most closely (see Fig. 3.8). The relationship is less clear with processed products because of the yield loss. For example, a one-pound lobster yields a tail that is 20-24% of the live weight. The claw and knuckle meat yield ranges from 11-13%. So, it takes about three one-pound lobsters to produce one pound of lobster meat (tail and CK). Product prices reflect this relationship.

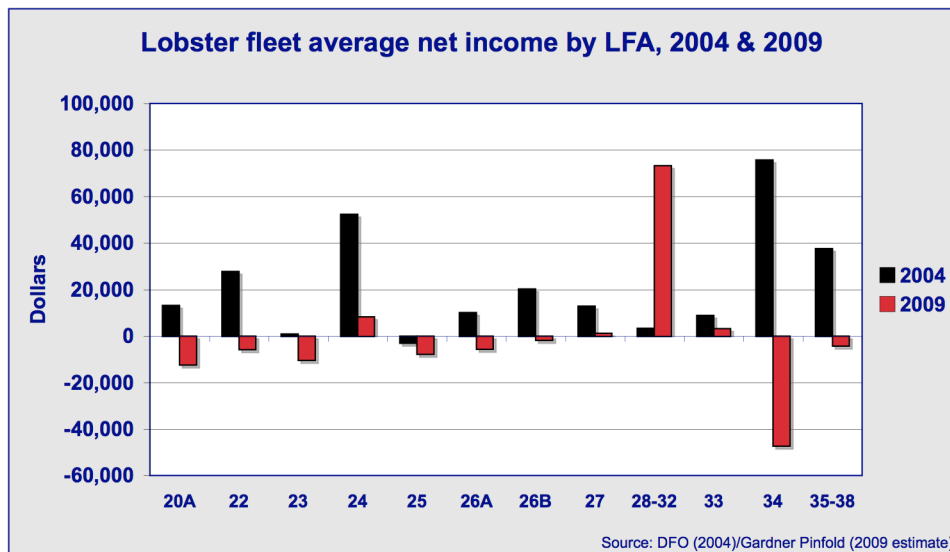
### 3.3 Economic considerations

#### 3.3.1 Harvesting

The market downturn has taken a financial toll on the harvesting sector. Landed value in the Atlantic lobster fishery dropped from \$684.2 million in 2005 to \$476.6 million in 2009. Almost \$210 million has disappeared from the gross income of the harvesting sector. Average prices in 2009 and 2010 were at levels last experienced in the early 1990s. But costs have increased substantially. At shore prices of \$3.50-4.50/lb for market lobsters and \$2.50-\$3.50/lb for canners, many harvesters are operating in a loss position.

To illustrate the severity of the problem, Fig. 3.9 provides a snapshot of how the financial position of the fleets in several LFAs has changed between 2004 and 2009. Net income declined in all areas with the exception of LFAs 28-32 (where reduced prices and higher costs were more than offset by a substantial increase in landings). It has turned absolutely negative in 10 of the 18 areas.

**Figure 3.9**



The 2004 data are drawn from a cost and earnings data conducted by DFO in that year. These data are updated to 2009 by adjusting costs according to changes in key inputs such as fuel, bait and maintenance. Revenues are based on actual 2009 landings data for each LFA, with net income computed using the same method as in 2004.

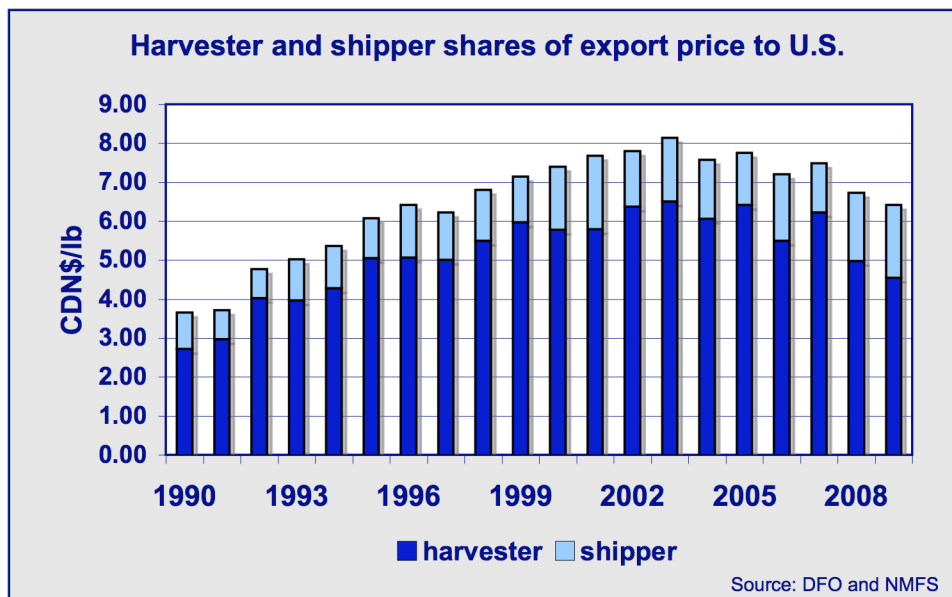
It goes without saying that operating in a position of negative net income is not sustainable. As revenues decline, it is the income of crew and skipper that offer the most significant opportunity to cut costs (crew costs range from 30-60% of operating expenses). But wages can only be cut so much before attracting capable crew becomes even more difficult than it already is in many coastal communities.

### 3.3.2 Shipping/processing

Financial performance is more difficult to quantify for shippers and processors because all but one of the companies is private and information similar to that compiled for harvesters is not available. Nonetheless, it is possible to draw some conclusions about relative performance from market data (Fig. 3.10).

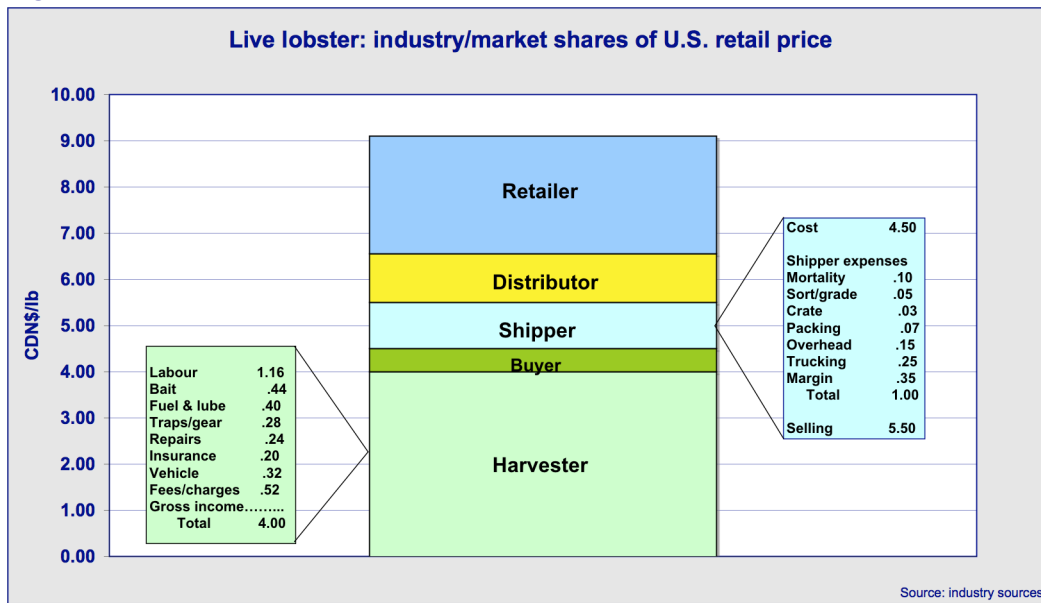
Export and shore price data going back almost 20 years reveals a fairly stable relationship between the harvesting and shipping sectors. Fig. 3.10 shows that shippers secure in the range of 20-25% of the export price (the price at which live lobster is sold to distributors in the U.S.), with the other 75-80% accruing to harvesters. The price spread averages \$1.60. *This difference covers the buyer's commission (in the range of \$0.65-0.75/lb), and shippers operating costs including holding, mortality, overheads, transportation and margin.*

**Figure 3.10**



A breakdown of shippers' costs based on industry interviews is provided in Fig. 3.11. It shows the shippers' contribution margin (revenue after expenses to cover fixed costs and profit) is typically in the order of \$0.35/lb, or about 7% of sales revenue. These figures are based on a shore price of \$4.00/lb and \$5.50/lb shipper selling price. By the time the lobster reaches the retailer, it is carrying a cost of about \$6.50/lb. Normal practice is for the retailer to try to achieve a 30-40% mark-up on most products, bringing the lobster to just over \$9.00. Often, lobster is used as a promotion item, so the average retail margin may be as low as 15-20%.

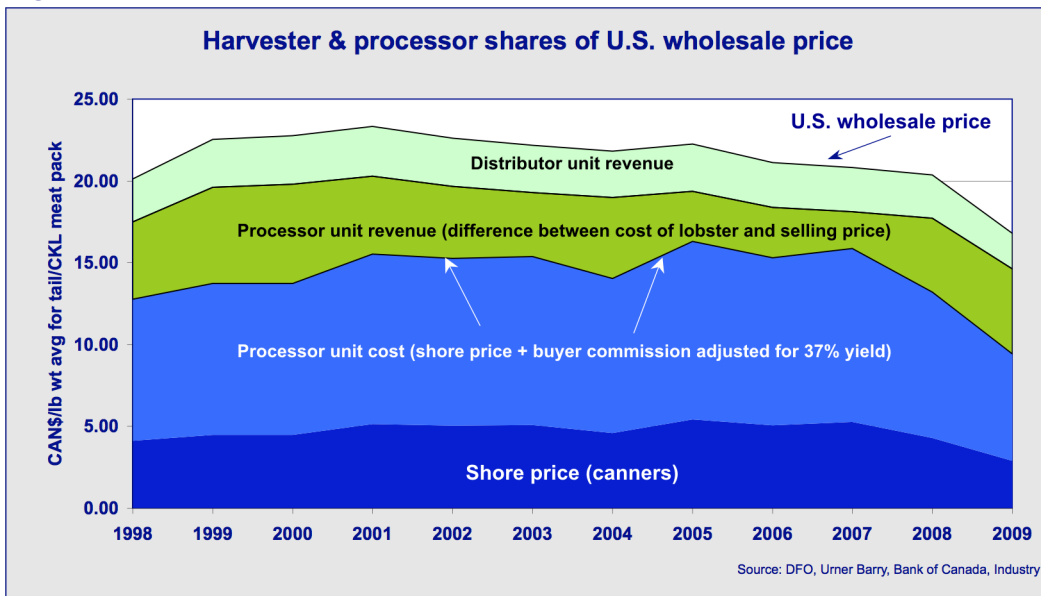
Figure 3.11



Developing a financial profile of the processing sector is complicated because processors are not buying and selling whole lobsters, but buying whole and selling various products, each with different yields and production costs, and selling for different prices. We simplify the analysis by focusing on the two main products that are produced jointly from each lobster: frozen tails and claw/knuckle/leg (CKL) meat. The typical product yield from a whole lobster is 37% (23% for the tail and 14% for the meat), though this varies depending on the quality of the lobster (meat content varies depending on where and when it is caught).

Fig. 3.12 provides a breakdown of the annual weighted average U.S. wholesale price for tails and CKL meat for the period 1998 to 2009.

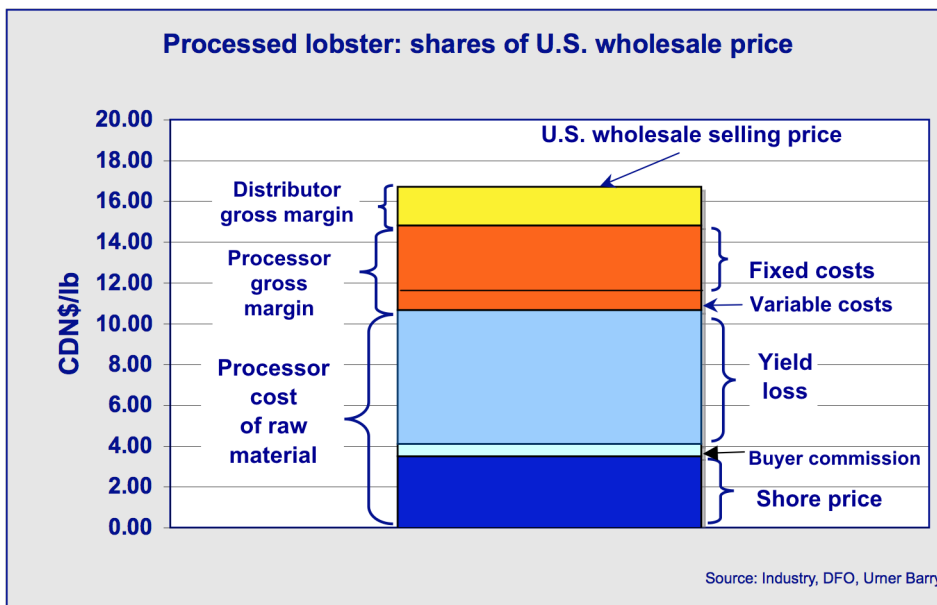
Figure 3.12



- ❑ **Harvesters** are paid the shore price, which ordinarily varies from year to year depending on final product selling prices and also on yield. Shore price had increased from the \$4.00/lb to the \$5.00/lb range (canners) from the late 1990s to 2001, and then held fairly steady until 2007 despite the negative exchange rate impact on product prices. The share of final product price climbed from 20% to 25% over the decade.
- ❑ **Processors** pay the shore price, though their cost of raw material must be adjusted for the shell weight they buy but discard. This yield adjustment (assumed at 37%) increases the cost of raw material by a factor of 2.7. The processor's unit revenue is based on the difference between this yield-adjusted cost and the selling price to distributors/brokers. The data indicate that processor unit revenues declined from 1998 to 2007 as the value of the U.S. dollar dropped, and appear to have recovered in the past two years.
- ❑ **Distributors** revenue is derived by adding a margin to the purchase price, which can vary from 8 to 20% depending on sales channel. Actual data on these margins is not available, so a charge of 15% is used to derive the distributor/broker share of final selling price.
- ❑ **U.S. wholesale price** is obtained from Umer Barry, a widely used industry price reporting service.

A breakdown of revenues and costs for processed product based on stakeholder interviews is provided in Fig. 3.13. This is based on 2008 data. It shows that the largest component of product cost is the cost of raw material adjusted for yield loss. This brings the average shore price of \$4.30/lb up to \$13.25/lb (including the buyer's commission). Processing adds \$4.50 to cost, including variable costs ranging from \$0.85 to \$1.05/lb and fixed costs and margin of about \$3.50/lb. Distribution costs and brokerage fees add another 15%, bringing the wholesale selling price to just over CDN \$20.00/lb (a weighted average for frozen tails and CKL meat).

**Figure 3.13**



### 3.4 Concluding observations

This overview leads to several observations about the state of the industry, specifically about the resource and fishery management; lobster supply and imports; and markets, prices and financial performance.

- ❑ Very little is known about lobster population dynamics and stock abundance. Exploitation rates in most areas are high relative to other species and fisheries. While there appears to be little cause for concern in most areas based on recent landings, the level of uncertainty about factors behind resource abundance and catch levels should be a matter of some concern to the industry and those who depend on it. The lobster fishery provides the economic cornerstone for many communities throughout Atlantic Canada.
- ❑ Fishing effort is increasing leading to higher exploitation rates, with an uncertain impact on lobster populations. Increasing effort is a natural economic consequence of competitive fishing in the context of limited annual supply of lobster of commercial size. Effort has undoubtedly intensified in response to declining prices, as harvesters try to maintain incomes and cover increasing costs.
- ❑ Lobster supply (landings) in Canada and the U.S. has increased by 25% since 2003. Ordinarily, this would be greeted positively because it would mean higher revenues. This was the case until 2006, but since then, prices in major markets have declined and landed value has dropped by \$210 million (30%). Part of this is due to the recession, but an important part is also explained by supply exceeding demand and the increased strength of the Canadian dollar.
- ❑ For harvesters, the impact is felt in reduced incomes and threats to enterprise viability. An analysis of fleet economics in several LFAs indicates that net incomes have not only declined in almost all areas, but have turned negative in most. The only real scope to cut costs is to reduce skipper/crew income. Attracting crews then becomes a challenge, and safety also becomes an issue as crew numbers are cut.
- ❑ Harvesters make the argument that they are the ones who have borne the full brunt of reduced prices; that shipper's margins changed little if at all. There is an element of truth in this, since the shore price dropped from about \$7.00/lb in January 2004 to \$4.00/lb in January 2010. But the more relevant point is that shippers' margins don't change much *because they can't*. The price data indicate that margins are about the same in a strong market as a weak one. In other words, competition sees to it that harvesters get the same 75-80% share of the wholesale price regardless of the state of the market.
- ❑ Similar consistency in share of wholesale price occurs with processed lobster, with harvesters securing 20-25% of the wholesale price. The lower share is attributable to the combination of yield loss (only 37% of the weight is sold) and higher processing costs.
- ❑ There are some macroeconomic signs that the worst of the recession is over, but if this is the case, there is limited evidence in the form of rising lobster prices. Prices through much of 2010 remain well below pre-recession levels.
- ❑ It remains an open question whether harvesters will see prices at pre-2006 levels again. In the face of the current and expected strength of the Canadian dollar, it will take a remarkable turnaround in markets for shore prices to return to these levels. This is not impossible, but concerted action on a range of marketability issues is needed: supply, quality, industry structure and competition, and marketing.

# 4

## **STRUCTURE AND COMPETITION**

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### **4.1 Overview**

Transactions between fishermen and buyers, buyers and shippers/processors, and between shippers/processors and distributors/wholesalers and customers form the key links in the chain of market operations required to move lobster from the trap to the plate. The ultimate aim for the Atlantic lobster industry is to satisfy consumer demand, and to do it efficiently and profitably.

It is at this stage of the value chain (consumers) where the product flow stops and the process of price formation starts. What consumers are willing to pay sets the market in motion. Prices are determined at each trade level as buyers and sellers try to maximize their profits given their market knowledge and prevailing demand and supply conditions. The final result from the consumer's perspective is that demand is met with a supply of lobster products at competitive prices in various market segments.

But this process does not always work smoothly; there can be problems at every stage. Sometimes quality is not as high as it should be because harvesters fail to handle lobster properly on vessels, or because they hold lobster for too long in inadequate facilities. Early season gluts make it difficult for processors to handle all the raw material that comes ashore, resulting in less than optimal product choices and the potential for quality deterioration. Shippers in the live trade are unable to provide a satisfactory level of certainty or stability with respect to price, quantity and quality that customers expect. With more at risk, retailers and restaurants either refuse to carry lobster or pay less for it.

It is the bundle of structural and competitive issues that lie at the heart of what we refer to in this report as poor "marketability". Marketability does not refer to the inherent quality of Atlantic lobster, it is generally excellent, but rather how the industry handles the supply side of the market and the challenges this creates for customers.

This chapter examines the structure of the Atlantic lobster industry, and its effectiveness in responding to market demand. Industry structure and the factors that shape it play a major role in determining how participants compete and how prices are set on the shore and in product markets. Pricing represents an area of considerable controversy, and weakness, for the industry. This chapter explores why this is the case and how it limits the ability of the industry to thrive in export markets.



## 4.2 Pricing issues

### 4.2.1 *Harvesters believe shippers/processors control shore prices*

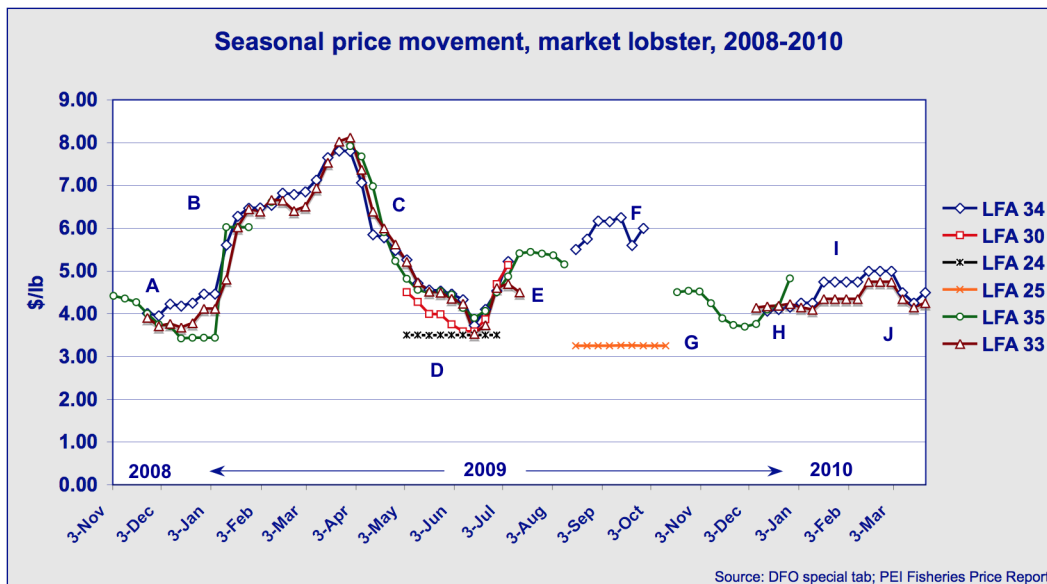
A constant refrain heard during consultations is that mistrust lies at the heart of many of the industry's problems. Harvesters don't believe what shippers and processors tell them about the state of markets. And certainly markets change abruptly enough to make liars out of most people. But at the core of the mistrust is the widespread belief that shippers and processors collude to control shore prices; how else to explain some of the apparent price anomalies that have occurred over the years.

This report is unlikely to change any of these firmly held beliefs, but we can offer the observation that if there were attempts to fix prices, the colluding parties are clearly inept. This is not to say that there is not a commercial interest among buyers in keeping input prices low; this occurs in all industries. But one look at Fig. 3.8 (the relationship between U.S. wholesale prices and shore prices in Nova Scotia) should at least raise some doubts about the likelihood of price control among shippers. Indeed, if there were any control, it would appear to be in the hands of harvesters. The shore price rarely strays more than 20-25% from the U.S. wholesale price.

Yet, two recent shore price "events" have given harvesters fresh ammunition in the price control debate. They bear examination because they illustrate why harvesters are mistrustful. The first has less to do with price control, as such, than what they see as deliberate misinformation about markets.

The first event concerns price developments in southwest Nova Scotia over the 2008-2010 period following the onset of the recession. Fig. 4.1 shows seasonal price movements starting with the fall fishery in 2008 and running to the spring of 2010.

**Figure 4.1**



Taking each of the key points in turn:

- A.** The economic downturn in the Fall of 2008 causes shore prices to drop with the fear that prices would drop farther in early 2009. Weak markets and high catches kept shore prices down in the \$3.70-4.25/lb range through mid-December.
- B.** Bad weather resulted in limited fishing after December 15. Shore prices rose sharply in early January after strong holiday demand cleared inventories. Few harvesters held catches believing that prices would drop.
- C.** Prices dropped as they typically do from the peak April level as markets cleared inventories in preparation for the Spring season supply from the Gulf.
- D.** Shore prices drop to annual low levels as supply from the Gulf, eastern and southwestern Nova Scotia peaks.
- E.** Prices begin to rise as southwestern Nova Scotia season closes and supply from Gulf slows.
- F.** DFO reports small sales (1,000-2,000 lb) from holdings in southwestern Nova Scotia.
- G.** Prices at or near seasonal low points as Maine fishery hits its peak. Prices also reflect quality from Fall fishery in Gulf.
- H.** Low prices in LFAs 33/34 reflect poor market conditions. Harvesters, not to be caught out again, hold catches in anticipation of higher winter prices as in 2008/09.
- I.** High Jan-Feb prices fail to materialize due to poor markets. Substantial supply of held lobster goes unsold and quality deteriorates. Many harvesters lose money.
- J.** Price drops in March as supply exceeds demand (high inventories and good supply of new catches). Harvester held lobster is dumped at a loss, if it can be sold at all.

The second event concerns a price increase at the beginning of June 2010, just *after* the season closed in southwest Nova Scotia. This angered harvesters there because of the timing. The price does usually rise in summer, but not until July after the Spring fishery (May-June) in the Gulf has ended (see July 2009 in Fig. 4.1). There was no pricing conspiracy. The timing in 2010 was attributable to two factors: first, landings in the Gulf peaked in early May due to warmer water, resulting in weak landings in June; and second, two major buyers appear to have begun to compete for boats in Cape Breton by raising the shore price, resulting in matching prices in all LFAs open at the time. This shore price increase succeeded in pushing up the market price.

#### ***4.2.2 Shore price model provides a solid foundation for instability***

Prices determined through the interplay of supply and demand serve important functions in most industries. One of these functions is to serve as a signal that markets are out of balance: rising prices are a signal to producers that more supply is needed; falling prices, a signal that markets are oversupplied. Another function is to serve as a mechanism for distinguishing and rewarding differences in quality.

The pricing model operating in port markets in the Atlantic fisheries fails more or less completely at both functions.

- ❑ **Supply.** The supply failure operates at two levels: industry-wide and for individual enterprises. The industry-wide failure is characterized by aggressive fishing regardless of the price level. Whether at the top of the market in 2005 (markets: \$6.50/lb; canners: \$5.50/lb) or at the bottom in 2009/2010 (markets: \$3.75/lb; canners: \$2.75/lb), when the season starts everyone goes fishing and fishes hard to maximize their share of the finite supply. Indeed, fishing may be more aggressive when prices are low to try to maintain income. These are all rational decisions at the individual level, but industry-wide they makes little sense because they simply serve to oversupply an already weak market and drive prices lower. These low shore prices also send a signal to distributors and customers about how low things can go and still result in complete participation. How long this can continue is another matter.

The industry-wide failure is also characterized by the inability of shippers and processors to use price to moderate the rate or level of supply during the season. Such moderation would allow better balance of supply with holding or processing capacity. But any attempt by some shippers or processors to use price as a signal, i.e., to drop the price to slow the rate of supply, would simply cause vessels to turn elsewhere. And they would be welcomed because the industry is volume driven (largely because the level of capacity needed to meet seasonal peaks). Thus, pricing reinforces the need for excess capacity to meet sharp seasonal peaks. The inability to moderate supply also results in gluts at certain times, creating the risk of poor quality and making it difficult to plan production.

The shore price model fails individual enterprises because it effectively forces them to take all the supply that is offered at the prevailing price regardless of their requirements or specific market opportunities. In other industries a company may cut back operations for periods when conditions are unprofitable. Such action is not seen as possible by shippers and processors because the risk of losing boats to competitors is too great. They must match prices regardless of their particular circumstances. This, of course, creates price instability, making it difficult to enter into long-term arrangements. It also precludes some potential customers from handling lobster because the risks are too great.

- ❑ **Quality.** Shippers and processors pay a single average price for lobster regardless of its size distribution or quality. These are largely unknown at the time the transaction takes place (though there would be some history related to time and location of catch). This leaves shippers and processors with the risks associated with poor quality and mortality, and also with the market risk of guessing the right price when sales may be some weeks or months in the future. No quality-based pricing mechanism has evolved, in part, because it would be undermined by volume buying and the risk of losing the boat (someone else would pay the going price, regardless of quality), and in part, by industry inertia.

#### ***4.2.3 Industry gives too much away through poor marketability***

All these factors impair the marketability of the product. They make it difficult for shippers and processors to provide customers what they are looking for: some predictability and stability with respect to supply, price and quality. This is not too much to ask. Failing to provide it means lost opportunity and foregone revenue.

Poor marketability goes beyond the product and also includes how the industry does business. The image of Canadian shippers and processors held by many customers is one of desperation and lack of confidence. This is reflected by the willingness of companies to devalue the product by engaging in price-cutting in order to secure sales. Customers know this, and with their size and market power, are able to play companies off against each other to force down prices. In addition to the damage this causes the industry in an immediate financial sense, it also creates fundamental challenges for those companies wishing to engage in any kind of market development. Market development takes time and substantial resources. It represents a major investment. That few companies are prepared to make this investment should not be surprising given the ease with which other Canadian suppliers can undermine the initiatives.

But without such investment, it is difficult to see how the market for lobster is going to be developed. It is only with such investment that the demand needed to increase value will be created. This calls for a more disciplined industry, prepared to operate with greater confidence and in a more coordinated fashion.

## **4.3 Structure and competitive behaviour**

### **4.3.1 Number and size of enterprises**

#### **Harvesting**

The Atlantic lobster fishery consists of 9,900 licence-holders, virtually all of whom are active. None of them controls a sufficient share of the catch to be able to influence price. Some areas have larger and more productive grounds than others and this results in wide differences in landings by LFA, and within LFAs. Also, some harvesters catch more than others because they are more skilled, have better boats and gear, fish more productive grounds, or simply work harder. But despite these differences, within defined LFAs, landings tend to be distributed fairly evenly among harvesters.\*

Most harvesters act individually when selling lobster, negotiating directly with buyers. Some act cooperatively, but the numbers are relatively small. Paradoxically, though, through their communication networks harvesters effectively act in concert (informally) to drive the shore price uniformly to the highest level possible. Buyers are obligated to pay the prevailing shore price or risk losing the vessel's supply *for the season* to a competing buyer. In short, despite their large numbers, the competitive balance tends to favour harvesters (sellers) because of strong demand and finite supply over a given season. This is particularly true where seasons are short, thereby establishing a high penalty for not buying aggressively.

#### **Buying**

Shippers and processors increasingly are distancing themselves from buying directly from vessels using their own agents, preferring to let independent buyers handle this end of the business. Buyers range from individuals operating in a single port and buying from a few vessels, to ones operating in several ports and in more than one province buying from hundreds of vessels. The hundreds of buyers active in Atlantic Canada indicates low concentration, and consequently should result in a limited ability on the part of any individual buyer to influence price. But this is not the case.

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\* An analysis conducted as part of this study confirms a relatively even distribution. At the high end, the top 10% of vessels in each LFA accounts for no more than 20% of landings. At the low end, the bottom 10 of vessels account for no less than 5%.

Buyers work on a commission basis, receiving \$0.50-0.75/lb from shippers and processors. The more they buy, the more they earn. They are driven by volume, not market conditions. To gain volume, it is common for a buyer to use part of the commission to increase the price. Others are forced to follow suit or risk losing vessels. Such “price skirmishes” are common; they generally result in little or no change in the distribution of the supply because others, including shippers and processors buying directly, are quick to match. This drives up prices for all to the benefit of harvesters. Shippers and processors complain because such price increases often bear no relationship to what may be going on in the market, thereby either causing their margins to narrow or forcing them to try to pass the higher prices on to customers. This is a source of instability, particularly in the live lobster trade.

## Shipping/Processing

Hundreds of shippers of live lobster operate in Atlantic Canada, ranging from occasional players handling several thousand pounds to a few companies with millions of dollars invested in holding capacity and handling several million pounds. All pay the same price for lobster, but have very different cost structures and price expectations. In total, the industry ships 60-70 million pounds of live lobster annually. They hold and ship in response to market conditions.

Twenty-five to thirty companies process lobster in Atlantic Canada, 12-13 in New Brunswick, 7-8 in Prince Edward Island, 3-4 in Québec and 2-3 in Nova Scotia. About half operate independently, while others operate through marketing organizations. In total, the industry handles over 40 million pounds of lobster (live weight), including 15 million pounds imported from Maine. Most process in the range of 1-3 million pounds annually. No single company would process more than 10-15% of the total. Processors would ordinarily hold product in storage facilities in major market areas to facilitate distribution.

In light of these figures, the shipping/processing sectors are characterized by low concentration.\*

## Distribution

The Atlantic lobster industry relies heavily on importers, distributors, wholesalers, brokers and traders carry out the distribution of lobster to and within market areas. The distinction among these types of dealers is blurred; some are specialized, but many also carry out all these functions. They are the intermediaries in the industry, whose livelihood depends on their knowledge of sources of supply and demand. Their role in the value chain is to acquire product or arrange transactions and move product efficiently from shipper/processor to retailers and food service firms. They react to market demand by securing and supplying the products their customers want.

Importers and distributors buy directly from Canadian shippers and processors. Some American distributors of live lobster have also set up in Canada and buy directly from harvesters and buyers. Distributors hold lobster in pounds or tank systems and truck or airfreight to regional distribution centres. Wholesalers purchase product from shippers/processors or distributors, and hold it for resale to retailers and food service companies. Brokers are selling agents for shippers and processors who are paid a commission (2-3%) to arrange sales. Traders are essentially

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\* The number and relative size of buyers and sellers provide an indication of market power and reflect the degree of competitiveness in an industry. Economists usually measure market power in terms of industry concentration: if the four largest companies control 60-65% of sales or purchases the industry is considered to have high concentration in the sense that these companies are able to exert influence over market price.

opportunists who enter the market when possibilities for short-term profit present themselves. Several hundred distributors in the United States carry Atlantic lobster in live or processed form. While no reliable information is available on the quantities of lobster each buys and sells, industry sources in Canada indicate that the distribution business has become increasingly concentrated both for live and frozen product. This means the many relatively small Atlantic shippers and processors encounter large organizations with considerable market power and ability to affect prices.

## **Retail and food service**

Concentration is also increasing at the food service and retail levels of the value chain. Food service consists of three main segments: restaurants (white table cloth and mid-range), casinos and cruise lines. Within the restaurant segment, while several thousand independents in major markets offer lobster, specialized restaurant chains are occupying an increasing share of the seafood market. These include Red Lobster (with 680 restaurants, the largest buyer of frozen tails and lobster meat), McCormick & Schmick's and Legal Seafoods.

Supermarket chains represent the main outlet for live (and increasingly, cooked) lobster sales within the retail segment. Concentration in this segment is also increasing, giving chains greater power to dictate terms and conditions, including price. In Canada, two companies (with their affiliates) dominate the retail industry: Loblaws and Sobeys. In the U.S., the major chains are Wal-Mart, Kroger, Albertsons, Ahold and Safeway. In the EU, Carrefour, Ahold, Metro and Tesco dominate. Specialty seafood stores number in the thousands.

### **4.3.2 Buyer-seller relationships**

#### **Harvester – Buyer**

Harvesters and lobster buyers are formally independent. The tradition of informal relationships linked to service, supply and credit arrangements has largely disappeared, with price now being the main or exclusive factor in determining who sells to whom. The arrangement may be described as one of mutual dependence. Harvesters in most areas do not own and operate lobster holding facilities (though where conditions allow, they may float their catches in “cars” in an effort to secure higher prices), and do not have a ready means of marketing their catch. Most depend on buyers.

Buyers do not own fishing vessels (unless they are harvesters first and buy as a sideline) and do not have a secure supply of lobster. They depend on harvesters. Buyers agree to take *all* lobster from “their” harvesters at the prevailing shore price. Failure to meet competitors’ prices means losing the boat for the season.

#### **Buyer – Shipper/Processor**

The image of the buyer as a small operator carrying out a modest intermediary function is no longer valid. Though many buyers continue to operate in the traditional mode (aggregating supply on behalf of others), the buying function has evolved from a simple agency relationship with a given shipper/ processor, to a distinct stage in the value chain where larger independent or quasi-independent buyers take actual ownership of the raw material.



Buyers may have a nominal relationship with a specific shipper/processor, but they are not above offering the lobster to the highest bidder where market conditions (or shipper/processor desperation) appear to support a higher price. The point is that the larger buyers have some price setting ability in that they are able to extract higher prices from shippers/processors by playing one off against another at certain times in the market cycle.

### **Shipper/Processor – Distributor**

A handful of larger Atlantic Canadian shippers and processors have a presence in key markets and carry out the distribution function. They are the exception. Most companies exporting to the U.S., EU or Asia use independent importers and distributors. Though transactions are at arms length, there is a need to develop good working arrangements (quality, delivery, payment, etc.), so relationships between shippers/processors and distributors tend to be fairly stable.

### **Distributor – Retail/Food Service**

Seafood distribution and the Retail/Food Service segments of the industry operate at arms length, with the relationship based on price and service.

## **4.3.3 Entry and exit**

### **Harvesting**

Limited entry licensing was implemented in the lobster fishery in the late 1960s. This was partly a conservation measure aimed at limiting the expansion of fishing effort, and partly an economic measure to ensure fishermen were able to earn adequate incomes. While no additional vessels may enter the fishery, licence transfers are permitted and the entry of new fishermen is possible for those who can afford the licence. The cost (varying from tens to hundreds of thousands of dollars depending on area) may represent a barrier to entry for many. But this is of academic interest from a price competition standpoint because it is limitation on the *number* of licences that represents the barrier.

### **Buying**

Depending on the province, individuals or firms wishing to become lobster buyers may have to meet certain criteria before they are eligible to obtain a licence. Where eligibility criteria exist, they include investment in lobster holding facilities to a specified standard or affiliation with a licenced processing plant. While it is too early to tell what effect these restrictions are having on buyer numbers, the restrictions do not appear to be limiting competition for raw material in any meaningful way.

### **Shipping/Processing**

Shippers require a licence in each province and their facilities must meet specified standards. In practice, this is less a barrier to entry than a discouragement, since the requirement is nothing more than the minimum an enterprise would need in order to carry out the business at a modest level.

Processors also require a licence in each province. They must satisfy minimum standards with respect to facilities in each case, and in Newfoundland and Labrador and Prince Edward Island they must also make the case that additional facilities are justified from a raw material supply perspective. This requirement is put in place to avoid an imbalance in supply and demand resulting in excessive price competition for raw material.

## **Distribution**

Lobster distribution is a high volume, low margin business dominated by just a handful of companies in the major markets. Entry is not formally restricted, but achieving the scale to compete effectively represents the main barrier to entry. Achieving scale requires development of sales channels and reliable sources of supply, as well as investments in or leasing of holding or cold storage facilities.

## **Retail/Food Service**

For restaurants and retail stores the availability of space and investment in holding tanks are the main barriers to entering the live lobster trade (assuming there were local distributors). Other key factors influencing the decision to sell live lobster is price stability and year-round availability. Shippers and distributors indicate these factors represent significant obstacles to market development. The barriers are less significant with frozen product, since holding is more straightforward. The barrier is not so much the cost of entering the business, but rather, the cost of dedicating space to high-priced frozen lobster products that do not generate a sufficient margins or volume of business.

## **4.4 Price Formation**

### **4.4.1 Overview**

Transactions involving the exchange of lobster products for a price occur at each stage of the value chain. What that price is depends on the forces of supply and demand. The quantity and quality of what is supplied in relation to what is demanded are key factors in price formation. But so are the relative market strength of the sellers and buyers, and the substitute products buyers may have available.

Industry structure conforms to the characteristics of a competitive market, at least at the production end of the value chain. The number and relative size of harvesters, buyers, shippers and processors effectively rule out the possibility of maintaining prices that the broader market does not support. Given the number of competitors and the accessibility of market information, any artificially low or high prices would soon attract competition and drive prices to an equilibrium level.

Market power, the ability to exert influence over prices, becomes more of a concern as we move up the value chain to the distribution and consumption (retail and restaurant) levels. The largest of the companies in these segments each accounts for a substantial share of demand, and can use this power to extract price concessions from suppliers. Many shippers and processors in Atlantic Canada are notorious for playing into the hands of these large customers by undercutting each other to gain sales.



Simplified pictures of the price formation process for live and processed lobster are contained in Figures 4.2 and 4.3. Product flows up from trap to table, while revenue flows down from table to trap. Demand and supply at the retail or restaurant level establish the market price at the point of final consumption. This is what consumers are willing to pay, given the consumption options open to them. This price is communicated to distributors, and in turn to shippers and processors in Atlantic Canada. Competition among shippers to satisfy wholesale demand establishes prices at this level. Shippers reflect this price to buyers who in turn express it at the various ports and landing sites along the Atlantic Coast. Shore prices are established by the interactions between harvesters and buyers.

#### **4.4.2 Harvester-buyer**

##### **Live market**

The process of price formation tends to be a ritualized affair, with initial low offers from buyers rejected by fishermen until a satisfactory price is reached 7-10 days into the season. The time needed to arrive at a satisfactory price varies by LFA (in particular, whether it is possible for fishermen to hold lobster), depending on market conditions and the point in the year the season opens. Harvesters play the market trying to extract higher prices from buyers, and buyers play the market offering gradually higher prices to harvesters while trying to extract higher prices from shippers. Bluff, deception, fear and greed tend to be the main price drivers early in the season.

The fishery in southwest Nova Scotia is crucial from a price-setting perspective because of the influence it has on the general price level in other areas later in the season. The fishery opens at the end of November. Fishing effort is high because demand is strong leading up to the Christmas and New Year holidays. Initial offers from buyers are typically rejected. Some lobster is sold at prices to be determined. But many harvesters withhold supplies (in poor conditions in many cases) in anticipation of higher prices. Prices rise as mid-December air shipment and trucking deadlines approach. The risks for fishermen are shrinkage or holding out too long. The risks for shippers are missed opportunities or paying too much.

Prices tend to rise during the winter months (January-April). Demand tends to run ahead of supply, with inventories (from shippers' holding facilities) making up the difference. Prices typically drop in late March-early April, as demand declines and in anticipation of the opening of the seasons in the Gulf and other areas. Total supply in spring exceeds demand, causing shore prices to drop. Much of the supply during this period goes into holding facilities to be held until seasonal demand drives prices up in July and August (see Fig. 3.3 for seasonal price movement).

Figure 4.2

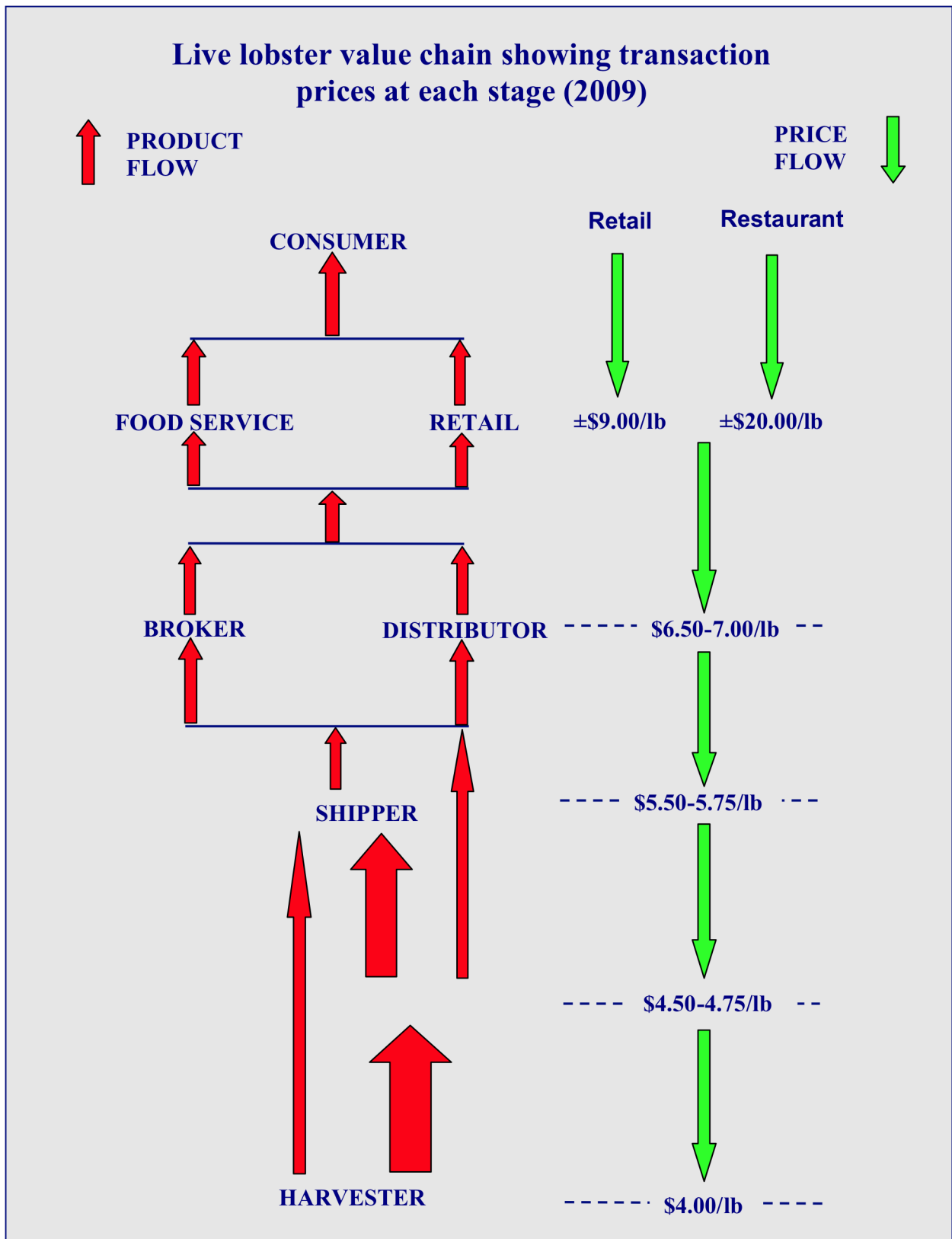
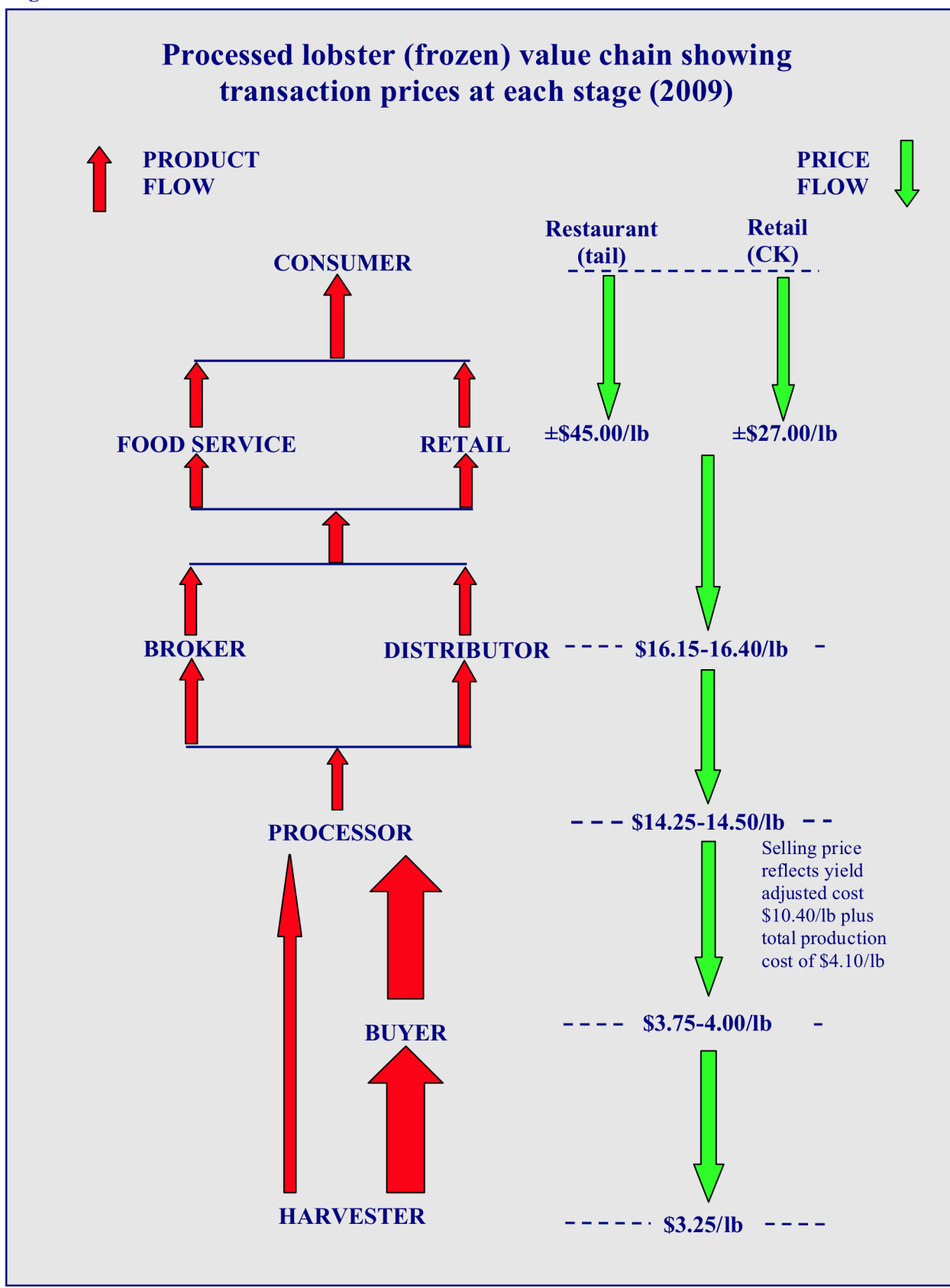


Figure 4.3



## **Processed market**

Markets for processed lobster products tend to be relatively stable through the year, and this is reflected in shore prices in the Gulf, the source for most of the raw material for processing. There is sufficient information generally available about product markets (including wholesale prices and inventory levels) to reduce the scope for either buyers or fishermen to expect (or receive) prices that are out of line with competitive conditions. Prices for so-called “canner” lobster (ones too small for the live market) tend to run \$0.50-0.75/lb below prices for “markets”. The gap had consistently exceeded \$1.00/lb in the early 2000s, but a combination of increased demand for processed product and reduced supply of canners (as larger minimum sizes were introduced) caused the gap to narrow as prices rose in absolute and relative terms.

### **4.4.3 Buyer-shipper/processor**

Many buyers operate independently, not simply adding their commission to shipper/processor prices, but from time to time using their market position to try to influence the shore price. Some of the larger buyers are known to try to increase their volume by using part of the commission to bid up the shore price. All buyers, including those shippers/processors buying directly from harvesters, feel compelled to respond even if the higher shore price is not justified by their reading of market conditions. If they don’t match, they risk losing supply. This is a risk they cannot afford to take in a supply-driven industry. Buyers operate on commissions of \$0.50-0.75/lb.

### **4.4.4 Shipper/processor-distributor**

Canadian shippers are supply driven. They buy lobster when it is abundant and relatively cheap, and hold it in the hope of selling it at higher prices when demand is higher and supplies are lower. Much of the December harvest is held and sold during the winter in the run-up to the spring fishery in the Gulf. Some of the May-July harvest is held through July. The net margins earned by Canadian shippers tends to be low (\$0.25-0.50/lb), a reflection of the limited value added in moving lobster to the Boston market and the costs of building and operating holding facilities (including mortality losses).

A typical discussion between shippers of live lobster in Atlantic Canada and distributor or wholesalers centres mainly, if not exclusively, on price. Many processors with substantial investments in holding and distribution capacity note that the live market is chaotic and unstable for all parties because the emphasis on price sends shippers in a race to the bottom in search of sales. Distributors know and exploit this vulnerability. A major implication of the supply and price instability is the inability of the ultimate customer to plan sales programs. This provides a limited basis upon which to build value.

Conditions tend to be more stable in the processed segment because the product allows good year-round storage without deterioration. Processors are able to enter into longer-term arrangements (3-4 months) providing distributors and their customers with a basis to plan their sales programs and menus. Despite the potential scope for more stable arrangements, many processors are confronted with the challenge of making product decisions under glut conditions and face cash flow constraints because they have paid too much in the quest for volume. This sets up conditions for distress selling, resulting in price-cutting and undermining product value.

#### **4.4.5 Distributor-retail/food service**

The underlying principle for companies involved in distribution is no different from that which applies to each stage of the value chain: charge what the market will bear. Demand follows a fairly predictable pattern in most markets, with supply managed through storage. Nonetheless, unusually large or small catches can cause prices to spike or tumble at certain times of year. Consequently selling prices for live product are generally held for short periods. Canadian shippers will release supply at a rate that tries to keep prices as stable as possible. But as Fig. 3.8 shows, maintaining stable prices is no easy task when trying to balance natural and market forces.

The arrangements between distributors and retail/food service customers tends to be more stable with processed product than the live trade because there is greater certainty about supply and cost. Prices tend to be locked in for only a few months at a time. Neither buyers nor sellers want to run the risk of excessive exposure to a shift in supply conditions and price shifts.

#### **4.4.6 Retail-consumer**

Retail marketing of most products is based on stable pricing. This is particularly true of food, whether sold in restaurants or grocery stores. For supermarkets, lobster prices could change substantially in the time it takes to prepare advertising and promotional sales. Prices for live sales are typically set at 30-40% above distributors' prices in order to cover holding costs and mortality, and also because this is what supermarkets aim for with all their food items. Items not realizing this margin would ordinarily be dropped since the space taken up by lobster is space that could be devoted to other products. In many cases, lobster is used as promotional item, often as a loss leader.

For restaurants, instability makes it difficult to plan menus. Many restaurants offering live lobster do so at prices "subject to market conditions", while others show the price. Restaurants typically mark-up food items by 300-400% (a live lobster bought for \$7.00/lb wholesale, would have to sell for between \$21.00 and 28.00/lb). Restaurants offering menu items based on frozen lobster tails would show fixed prices. For example, Red Lobster, the largest seafood chain in the U.S. currently sells a seafood plate for \$28.50. This includes a lobster tail, as well as a few crab legs and a few shrimp. The food costs would come to no more than \$9.00.

Distributors know when setting prices that restaurants are the main outlets for lobster. To try to push prices beyond levels consumers are willing to pay would be self-defeating. If the restaurant margin were narrowed unacceptably due to high wholesale prices, restaurants would react by taking lobster off the menu until prices come down. This may be difficult for a restaurant with lobster in its name, but Red Lobster has become such a dominant force in the lobster market that it is able to exercise considerable control over its input costs.

## 4.5 Concluding observations

This look at the supply side of the lobster industry leads to several observations about the weakness of the Atlantic industry at the harvester-shipper/processor level, and how this affects the industry's ability to meet market needs and extract maximum value from the product.

- ❑ The harvesting and shipping/processing sectors do not work in collaboration to maximize the value of the resource, but compete to maximize their respective shares of export revenues. The relationship is characterized by a lack of trust by harvesters and the widespread belief that shippers and processors collude to fix prices. The strained relationship undermines the ability of the industry to function effectively in product markets because of the unpredictability and instability of prices.
- ❑ The shore price model in the Atlantic lobster fishery provides a foundation for instability. Shore prices are set competitively in response to volume buying by shippers and processors. Price levels are sensitive to general market conditions, but the signal they send fails to influence either quantity or quality. In other words, as much comes out of the water at low prices as high prices. Also, price has no influence over quality because it is impossible for buyers to set prices that differentiate on the basis of quality.
- ❑ The Atlantic lobster industry gives too much away through poor marketability. Poor marketability goes beyond the product and also includes how the industry does business. The image of Canadian shippers and processors held by many customers is one of desperation and lack of confidence. This is reflected by the willingness of companies to devalue the product by engaging in price-cutting in order to secure sales. There is a Wal-Mart mentality "We sell for less". Customers know this, and with their size and market power, are able to play companies off against each other to force down prices.
- ❑ Price-cutting creates fundamental challenges for those companies wishing to engage in any kind of market development. Market development takes time and substantial resources. It represents a major investment. That few companies are prepared to make this investment should not be surprising given the ease with which other Canadian suppliers can undermine the initiatives.
- ❑ The marketing strategy proposed in this report can only be implemented effectively by an industry that is more cohesive and more convinced of the value of its products; an industry that is prepared to enter the market from a position of strength, rather the historically weak and fragmented approach.

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## **LONG TERM VALUE STRATEGY**

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### **5.1 Context for change**

#### **5.1.1 Overview**

A comprehensive examination of the lobster industry has identified that both marketing and marketability gaps are influencing the ability of the industry to create and extract more value from markets. Figure 5.1 illustrates that the four key components driving the attainment of long-term value in the industry must be integrated into a strategic framework. This framework, at the centre of the diagram, combines both marketability (2) and marketing (3) strategies to be implemented by key groups (4) within and outside the industry to leverage strengths, mitigate weaknesses, attain potential opportunities and eliminate both current and potential barriers (1).

This section of the report sets out the process for building long term value for the Canadian lobster industry. For clarity, the process should be viewed as a race with a clear start and finish line. Preparation is required before heading to the starting line, and effective and efficient action is required to ‘place’ at the finish. The race is a marathon and not a sprint, therefore a realistic expectation of the effort is an important first step.

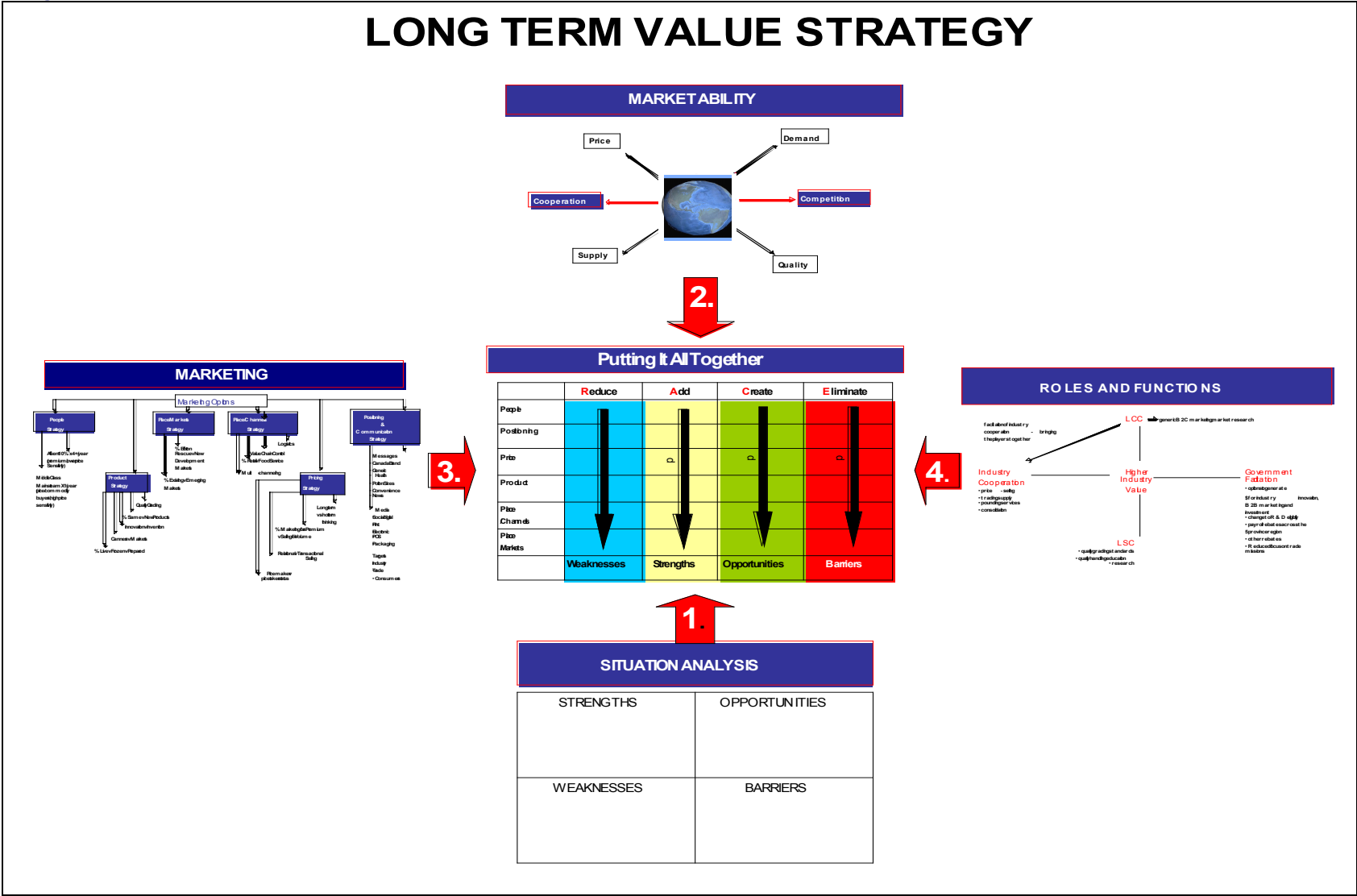
The four strategic components of the integrated long term value strategy:

- 1. Situation Analysis** – The situation analysis is the current and potential ‘state of the nation’ for the industry, which identifies what’s working and what’s not working, what’s real, probable and possible. In the race analogy, the four defining categories of the situation analysis represent the starting line, based on the current realities in the industry (strengths and weaknesses), the barriers along the track and the finish line based on the opportunities that the industry chooses to pursue. This section draws on the Part One analysis and summarizes the situation in the Canadian lobster industry as a result of extensive primary and secondary research on the industry.
- 2. Marketability** – Marketability actions are *inward-focused* on the industry. They address current lobster industry practices that contribute to the “race to the bottom” and the changes needed to extract more value for lobster. While many factors lie outside the control of the industry, certain key functions can be carried out more effectively to enhance industry marketability. The marketability section highlights the six defining dynamics influencing sustainable value in the industry. These dynamics are most effective when working in synchronization with one another. Supply and demand, price and quality, demand and price, quality and supply, competition and cooperation. The strategic options that will assist in balancing these industry dynamics are outlined. Their purpose is to help the industry improve its marketability by taking the actions that will build on its strengths, minimize its weaknesses, overcome its barriers and attain its opportunities.



- 3. Marketing** – Marketing actions are *outward-focused* on the market to address how to market lobster to create higher demand for Canadian lobster and higher price points. Currently the Canadian industry is on the bottom rung of the marketing ladder, stuck between a production focus (sell whatever you have any way you can) and a selling focus where volume sales are the measure of success and margins are sacrificed. The selling focus is a commodity focus. Raising the level of Canadian lobster marketing is a necessary requirement for increasing price and demand. The 6Ps of marketing represent the six defining levers that will influence sustainable value in the industry. As with the six marketability dynamics, all six marketing levers must also work in synchronization. When one lever is “pulled” it has an effect on all the other levers. The marketing section presents a strategic framework focusing on how each of the 6 Ps contributes to building greater value for the industry.
- 4. Roles and Functions** – Although the direct functionaries of the lobster industry, the harvesters, buyers, processors and shippers are the focus of value creation in general and the marketability actions in particular, the implementation of the integrated long term value strategy can not be executed by the industry alone. Strategy implementation requires action by both the direct and indirect participants in the industry. The indirect participants include government whose role is to facilitate, the Lobster Council of Canada, whose role is to integrate the moving parts: industry, government, customers and consumers, and the Lobster Science Centre, whose role is to provide technical support to the industry to strengthen its ability to compete. This section addresses the key functions of each group.

Figure 5.1



### 5.1.2 Situation analysis

The strengths and weaknesses defining the Canadian lobster industry, and the opportunities and barriers relevant to making changes and building greater value for the industry are profiled in Table 5.1 using the key categories that summarize each group of descriptors. This provides an at-a-glance overview of the situation in which the industry finds itself.

**Table 5.1**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>▪ Strong resource – world’s largest supplier</li> <li>▪ Basis for effective regulatory environment</li> <li>▪ Central global location</li> <li>▪ Alternative transportation options</li> <li>▪ Scientific and technical support</li> <li>▪ Innovation initiative</li> <li>▪ Lobster still appeals</li> </ul>	<ul style="list-style-type: none"> <li>▪ Industry structure &amp; competition</li> <li>▪ Product handling practices</li> <li>▪ Pricing practices</li> <li>▪ Positioning void</li> <li>▪ Consumers targeted by default vs. decision</li> <li>▪ General industry issues indicate insufficient basis for value creation</li> <li>▪ Industry contributes to value erosion</li> <li>▪ Erosion of existing markets</li> </ul>
<b>Opportunities</b>	<b>Barriers/Threats</b>
<ul style="list-style-type: none"> <li>▪ Competitive/industry development</li> <li>▪ Channel development</li> <li>▪ Brand development</li> <li>▪ Generic marketing and message development</li> <li>▪ Consumer target market development</li> <li>▪ Geographic market development</li> <li>▪ New product development</li> </ul>	<ul style="list-style-type: none"> <li>▪ Uncertain economy</li> <li>▪ Unplanned positioning</li> <li>▪ Declining Canadian competitiveness</li> <li>▪ Strong competition</li> <li>▪ Weakening export demand</li> <li>▪ Emerging market challenges</li> <li>▪ Channel challenges in food service</li> <li>▪ Channel challenges in retail</li> <li>▪ Transportation challenges</li> <li>▪ Quality buyer shortage</li> <li>▪ Government relations</li> <li>▪ Limiting mindset</li> </ul>

At a glance, Table 5.1 indicates that the Barriers and Weaknesses outnumber the other Strengths and Opportunities. This underscores the importance of commitment to taking the actions and making the changes that will build more value in the industry. Doing nothing or ‘business as usual’ is not an option unless the industry is satisfied to allow the largest single source of quality lobster to decline further in value, shifting from a Canadian asset to a Canadian liability as the lobster industry weakens. The Weaknesses and Barriers demand a collective effort to overcome, but the potential of being recognized and rewarded as the lobster super power, is a Strength that would seem worth the effort.

## Strengths

### Strong Resource –World Super Power of Lobster

- ❑ The federal Department of Fisheries and Oceans (DFO) effectively plans, manages, and monitors Canada's fish and aquaculture industries, ensuring marine life populations and the surrounding ecosystems are protected.
- ❑ Plentiful resource = dependable supply. Effective resource management by DFO ensures dependable supply.
- ❑ Canada dominates the world supply of lobster, can claim the title, "the world superpower of lobster".
- ❑ The inherent quality of the resource has the potential to support higher prices/margins.
- ❑ The Canadian product has better life expectancy, than its US counterpart, which makes it more suitable for shipment to overseas markets.
- ❑ Compared to Maine lobster, Canada offers the sweeter canners and compared to Australian lobster Canada offers claws as well as tails for greater menu and taste variety.

### Basis for Effective Regulatory Environment

- ❑ Seasonal alignment with Maine maintains price and volumes.
- ❑ Canada can harvest sizes that Maine cannot harvest.
- ❑ Maine's regulations prevent them from processing products that Canada sells\* (e.g. popsicles with lobsters in the 250-400 g range size, netted lobster 8-10 oz up to the 14-16 oz range, in shell claw/knuckle, cocktail claws (cap off), raw or frozen 2-3 oz tails, raw, frozen tails 12-14 oz up to 20-24 oz, tail medallions).
- ❑ Canada's seafood products industry is one of the most carefully regulated and monitored in the world.
- ❑ Canadian standards for food safety are recognized as being very stringent.
- ❑ Canadian seafood products are among the safest in the world.

### Central Global Location

- ❑ Proximity to the large US market – offers existing market regions that are familiar with lobster and new markets for development.
- ❑ Access to the US is easier than other countries: no tariffs, same language and business environment.
- ❑ Canada is positioned to service both Atlantic and Pacific markets.

### Alternative Transportation Options

- ❑ The new Gateway refrigerated cargo facility is the largest north of Miami, and sits next to a runway to fill a void in the Atlantic Canada supply chain.
- ❑ Aqualife seafreight is a transportation option that addresses carbon footprint issues and freight cost. Effectiveness and competitiveness remain to be determined, but this may be a way to counter the current 'green-bashing' that Canada is encountering in relation to the seal hunt and the oil sands.

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\* Maine Lobster Industry Strategic Plan, 2009

### **Innovation Initiative**

- ❑ PEI processors are proactively working with a product development expert to identify new products, which are needed to revitalize existing markets.
- ❑ The PEI government is funding product development and process efficiencies for that province. This could form the basis for inter-provincial diffusion of innovation to assist the Atlantic industry if cooperation can be developed.

### **Lobster Still Appeals**

- ❑ Lobster continues to have a premium food image among consumers despite low price cues.
- ❑ Selling activity increased in 2009 to decrease inventories. Low prices increased exposure to the product for more consumers.

### **Weaknesses**

#### **Industry Structure**

- ❑ Competitive fishing results in gluts that drive prices down, require costly holding/storage that undermines quality, limits product options, and contributes to shrink and mortality.
- ❑ Separation of harvesting and shipping/processing functions by regulation sets up highly competitive environment that limits ability of shippers and processors to engage in effective marketing.
- ❑ Fragmentation and sharp supply peaks create volume-driven industry where shore price is ineffective in influencing supply or quality.
- ❑ Lack of coordination and undisciplined selling result in price-cutting and transfer of value to customers.

#### **Product Practices**

- ❑ The industry is focusing primarily on the inherent quality of the resource in the water and not enough on quality handling practices out of the water. This indicates a limited awareness of the factors that affect quality throughout the supply chain, and subsequently affects the consistency of quality in the delivered product.
- ❑ Despite a belief in the inherent quality of the product, the industry is focusing on the price of the product as its primary selling tool. This has caused Canadian lobster to become a commodity product. This product status makes it difficult to raise prices.
- ❑ The focus on price and the reality of low commodity pricing has been addressed by ‘fishing more’ – increasing the supply and putting further downward pressure on price
- ❑ There is a tendency to “flood” markets with products that generate interest, such as the popsicle. Trade commissioners for the EU indicate that the popsicle has had its day – and its long shelf life is a sign of low quality.
- ❑ According to EU sources (wholesalers and trade commissioners) Canadian quality is inconsistent in both live and processed forms at all times of the year. This signals that handling is an issue in addition to seasonal variations in the catch.
- ❑ Tight margins mean that the industry is unable to innovate due to the financial inability to invest in the research and development that innovation requires.

### Pricing Practices

- ❑ The inability to provide timely prices to customers limits customers' interest in lobster due to their inability to plan sales programs.
- ❑ Price volatility affects the ability to plan for both customers and industry participants.
- ❑ Unstable pricing, supply and inconsistent quality lead to product substitution and lower market prices.
- ❑ Inconsistent quality creates a low value image for Canadian lobster and subsequently a low price image.

### Positioning Void

- ❑ The Canadian industry has not actively positioned lobster as one of the leading resources for which Canada is known (list includes natural gas, metals and forestry in British Columbia, wheat and oil in Alberta, potash in Saskatchewan, metallurgical coal for China's steel mills in Ontario, and offshore oil and gas in the Atlantic, as well as hydro-electric power production).
- ❑ Canada is the lobster superpower but this is not widely recognized or rewarded.
- ❑ Lobster sufficiently lags other lobster in recognition in its various markets, causing Canadian lobster to fall into the gap between Australian lobster, Maine lobster, European lobster, and spiny lobsters.

### Consumers Targeted by Default vs. Decision

- ❑ Canada has not actively selected their consumer target markets. Instead Canada has defaulted to expanding the market among those in the price-sensitive middle-income segment as a result of low price promotions. While exposure is good, this will only be effective among this segment while prices remain low.

### General Industry Issues Indicate Insufficient Basis for Value Creation

- ❑ Lack of awareness and understanding of how supply influences price and demand.
- ❑ Lack of awareness and understanding of the need to balance short-term cash flow requirements with long term sustainability planning.
- ❑ Lack of understanding of the impact of yield on costs and pricing – a one pound shell-on lobster is not equal in value to one pound of shelled lobster.
- ❑ Fragmentation in the industry favors panic and crisis decision making versus planned strategic thinking. "Panic to buy and panic to sell" forces prices to the bottom. Inability to plan.
- ❑ Multiple participants in the industry operating independently create fragmentation due to lack of focus and collaboration. Industry fragmentation is causing value to drain out of the industry.
- ❑ Fragmentation creates a weakened and unbalanced trading position with powerful, consolidated customers. Countering fragmentation with consolidation is hampered by low barriers to entry into processing and shipping. Consolidation for greater power is undermined by new entrants, who may have previously caused industry damage through low-balling price – there are no consequences for irresponsible actions. Low barriers to entry serve to reduce the value of businesses.
- ❑ Fragmentation, distrust and insecurity make cooperation and collaboration difficult.

- ❑ Destructive competition competes away the long-term value for the industry under the misguided notion that individuality provides control.
- ❑ The industry tends to favor traditionally accessible markets such as the U.S. and EU. These will continue to be markets of interest for the immediate term, but they are not significant growth markets due to economic issues and competition.
- ❑ Risk aversion in the industry is contributing to the reluctance to provide buyers with a timely price. Buyers in turn, minimize their risk by waiting until the industry is overloaded with volume and the price declines.
- ❑ There is currently no full traceability at any point along the Canadian seafood value chain.
- ❑ Canada's seafood industry has sufficient traceability requirements and practices to comply with regulation, but will fall short of the increasingly stringent demands emerging in many key export markets.
- ❑ Major global competitors are far ahead of Canada in terms of seafood traceability.
- ❑ Early adoption of eco-certification and traceability are an opportunity to build an image of proactivity as these will be required to enter and remain in markets, but the Canadian lobster industry's lack of a collective commitment, confusion and conflicting views, positions the Canadian industry as a follower vs. a leader.
- ❑ A few large firms have the budgets to open markets and invest in product development and process development that raise the level of the industry. But, unequal cost structures cause the market leaders to be undermined, followed by the subsequent undermining of the Canadian industry in markets that force prices down due to low cost operators that enable this behavior.
- ❑ The industry believes it doesn't have the ability to lead change due to real and perceived resistance to change.
- ❑ Succession and exit strategies at all levels are uncertain.
- ❑ Access to capital is constrained due to industry instability. Reinvestment capability is minimal due to low margins.
- ❑ 'Supply-security' with accounts receivable by shippers and processors, and cash sales on the wharf add costs and negative competition.
- ❑ Lack of timely information entrenches the habit of looking backwards for guidance. This creates a backward looking supply-driven industry vs. a forward-looking, market-driven industry where pre-sell enables market and industry planning, and improved cost/operating controls.

### **Issues by Industry Group Indicate that all Industry Members are Contributing to Value Erosion**

- ❑ **Shippers**
  - Inability to provide a timely price to customers - lost business is the result based on customer interviews.
  - The industry norm of matching the price generated by one buyer who may be buying low volume, the lack of confidence to refuse to match, fear of being 'cut off'.
  - No guarantee of supply means inability to invest in equipment or build markets when there is no assurance of product.
- ❑ **Processors**
  - Inability to provide a timely price to customers - lost business results based on customer interviews.
  - The industry norm of matching the price generated by one buyer who may be buying low volume, the lack of confidence to refuse to match, fear of being 'cut off'.

- No guarantee of supply means inability to invest in equipment or build markets when there is no assurance of product.
  - Increased labour costs result from having to process 'gluts' and associated low quality, crisis processing occurs (e.g. double freezing) in order to manage the volume, despite the effect on product quality.
  - Fear that growth and increased margins will attract competition reinforces survival tactics vs. strategic planning. Low margins prevent reinvestment in innovation, product development and process efficiencies.
  - Rigorous food and plant safety standards are costly...but necessary.
- ❑ **Buyers/Dealers**
- Low barriers to entry into the industry as buyers and inconsistent entry criteria across provinces.
  - Not all buyers are aware of the market's ability or inability to support prices - causing unsustainable price points and perceptions of collusion to keep prices low when shippers and processors are subsequently forced to match prices to access supply.
- ❑ **Harvesters**
- Unaware they are capturing the largest part of the export price.
  - Holding lobster in poor conditions, to await higher prices, reduces quality and price potential.
  - Strong resistance to the subject of supply management prevents consideration of the subject. Lack of understanding of supply/demand dynamics. New season gluts have a downward impact on the value of the full season.
  - Harvesters who are investing in quality are paid the same as harvesters who are not investing in quality – reduces incentive to be quality-focused and to make investments in quality practices.

### **Erosion of Existing Markets**

- ❑ Destructive internal competition is placing Canada at an extreme disadvantage in existing markets, which now know that they can wait for a lower price.
- ❑ Low prices of Canadian lobster products displayed beside lobster from other countries, such as South America and Australia, position Canadian product as lower quality.
- ❑ Weakening of the US market - more diversification needed to spread risk and create opportunity.

### **Opportunities**

The development opportunities summarized here will be presented in more detail under the Marketability and Marketing sections of this report.

### **Competitive/Industry Development**

- ❑ Commit to structural change to support better management of the lobster industry. This will require industry-wide receptivity to the tools and mechanisms available to assist with this goal. Change will depend on collaboration both within and outside the industry, as no one group has all the resources necessary to effect change.



- ❑ An example of an effective competitiveness model is Switzerland. The World Economic Forum annual survey profiles Switzerland as the leader in competitiveness due to excellent capacity for innovation, a sophisticated business culture and the presence of some of the world's best scientific research institutes. Canada has the Lobster Science Centre dedicated to lobster research, but must develop a better operating structure and improved innovation.
- ❑ Other lobster industries are also fragmented. The Maine Lobsterman's Association Newsletter, August 2010 identified 'that the biggest issue for marketing Maine lobster is unity. The basic internal structure of the industry is individual fishermen. It's hard to get them to work together'. Research with Maine lobstermen identified that they 'recognize the importance of working collectively for their economic benefit.'
- ❑ France is also revamping its seafood supply from individual operators to a collective approach towards greater cooperation among industry stakeholders. This is the result of strong buyer groups that are organized and consolidated. Against these organizations, a fragmented industry is ineffective. "There's no individual performance without a collective organization".
- ❑ The lobster industry that can be the first to effectively cooperate for their overall benefit will have a strong advantage over other lobster industries.

### Channel Development

- ❑ Specialty retail is the opportunity for higher prices. Some wholesalers are opening their own shops as supermarkets won't pay the prices and the large chains are buying direct from the industry, as they are able to drive industry prices down for volume.
- ❑ Consumer research indicates that specialty retail is a dominant shopping venue in addition to regular supermarkets in both North America and Europe.
- ❑ Countering retail chain power will require the development of industry power through elimination of the weakness generated by negative competition within the Canadian industry. This can be achieved through options as varied as single-desk marketing, collaborative ventures, or work-arounds such as shortening the supply chain by selling direct or convincing the consumer to ask for Canadian lobster.

### Brand Development

- ❑ Establish a Canadian brand that establishes a leadership position for Canadian lobster.
- ❑ The brand should position Canada as the superpower of lobster, based on resource size and quality and supported by the commitment to structural effectiveness.
- ❑ For reasons of tradition, market and cost, it is unlikely that the Maine fishery will shift from its late summer peak. The fishery will continue to produce a higher percentage of soft-shelled lobster with lower meat yield, which makes the difference between Canadian and Maine lobster more pronounced, in terms of yield, quality and supply.
- ❑ Consumer research in Canada, USA and Europe in 2010 for this Long Term Strategy indicates that knowledge of the difference between Canadian and Maine lobster is very low at 10% of Canadians, 11% of USA and 3% of EU consumers surveyed (all of whom are lobster consumers) who said they were very familiar with the difference. This provides an opportunity to leverage Maine's better known reputation with an augmentation strategy for the US and/or a campaign on the differences or a hybrid of the two options.

### Generic Marketing and Messaging Development

- ❑ Generic marketing is conducted to position the Canadian product in the minds of potential buyers, essentially to point the buyer in the direction of the Canadian product. Generic marketing can be described as “the rising tide that floats all boats”. It is then easier for companies to market their own products when they have the attention of the market. This is not inconsistent with branded company marketing assuming that the branded marketing is providing product that supports the claims of the Canadian generic marketing campaign. This is the intersection of disciplined cooperation and smart competition where companies agree on quality standards for the industry and agree not to undermine the industry in the eyes of the market by undercutting one another and competing margins away. This results in the current situation where the market sits back and waits for the last and lowest price standing.
- ❑ Marketing directly to the consumer, on behalf of the industry, is based on the objective of having the consumer ask for the product, creating a pull effect, where the consumer “pulls” the product into the market by asking retailers and food service operators for specific products.
- ❑ This type of marketing requires that the consumer have a clear reason why they should ask for the Canadian lobster product.
- ❑ A key message identified by wholesalers is “it is not cheaper to buy a cheap lobster due to low meat fill”.
- ❑ Canadian lobster is selling at low prices despite good meat fill-which make it imperative to attach this message to higher price points.
- ❑ Messages need to shake up traditional thinking about lobster, which tends to “pigeon-hole” the lobster experience. For example, the majority eats a whole lobster boiled and hot, but Scandinavian consumers prefer it cold which changes the taste experience. The key message is that lobster can be eaten in a variety of ways to be competitive with other proteins that offer menu variety, and that the various sizes and parts of the lobster can be used for different applications.

### Consumer Target Market Development

- ❑ A focus on the upper income consumer will be needed to pull the price up from the current middle-class price promotion levels in supermarkets.
- ❑ Consumer research in many potential markets of interest indicate that the upscale consumer is a key target for luxury spending.
- ❑ Another key target is the aspirational consumer; the one that can’t afford luxury all the time or to the same extent as the upscale consumer but wants to. This is a group that will trade up when they can.

### Geographic Market Development

- ❑ Export data, wholesaler interviews and consumer research indicate that the Canadian lobster industry has not been focused on developing markets for lobster throughout Canada. A Canadian focus offers an opportunity for brand and market development among those who already have reason to prefer Canadian lobster.
- ❑ Although the Canadian market is smaller than the current export markets, time for both product and brand development will be required as the industry also focuses on re-structuring itself.

- ❑ Adding a strong Canadian focus leverages a country where exchange rates and tariffs do not pose a problem. The economy is in better shape than the US, but still reflects conservative spending. This will provide a testing ground in a tough but supportive market prior to rolling the Canadian brand out to other markets.
- ❑ Emerging markets offer the opportunity for a fresh start for the Canadian industry. The success of the fresh start will depend on industry changes, otherwise these markets will be reduced to low price markets as has happened in Europe and Japan.
- ❑ The choice for competing in these markets is price or prestige. Experience has shown the depressive effect on value of competing on price. Therefore, fresh start market development requires a prestige focus.
- ❑ The key markets for growth are China, South Korea and Hong Kong, which are mainly focused on the live trade in food service. A commitment to growing these markets will require a diversion of product from current markets. An entrenched market position for Canadian lobster in China is the goal.
- ❑ Hong Kong offers the largest group of Canadians identified in research by the Asia Pacific Foundation. Hong Kong is the finance and trade hub of Asia, which creates the opportunity for establishing Canadian product in that market, while developing the more challenging China market, where there are fewer Canadians. Relationships are key to the development of Asian markets.
- ❑ Upscale regions in the US are opportunities for positioning Canadian lobster based on augmenting the incumbent Maine lobster when not available and supplementing Maine lobster in regions outside the Northeast states that are less focused on Maine lobster.
- ❑ Australia is another focus for leverage and augmentation of an incumbent product. Australian lobster quotas have been reduced, further reducing the already small supply of Australian lobster. However, as Australia is advantageously positioned to serve Asian markets, partnering with Australia to supplement their declining supply of lobster opens a portal into Asia by working through a partner known to Asian buyers.

### **New Product Development**

- ❑ Japan and the EU markets are markets that need revitalization. Partnering on product development in these market with chefs and restaurants will be a focus on product innovation for processed product. Key markets where processed product will be of interest are Japan, France and Germany. Live products to these markets could ultimately be re-routed to Asian markets, following successful product development.
- ❑ The time required for product development and commercialization provides the time to develop an interest in processed product in the Asian markets at retail, the next frontier beyond live product in Asia.

### **Barriers/Threats**

#### **Uncertain Economy**

- ❑ Recent and current recession fear is influencing purchasing and spending at all levels of the value chain
- ❑ Exchange rates have declined relative to the Canadian dollar, stripping value out of exports.
- ❑ Conserver economies such as the emerging middle class in China have savings rates of 38%, low incomes and no social safety net, while consumer economies such as the US have savings rates of 3.6% but are not spending on luxury items due to a focus on basics.

### **Weakening Export Demand**

- ❑ Growth is weakening in rich economies. Peter Hall, chief economist at Export Development Canada says that “due to weak consumer confidence, debt and the ending of government stimulus, that demand is not expected to improve until the middle of 2011. The best exporters can hope for, barring significant increases in market share, is that they are in a holding pattern.”
- ❑ Middle-income consumers are highly price-sensitive, with high unemployment and are trading down to lower priced food items. Food security is a dominant concern which reduces demand for ‘luxury’ foods
- ❑ Local food movements are creating a preference for foods caught or produced locally, support for local producers as well as low carbon footprint and traceability/transparency are evident.

### **Unplanned Positioning**

- ❑ Canada is receiving ‘bad press’ about the oil sands and the seal hunt in the USA, UK and Scandinavia to name a few countries that have cited issues with this.
- ❑ Canada has focused on distinguishing its lobster as hard shelled, while Maine has turned their soft-shelled lobster into an advantage in terms of ease of eating. While the food service industry understands the value of the hard-shelled lobster, the consumer market may prefer the soft-shelled image of lobster. Prior to committing to the hard-shelled term for the Canadian brand, consumer research should be conducted to identify whether this terminology is sending the intended message of quality and meat fill/value or the unintended message of “difficult.”

### **Declining Canadian Competitiveness**

- ❑ Canada as a country has slipped to 10th place from 9th last year in the annual survey of competitiveness by the World Economic Forum, due to high tax rates, access to financing, prevalence of trade barriers and low innovation due to low company spending on R&D.
- ❑ Canada is profiled as competing on cost and access to natural resources versus uniqueness, which is a necessary condition to support a premium Canadian lobster brand.

### **Strong Competition**

- ❑ European lobster, although available in small volumes (2,000-3,000 t), is preferred in EU.
- ❑ Maine lobster has name recognition in EU and USA.
- ❑ Crab, prawns and scallops are strong shellfish alternatives, and salmon a strong fish alternative.
- ❑ Beef is a strong protein alternative.
- ❑ Warm water tails are more forgiving during cooking than coldwater tails; this has been a barrier at food service for chefs who inadvertently overcook the coldwater tails.
- ❑ China’s low cost of production and export subsidies on frozen lobster products is creating a competitive threat in price-sensitive markets. Against these products, Canada can expect to struggle without a clear image for quality. Low quality popsicles in the EU and low prices in Japan due to Canadians undercutting each other are positioning Canada at a point of sale disadvantage.

- ❑ Maine is aggressively promoting its lobster domestically and internationally. Maine lobster is known internationally. Maine will attain MSC before Canada. This will provide a quality cue that will further compete with Canada.
- ❑ France is creating an interdisciplinary coalition of supply chain participants to supermarkets to generate more value for the industry and a marketing campaign around 'Buy Local' and quality local product.
- ❑ Australia is actively focusing on quality branding and supply management to build demand and to support prices.
- ❑ Canada is not perceived to be promoting its lobster assets sufficiently, the greater focus is on price instead of quality or prestige.

### Emerging Market Challenges

- ❑ China prefers to control the purchase, so will be focused on achieving low prices. This places Canada in the position of committing/diverting supply to a lower margin, volume opportunity.
- ❑ There is a long time frame to develop consumption in the emerging middle class in these markets due to low incomes, entrenched traditions and lack of distribution systems.

### Channel Challenges in Food Service

- ❑ Celebrity chefs in the US are rejecting Canadian seafood due to misinformation about the seal hunt. This issue has also arisen in the UK.
- ❑ The raw lobster format is too expensive despite labor and storage advantages.
- ❑ Chefs perceive frozen lobster as lower quality than live/fresh - taste difference and image difference.
- ❑ Live lobster is time consuming, labor intensive and space consuming. Mortality and shrink contribute to high margins on lobster menus. Aversion to shrink has caused potentially unsafe cooking of deads in both retail and food service.
- ❑ Issues are arising among food service staff with killing lobsters.

### Channel Challenges in Retail

- ❑ Focus on margin growth vs. volume, retail buyers are rewarded for increasing the margins, the related loss of volume/revenue is picked up elsewhere in the store.
- ❑ Consolidation increases their power to set prices to a fragmented lobster industry.
- ❑ A greater focus on buying direct is causing underutilized importers to buy for re-export, with less emphasis on quality or origin.
- ❑ Supermarket lobster is being used as a loss leader, which entrenches a low price point; many instances cited where lobster was sold for less than cost during promotions.
- ❑ French packaging legislation is becoming more stringent with focused nutritional labeling on the front of the package and a minimum 3MM font = changes to current packaging. There is also expected to be an extension of allergy labeling+place of origin+major ingredients.
- ❑ Possible CO<sub>2</sub> environmental labeling data (package content, goods and impact on natural resources through lifecycle to recycling). ADEME calculations of CO<sub>2</sub> footprints include GHG emissions at various stages; currently CO<sub>2</sub> labeling is voluntary. Issue is that CO<sub>2</sub> footprint can vary through seasons and storage.

### Transportation Challenges

- ❑ Airfreight in Canada has been criticized by wholesalers for a wide range of issues from rates, routes, product handling, flight schedules and frequency, inadequate tracking. This is creating a barrier to purchase when products are not received at the right time, at a competitive price and in the expected condition.
- ❑ Comment was made that space for lobster is 'bumped' if heavier product (e.g. tuna) requires space as the rate to the carrier are higher than for lobster.
- ❑ Airfreight is most important to food service as their customers require lobster for specific dates and times.
- ❑ A cost comparison to Taiwan was provided: where for a volume of 60-80 cases per week the rate was \$1.65 /lb shipped via the US vs. \$2.80/lb shipped from Canada.
- ❑ Despite proximity to Halifax International Airport, Air Canada is not perceived as helpful to exporters in Canada and their foreign importers regarding scheduling, pricing or handling.
- ❑ Flight times out of Logan Airport (Boston) are more accommodating to the needs of food service suppliers who frequently need emergency shipments later in the day.
- ❑ FedEx rates have almost doubled in the past 5 years and schedules are not flexible for emergency shipments. Pick-up from FedEx requires that all other shipments be loaded onto their trucks before lobster can be accessed, later in the morning of the following day.
- ❑ Trucking lobster to USA airports requires extra time in transit as well as the time to season the lobster in water before loading them for air transit. Quality issues are a factor with the need to go through the US.

### Quality Buyer Shortage

- ❑ Currently, an estimated 10-15% of global buyers are quality buyers. This leaves 85%-90% of buyers who are looking for the lowest price and are undermining the opportunity for higher margin sales. This erodes the focus on quality at each level of the value chain, due to the real and perceived difficulties of locating these buyers and developing relationships with them.

### Government Relations

- ❑ Canadian governments are reluctant to propose changes, given disparate interests and the belief that change needs to be initiated by industry.
- ❑ Many industry participants believe the industry needs external regulation to create change. This duality creates a leadership vacuum and a potential stalemate to moving forward.
- ❑ The value of funding for trade missions and initiatives with uncertain or unequal benefit are areas of disagreement within the industry.
- ❑ Variable provincial regulations and practices generate an uneven playing field.
- ❑ There is an uneven relationship with DFO – its responsibility is confined to harvesting and fails to recognize and address constraints imposed on shippers and processors.

### Limiting Mindset

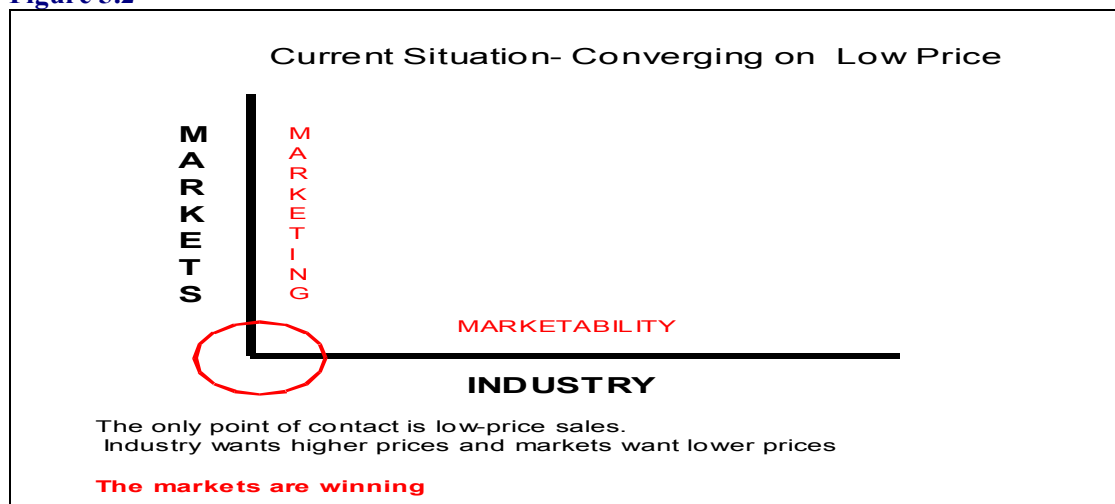
- ❑ The Canadian lobster industry is similar to other lobster and seafood industries in the belief that independence equals autonomy, i.e., the power to make their own decisions. However this thinking is not working to increase value and sustainability for the Canadian lobster industry.
- ❑ A continuation of this belief in independence will be a strong barrier to making the decisions needed to revitalize the industry.
- ❑ There is skepticism about the value of generic marketing, in the belief that it undermines the efforts of individual companies.
- ❑ Lack of industry confidence in the inherent value of the resource generates low resistance to 'privateer' pricing and trade demands. Volume-driven decision-making trumps value-driven decision-making.
- ❑ Loyalty sells for 10 cents a pound; this is an unstable basis for building a sustainable business model.
- ❑ A price-setting mechanism will only be successful if all provinces agree to participate and a critical mass of participants is required. This is difficult as each province sees itself as an independent market.

### 5.1.3 Putting it all together – the strategic framework

Once the industry strengths and weaknesses are clear, the opportunities identified and the barriers recognized, the next step is to establish a framework for action. The actions selected are those that answer the question, "What do we need to do differently to leverage our strengths, minimize our weaknesses, create and attain opportunity and eliminate or overcome barriers?"

Figure 5.2 illustrates that the framework for the lobster industry begins with an understanding of how the industry and the markets, and how marketing and marketability currently interact.

**Figure 5.2**





At the present time, there is only a single point of connection between the industry and the market and this is around a low price point. The markets are pushing the price down and the industry is living with that reality. The markets are winning and the industry is losing. To change this, more leverage points are needed between the industry and its markets. This requires a dual focus on both marketability and marketing actions, as indicated in Figure 5.3.

The intersections between the marketability and marketing strategies ensure that neither strategy is operating in a vacuum. Both the marketability actions (focused inward on the industry) and the marketing actions (focused outward on the marketplace), are synchronized with one another. Actions are occurring with a clear focus on the reason for each and the outcome expected. The reason for this is that neither marketing alone nor marketability alone is sufficient to improve the situation in which the lobster industry finds itself.

Figure 5.3

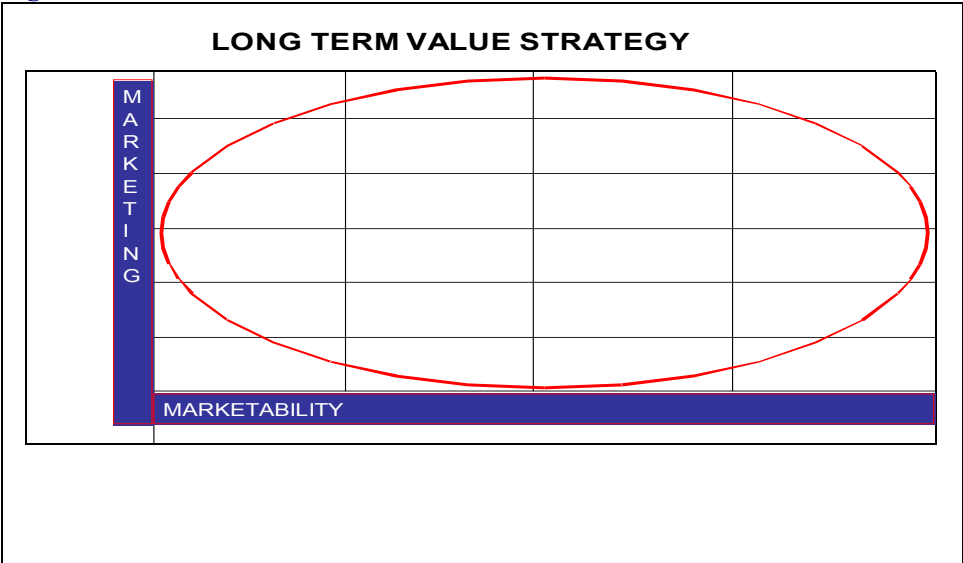


Figure 5.4 illustrates that the 6Ps of marketing (people, positioning, price, product, and place channels and markets) and the four change agents of marketability (reducing, adding, creating and eliminating) intersect to address the strengths, weaknesses, opportunities and barriers of the industry’s situation. The first letters of the Marketability actions: Reduce, Add, Create, Eliminate revisit the RACE example used earlier (marathon, not sprint). The race for the lobster industry is to build a Canadian team that will run together against the real competitors; other countries and product substitutes, and against time to win the prize of a premium position in global markets for Canadian lobster.



Figure 5.4

LONG TERM VALUE STRATEGY				
	Reduce	Add	Create	Eliminate
People				
Positioning				
Price				
Product				
Place /Channels				
Place /Markets				
	Weakness	Strength	Opportunity	Barriers

This chart has been populated with numerous actions; these are examined in the next two sections on Marketability Strategy and Marketing Strategy.

## 5.2 Marketability strategy

### 5.2.1 Overview

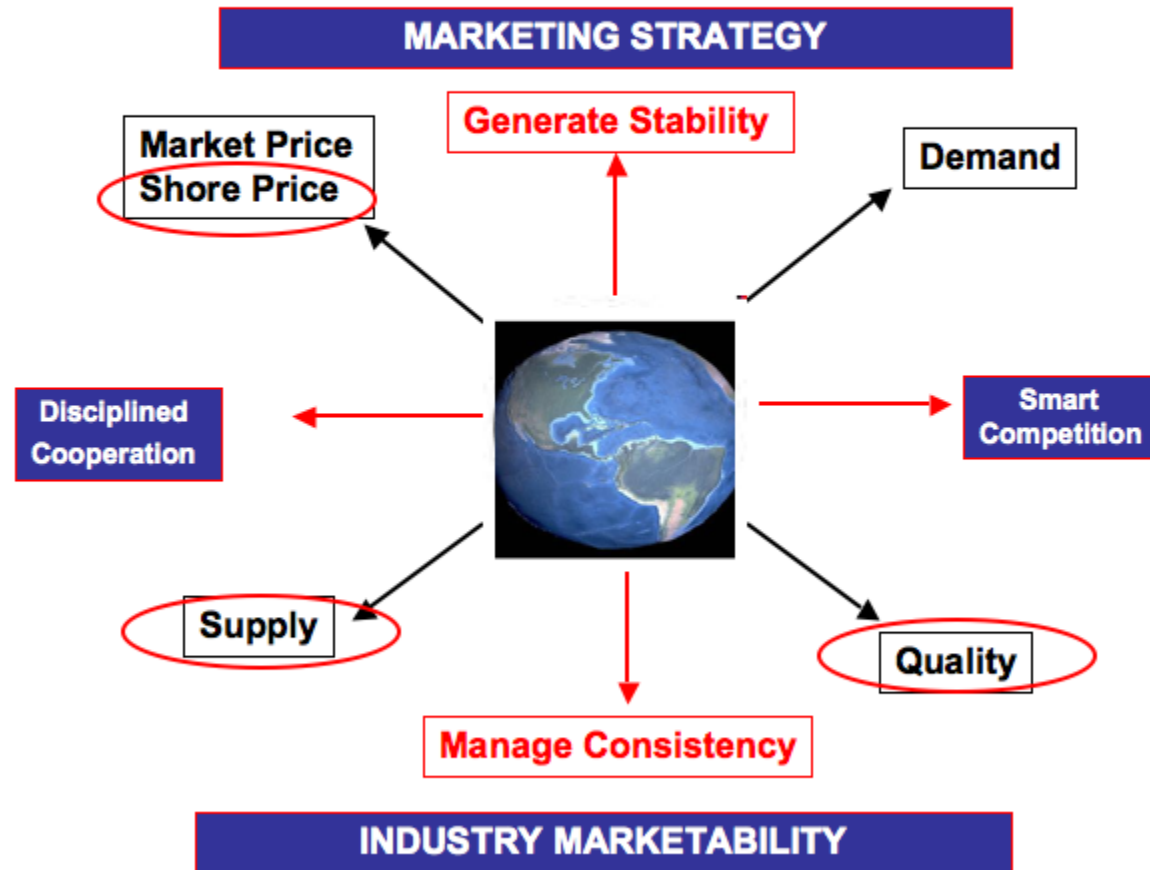
We focus on marketability because it is the foundation of effective marketing. Marketability might better be written as “market-ability”, the ability to market a product effectively. In essence, marketability refers to product characteristics (the product’s appeal) as well as the industry’s ability to deliver what the market wants in terms of stability, predictability and consistency. Effective marketability supports the creation of increased industry value as a result of taking the actions necessary to build or enhance the industry’s credibility, capability and capacity to supply its markets.

Views within the industry differ on the value of an eco-label (to certify sustainable harvesting practices) as an element of marketability. Major retailers in the U.S., Canada and the EU are beginning to demand eco-certification as a condition for handling a seafood product. The Atlantic lobster industry is undecided about how to proceed. The offshore lobster fishery is MSC certified and several LFAs in DFO’s Maritime Region have conducted a pre-assessment and are considering next steps (the Maine lobster industry is seeking full MSC certification). Other areas have looked into certification, but have yet to take action. Many are not convinced it is necessary, while others are concerned that the adjustments that may be needed for certification would outweigh the potential benefits.

Certification is a matter for industry to decide, but this report highlights the growing commitment to sustainability amongst retailers and restaurant chains, and that the Atlantic lobster industry should at the very least conduct pre-assessments to assess the implications for management and operations arising from the certification process.

Figure 5.5

**Objective:**  
**Balancing the Moving Parts That Connect the Industry and the Market**



Between the market as the destination for lobster and the industry as the source of lobster, there are six key factors that must work together because they directly influence one another. When they are out of balance or out of sync, the effect is declining value or unsustainable value. There are four *market* factors: price, demand, supply and quality and two *management* factors: degree of cooperation and the nature of competition in the industry.

### 5.2.2 Key factors that must be synchronized

#### Market factors

The market factors represent elementary textbook characteristics associated with industries that function effectively, efficiently and sustainably. The interactivity of these factors exerts an important influence on marketability: product quality characteristics shippers and producers need to produce to meet the market need for stability, predictability and consistency.

- ❑ **Price should act as signal to producers and consumers.** The wide swings in price evident in lobster markets indicate that price is sensitive to shifts in supply and demand. Markets function efficiently only if producers and consumers react in a rational way to price signals. In highly competitive markets, both producers and consumers have excellent knowledge of conditions in product markets. This is not always the case amongst harvesters in the lobster industry.
- ❑ **Demand reflects willingness to pay.** Rising demand indicates a greater willingness to pay, resulting in rising prices to which producers respond with greater supply. Falling demand leads to lower prices and a withdrawal of supply from that market. Too great a dependence on a single market can push prices to unacceptably low levels in the absence of a drop in supply. This is generally the case in the Atlantic lobster industry with its price-insensitive supply and strong dependence on the U.S. market.
- ❑ **Supply should respond to changing prices.** Producers respond to changing prices by adjusting supply. A drop in prices signals weak demand and the need to reduce supply or find alternative markets. Failure to adjust to weak demand inevitably means low prices. This is the situation in which lobster harvesters find themselves. Despite 2009 and 2010 prices almost half the level of 2006, supply has been maintained or even increased.
- ❑ **Quality differences should be reflected in price differences.** Producers of high quality products ordinarily demand and receive a premium price that reflects the greater value of the higher quality product. Things don't work this way for shore prices of lobster in Atlantic Canada. Industry structure with its volume-driven business model sees to it that a single price is paid, regardless of quality. This makes for uneven consumer experience and creates a challenge if marketing for a premium price is the objective.

#### Management factors

Another critical influence is how all the players in the lobster industry interact with one another and with the market. The extent and nature of these cooperative and competitive interactions greatly influence price, demand, supply and quality.

Competition has been very effective at driving the value out of the industry. This is *negative competition*, where participants are competing by undercutting one another. This behavior compromises the whole industry, driving the value down for all participants.

However, competition can be positive when the focus is on competing smarter. Smart competition is competition against other products and other countries. Smart competition can and should also occur among entities and companies in the Canadian industry as the industry is composed of separate businesses. The critical success factor behind smart competition is knowing when to compete against other companies in the industry and when to cooperate with other companies to accomplish objectives that individuals can't accomplish on their own. This is cooperation when it makes sense, to enable the industry to operate more effectively and the market to grow more sustainably.

Shippers provided examples where a company in Canada and another in the USA, with shared customers, collaborate to serve those customers. Their cooperation ensures they both retain the business of these very demanding customers. This is called disciplined cooperation; here two companies get farther by working together on specific items and agree not to undercut each other. Another term for this is connected autonomy; two competitors who are stronger together in certain areas of their business and in these examples, in two different countries.

Customers tell us that the key issue for them is not the price level, but the volatility and unpredictability of the price. For processed product, retailers want a firm price for 12 months if they are going to list the product, and for live they want 6-8 weeks notice of the price so that they can arrange for promotions and printing. Price-setting and supply control are critical to business planning for customers, and also critical to business planning for the industry. The goal is to generate stability for dependability and planning.

A companion goal is the creation of demand for quality and prestige as a core pillar in creating demand for Canadian lobster. Quality is a function of several factors: the inherent quality of the resource, seasons, and the handling of the catch at sea and on land. The need to manage these variables for consistent delivery of quality is a challenge that must be met if Canada wants to extract more value from the market. The challenge requires both disciplined cooperation and smart competition so that margins are not built and then destroyed. Consistent delivery on quality demands broad commitment within the industry to be a quality supplier. Those who do not commit to upholding specific quality standards will threaten the ability of the industry to change the current low value/low price situation.

### ***5.2.3 Target variables to manage***

The first step is to identify the variables over which the industry has some degree of control and which influence the goal of increasing value in the industry. In the past, exchange rates served as the principal profit generating mechanism for the industry. This meant that the business model for the industry was substantially reliant on a factor outside its control. The present parity of the Canadian and US dollars, and the resulting effect on the Canadian industry, clearly shows the risk of relying on profit factors that are uncontrollable.

At the industry level, supply, shore price-setting and quality are the key variables where greater stability and consistency are possible. Taking control will depend on the commitment to change current practices that work to the detriment of the industry, and on the practical challenges involved in agreeing on how to proceed and actually implementing change.

At the market level, while the objective of creating greater value will be supported by the supply control and quality control mechanisms, the industry (both sectors) also needs to look at structural issues with a view to improving its viability.

Disciplined cooperation and smart competition can assist the industry to achieve the initial goals of managing supply and developing a price-setting process at the shore that serves to strengthen the position of industry in the markets. Another way of describing this is connected autonomy; working together on selected initiatives to reverse the current downward spiral for the industry.

Thus, the priority factors the industry can begin to take control of immediately are managing supply, setting shore prices, implementing quality standards and improving viability conditions.

- ❑ **Managing supply** through some form of control mechanism is needed in industries where markets send the wrong signals and contribute to periodic collapse of enterprises. Port markets in Atlantic Canada serve as an example of the seeming irrelevance of price to either the quantity or quality of supply. When the season opens, everyone fishes hard irrespective of price and conditions in product markets. The challenges this creates for shippers and processors include high holding and storage costs, threats to quality, limited scope to plan production, cash flow constraints and weakness in product markets. The net effect is to increase operating costs and reduce the amount of revenue that flows to the industry.

The race to fish is natural in a competitive fishery where overall quantity is finite. But the low catch rates after the first 2-3 weeks in most LFAs underscore the overcapacity of the fleets. Measures exist to slow the pace of the harvest and reduce costs, without reducing the overall quantity landed. Such measures would work to the advantage of both harvesters and shippers/processors.

- ❑ **Setting shore prices** to improve the flow of raw material to shippers and processors and to strengthen the position of industry in product markets. Currently, the inability to produce firm and timely product price limits the attractiveness of lobster to many customers. At the shore, the high level of distrust around pricing often compromises the flow and quality of raw material in the live sector. The processing sector faces gluts and limited scope to plan production. The drive for volume weakens the industry and leaves it vulnerable to more powerful distributors and customers. Price-cutting to gain market share underscores the fragmentation and weakness of the industry.

Other methods exist to arrive at mutually beneficial shore prices. To work to the advantage of both harvesters and shippers/processors, an acceptable method must be transparent and efficient and lead to higher value in product markets by resolving the inadequacies of the current system.

- ❑ **Implementing quality standards** aims to provide the market with a better-defined and consistent range of choice while providing a basis for overall higher prices. The pricing advantage would have to be shared with harvesters in the form of quality based pricing to compensate for the higher handling costs. Research to date with customers provides a strong indication that 'quality pays' as there is a clear premium per pound attached to quality product and quality handling processes. With quality standards, consumers have a clear and supportable reason to pay (more) for lobster at the grade of their choice. This also serves to educate consumers about lobster so they will ask for and about certain grades.

Quality grading, with the assistance of the Lobster Science Centre, will define quality metrics, quality categorization methods, and stress handling practices at all points along the supply chain from trap to table. Quality standards should be defined, adopted and reinforced by industry. Supporting regulation may be helpful, but should not be essential.

- ❑ **Addressing structural issues** aims to place the industry (both sectors) on a more stable financial footing by taking action to remove cost and allow shippers and processors to be more responsive to market conditions. These actions go to the heart of some of the industry's most fundamental challenges: excess capacity resulting in high cost and volume-driven decisions, the inability to plan production effectively in response to customer needs, and industry fragmentation and price-cutting.

These issues may be addressed directly by tackling the underlying causes, or indirectly through successful implementation of the supply and price options.

### **5.2.4 Removing the barriers to marketability**

The options available to address the various barriers to marketability are reviewed in Tables 5.2 to 5.4. Each table lists several options, with a brief overview of how each works, together with an assessment of the pros and cons. Generally, the options are listed in descending order of preference. Recommended options are indicated in the tables, with the rationale outlined below.

- ❑ **Supply** – The most practical and effective way of slowing the early season supply when catch rates are highest is to reduce the number of traps in the water and ensure they are hauled only once per day. For the live trade, this would provide a better balance of supply and demand, with the ocean holding the inventory in ideal conditions. This is preferable to lobster being held in less favourable conditions in cars or pounds, or held in storage until processing capacity is available. The trap limit could be adjusted upwards as catch rates begin to drop to ensure the overall catch level is maintained.
- ❑ **Quality** – Standards should be developed by industry and implemented, regardless of which (if any) supply management option is adopted. Standards and testing are essential to support quality based pricing.
- ❑ **Pricing** – Harvesters and shippers/processors should be aiming to create as much value as possible from the lobster resource, seeing themselves as partners in this larger enterprise, not as competitors each trying to take as much as possible from the other and weakening the whole industry in the process. To this end, a collaborative approach makes the most sense. It could be structured so it simulates what would happen under vertical integration. Harvesters align with specific shippers/processors on a contractual basis, with an agreed pricing formula including a basis for adjustments as market conditions shift. To work effectively, this approach (which incorporates elements of other options such as final offer settlement and the price to market formula) would have to be underpinned by transparency in sharing information.
- ❑ **Structure** – The industry carries considerable cost in the form of excess capacity. This cost shows up in the form of reduced incomes, and also in the form of reduced revenues as volume-driven shippers and processors cut prices to compete for sales. Reducing harvesting capacity (where necessary) through an initial buy-out and then introducing some form of tradable harvesting right would be the most practical way of ensuring optimal fleet size. Shipping and processing capacity could be optimized by removing any form of financial support or other concession, and not bailing out companies that fail. These measures would help to “right-size” the industry and would complement the pricing and supply initiatives.

**Table 5.2: Supply Objective – Managing supply to improve quality and the flow of raw material to shippers and processors**

	How it works	Pros	Cons
<b>Option 1: Reduce trap limits</b> <b>[Recommended Option]</b>	Cut trap limits by 25-50% in first 3-4 weeks of season to slow down landings. Cut would vary by LFA.	<ul style="list-style-type: none"> <li>▪ Familiar method</li> <li>▪ Controls supply rate</li> <li>▪ Improves quality</li> <li>▪ Reduces costs/waste</li> <li>▪ Improves equity</li> <li>▪ Extends season</li> <li>▪ Reduces overcapacity</li> <li>▪ Supports shore price</li> </ul>	<ul style="list-style-type: none"> <li>▪ Intensifies competition</li> <li>▪ Need to control double hauls</li> <li>▪ Requires monitoring</li> <li>▪ May increase operating costs</li> <li>▪ Revenue loss for some</li> <li>▪ Reduces licence values</li> <li>▪ Cost to reach consensus</li> <li>▪ End of season quality</li> </ul>
<b>Option 2: Set trip limits</b>	Set trip limits to shipping & processing requirements/capacity in first 3-4 weeks of season. Limits by LFA to be negotiated by industry.	<ul style="list-style-type: none"> <li>▪ Familiar method</li> <li>▪ Controls supply rate</li> <li>▪ Improves quality</li> <li>▪ Reduces waste</li> <li>▪ Improves equity</li> <li>▪ Extends season</li> <li>▪ Reduces overcapacity</li> <li>▪ Supports shore price</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduces competition</li> <li>▪ Breaks with tradition</li> <li>▪ Requires monitoring</li> <li>▪ Increases costs</li> <li>▪ Revenue loss for some</li> <li>▪ Reduces licence values</li> <li>▪ Cost to reach consensus</li> <li>▪ End of season quality</li> </ul>
<b>Option 3: Set individual quotas (IQ/ITQ)</b>	IQ/ITQ based on share of overall LFA quota. Share formula determined at LFA level (e.g., catch history, equity). IQ/ITQ gives harvester option when to fish. ITQ option intended for fleets needing to reduce capacity.	<ul style="list-style-type: none"> <li>▪ Familiar method</li> <li>▪ Fish to market</li> <li>▪ May control supply</li> <li>▪ May improve quality</li> <li>▪ May reduce cost/waste</li> <li>▪ Improves equity</li> <li>▪ May extend season</li> <li>▪ Reduce fleet capacity</li> <li>▪ Supports shore price</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited basis for TACs</li> <li>▪ Dispute over setting IQ/ITQs</li> <li>▪ Reduces competition</li> <li>▪ Strong opposition</li> <li>▪ Requires monitoring</li> <li>▪ Increases costs</li> <li>▪ Revenue loss for some</li> <li>▪ May not affect supply</li> <li>▪ May not improve quality</li> </ul>
<b>Option 4: Introduce quality standards</b> <b>[Recommended Option]</b>	Standards refer to verifiable quality indicators for meat content and blood protein levels. Criteria and testing protocols to be developed by industry and AVC-LSC. This option would be implemented with whatever supply option (1 to 3) were to be adopted.	<ul style="list-style-type: none"> <li>▪ Pre- and in-season assessment informs industry &amp; market</li> <li>▪ Quality-driven fishery</li> <li>▪ Meets industry needs (shipper/processor/customer)</li> <li>▪ Reduces waste</li> <li>▪ Supports quality-based pricing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Meets with resistance</li> <li>▪ Cost to set standards</li> <li>▪ Cost to meet standards</li> <li>▪ Cost to monitor standards</li> <li>▪ May reduce revenues</li> <li>▪ May create uncertainty re season timing (if pre-season assessment indicates initial poor quality)</li> </ul>



**Table 5.3: Pricing Objective – Improve quality and the flow of raw material to shippers and processors**

Option	How it works	Pros	Cons
<b>Option 1: Contract or collaboration</b> <b>[Recommended Option]</b>	Groups of harvesters contract to supply all lobster to shippers & processors at an agreed opening price, with prices subject to adjustment based on shifts in market prices. Requires open books/transparency.	<ul style="list-style-type: none"> <li>▪ Partnership not competition, based on mutual gain</li> <li>▪ Individual harvesters, shippers &amp; processors define the arrangements</li> <li>▪ Simulates integrated business</li> <li>▪ Requires transparency</li> <li>▪ Supports quality-based pricing</li> <li>▪ Supports production planning &amp; marketing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Departure from competitive pricing</li> <li>▪ Cooperation difficult due to mistrust</li> <li>▪ Need to demonstrate mutual gain</li> <li>▪ Will take time to work out partnership arrangements</li> <li>▪ Requires “open books” by shippers &amp; processors</li> <li>▪ Could be undermined by competition from volume buyers</li> </ul>
<b>Option 2: Final offer settlement</b>	Parties obtain market info from independent third party and negotiate opening season price. Failure to reach agreement results in arbitration where each party submits a final offer and the arbitrator (individual or panel) selects one or the other, but nothing in between. Prices are adjusted as market conditions change.	<ul style="list-style-type: none"> <li>▪ Structured approach with arbitration if needed</li> <li>▪ Interest-based</li> <li>▪ Detailed 3rd party market info available to parties</li> <li>▪ Sets minimum prices</li> <li>▪ Product-specific pricing</li> <li>▪ Promotes quality-specific shore prices</li> <li>▪ Allows intra-season adjustments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Major shift in established price setting method</li> <li>▪ Extended period needed to design/gain acceptance</li> <li>▪ Requires levy to pay for staff/market analysis</li> <li>▪ Requires on-going market &amp; production data</li> <li>▪ Requires substantial industry buy-in for success</li> </ul>
<b>Option 3: Price to market formula</b>	Parties develop a formula to share market price. Formula requires data on percentages of different products, market prices, yield/quality, exchange rates and shipping/ processing costs. Prices may be adjusted in-season as factors in the formula change (e.g., exchange rates, product split, yield).	<ul style="list-style-type: none"> <li>▪ Formula-based structured approach</li> <li>▪ Independent market info available to parties</li> <li>▪ All sectors gain insight into prices &amp; cost factors</li> <li>▪ Product-specific pricing</li> <li>▪ Promotes quality-specific shore prices</li> <li>▪ Allows intra-season adjustments</li> <li>▪ Should enhance trust between sectors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Major departure from current price formation</li> <li>▪ Extended period likely needed to develop area-specific pricing formula/gain acceptance</li> <li>▪ Requires on-going collection of market &amp; production data (shore prices/rebates, market prices, product mix, exchange rates, yield, quality, production costs)</li> <li>▪ May be difficult to accept area-specific prices based on yield &amp; quality differences</li> <li>▪ May require cost recovery levy</li> </ul>



<b>Pricing Objective: Improve quality and the flow of raw material to shippers and processors</b>			
<b>Option</b>	<b>How it works</b>	<b>Pros</b>	<b>Cons</b>
<b>Option 4: Auction</b>	An open bidding process where both quantity and quality form the basis of the bid. Could be display or electronic auction conducted daily in major ports. Auction run by harvester/shipper/processor consortium.	<ul style="list-style-type: none"> <li>▪ Open and transparent</li> <li>▪ Quality-based pricing provides quality incentives</li> <li>▪ Sensitive to shifts in market (real time prices)</li> <li>▪ Can result in higher prices to harvester (cuts out buyer commission)</li> <li>▪ Limits ability of buyers to game the shore price</li> <li>▪ Better quality commands higher final market prices</li> </ul>	<ul style="list-style-type: none"> <li>▪ Harvesters resistance</li> <li>▪ Shore buyer resistance</li> <li>▪ Investment in holding facilities</li> <li>▪ Investment in training</li> <li>▪ Design/implementation</li> <li>▪ Extra work by harvesters</li> </ul>
<b>Option 5: Collective bargaining</b>	Bargaining agents representing harvester unions and shippers/processors negotiate shore prices and other terms (e.g., quality standards, delivery schedules).	<ul style="list-style-type: none"> <li>▪ Broad representation</li> <li>▪ Familiar approach</li> <li>▪ Flexibility re bargaining units</li> <li>▪ Agreements may cover more than price</li> <li>▪ Creates basis for industry organization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduces individuality</li> <li>▪ Unpopular in some areas</li> <li>▪ Takes time to organize</li> <li>▪ No guarantee of agreement</li> <li>▪ Requires professional staff/market analysis</li> <li>▪ Requires mechanism for periodic price adjustment</li> </ul>

<b>Table 5.4: Structural Objective – Improve industry viability through optimal capacity, market responsiveness and strength</b>			
<b>Option</b>	<b>How it works</b>	<b>Pros</b>	<b>Cons</b>
<b>Option 1: Reduce harvesting capacity (where necessary) and allow flexibility in determining future optimal fleet size [Recommended Option]</b>	Capacity could be removed through government/industry-funded buy-outs, or through introduction of some form of harvesting right. Challenge is to come with funding. Rights could work to maintain optimal size, but most fleets would first have to be reduced so that incomes of those remaining could support on-going adjustments.	<ul style="list-style-type: none"> <li>▪ Reduces early season oversupply</li> <li>▪ Spreads landings over season</li> <li>▪ Improves harvester income</li> <li>▪ Creates basis for improving quality</li> <li>▪ Complements actions on supply/quality options</li> <li>▪ Various methods (ITQ, tradable traps, buy-out)</li> <li>▪ Supported by harvesters in areas with low abundance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Funds for buy-out limited or non-existent</li> <li>▪ Scope for industry-funded buy-out limited</li> <li>▪ Limited support for ITQ or other rights-based approach</li> </ul>
<b>Option 2: Manage shipping/processing capacity [Recommended Option]</b>	Provinces would eliminate any financial support or other concessions for shippers and processors. Adding to capacity would be subject to regulation through licencing controls.	<ul style="list-style-type: none"> <li>▪ Eliminating financial support levels playing field</li> <li>▪ Managing access reduces volume focus &amp; destructive competition</li> <li>▪ Reduced volume focus supports investment in product &amp; market development</li> <li>▪ Complements actions on supply/quality options</li> </ul>	<ul style="list-style-type: none"> <li>▪ May limit innovation and drive to improve efficiency</li> <li>▪ Fewer, larger processors &amp; shippers could exert control over shore prices.</li> <li>▪ Controlling access through regulation seen as limiting competition on the shore</li> </ul>
<b>Option 3: Allow vertical integration of harvesting and shipping/processing sectors</b>	DFO would modify the policy and regulations regarding fleet separation, and allow shippers and processing companies to hold fishing licences.	<ul style="list-style-type: none"> <li>▪ Facilitates production planning</li> <li>▪ Facilitates product &amp; market development</li> <li>▪ Allows greater control over costs</li> <li>▪ Allows greater control over quality</li> <li>▪ Provides a basis for consolidation, improved efficiency and market strength</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strong opposition from harvesting sector</li> <li>▪ Requires change in fisheries policy &amp; regulations</li> <li>▪ May not improve supply &amp; quality conditions (depends on action to address Barrier 1 issues)</li> <li>▪ Rationalization could result in fewer plants &amp; vessels, with adverse consequences for communities</li> </ul>
<b>Option 4: Status quo – rely on price &amp; supply actions to resolve issues</b>	No direct action would be taken on structural issues.	<ul style="list-style-type: none"> <li>▪ Avoids potentially contentious debate &amp; decisions on structure</li> <li>▪ Limits the number of issues that have to be tackled</li> </ul>	<ul style="list-style-type: none"> <li>▪ No guarantee that action will be taken to address Barrier 1 issues or that they will succeed.</li> </ul>

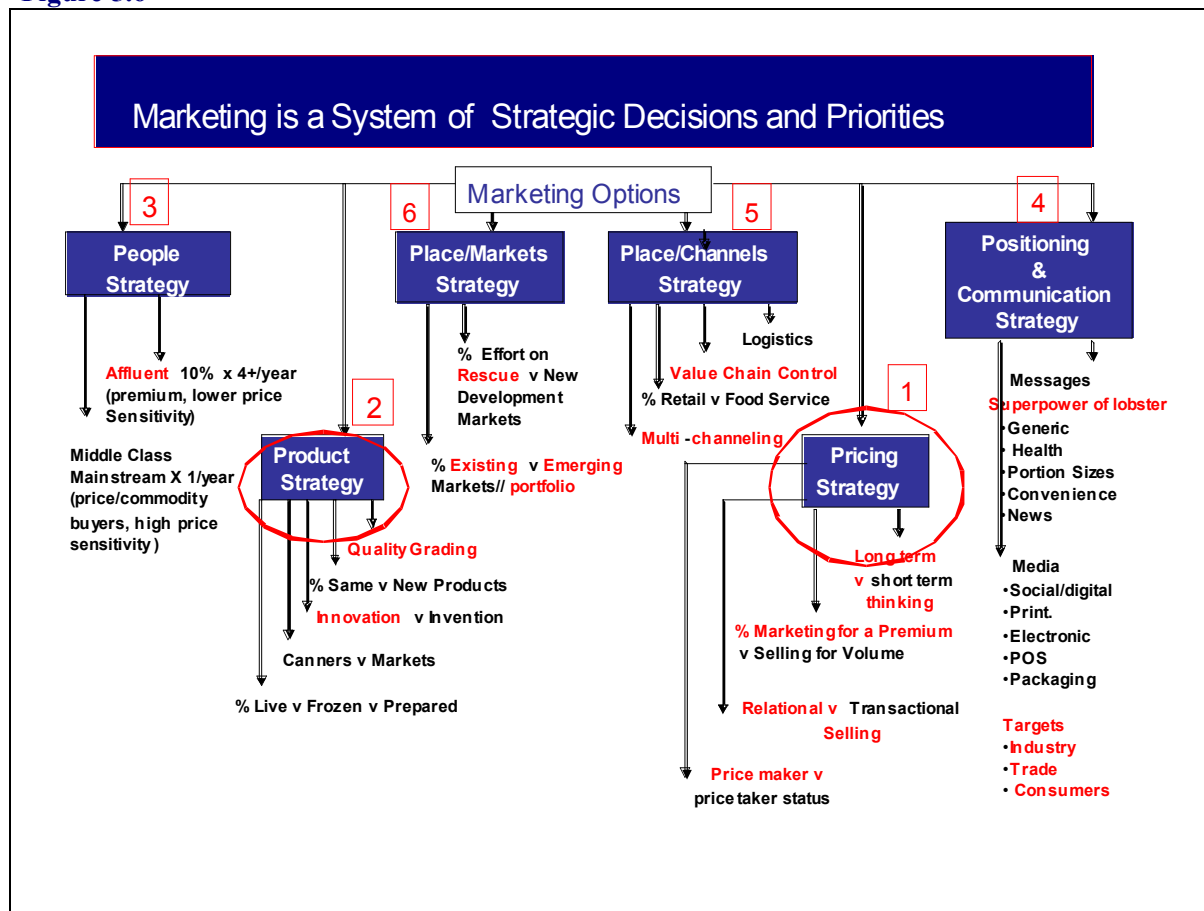
## 5.3 Marketing strategy

### 5.3.1 Starting point – the leading levers

A marketing strategy is about decisions; deciding which direction to pursue to achieve a goal. The first step is to identify the starting point that will serve as the leader for the strategy. Figure 5.6 illustrates a comprehensive marketing strategy with six components providing the ‘road map’ for decision-making. These are usually described using their “P” labels and each offers a range of options requiring decisions to be made about:

- ❑ **People** – what group or groups are targeted.
- ❑ **Places (markets)** – in what markets are targeted People.
- ❑ **Products** – what are we selling these People.
- ❑ **Price** – what price or selling strategy are we using to sell these Products.
- ❑ **Places (channels)** – through what channels are we selling the Products.
- ❑ **Position** – what attributes of the Products are we highlighting to appeal to the targeted People that cause them to select our Products.

Figure 5.6



These six components act like levers. When one lever is “pulled” or activated by a decision, it has an impact on the other levers. Effective marketing strategies ensure that the six levers are working in concert with one another to produce the most efficient output.

The usual approach is to identify the leading lever, which will provide guidance on the decisions made for the other levers. This leading lever should be matched with the Strategic Goal that is the expected outcome of the strategy. For the lobster industry, the strategic goal is to create and extract more value for the industry as a whole. The situation analysis has identified the need for a strategic framework that includes both Marketability and Marketing strategies, and for these two strategies to be operating “in sync” so that each strategy is supporting the other.

The Marketability Strategy is focused on accomplishing this by enhancing the ability of the industry to leverage its lobster asset through better management. This is a focus on shore price-setting, supply control, quality standard-setting and industry structure. These match with the Price and Product levers of the Marketing strategy, as shore-price setting and supply control relate to market price potential and quality standards relate to both price and product. Therefore, Price, followed by Product, should lead the Marketing Strategy.

This means that decisions made on Price strategy must support the overall goal of increased value extraction for the industry. The Marketability strategy will address the fact that the lobster industry has a significant resource asset that is being under managed for quality and prestige. Quality management is an important focus for Canada, if value growth is being sought in new markets. Both primary and secondary industry research has identified that the initial market entry decision hinges on whether to market lobster on price or prestige/quality. Canada has focused primarily on selling volume at low prices. Therefore, the first marketing decision to support the goal of increased value must be the decision to build a price strategy around prestige and quality, as the basis for higher market prices and wider margins. Prices can’t be raised without a rationale for doing so. That rationale must be built into the Marketing strategy and enabled by the Marketability strategy.

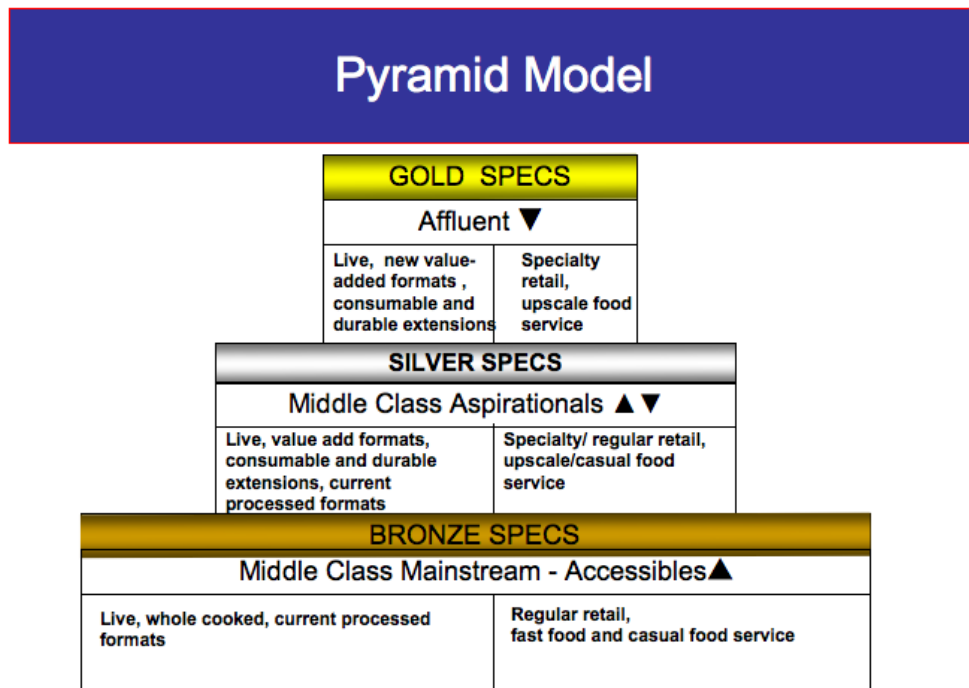
The challenge with the decision to pursue quality and prestige is the realization that the resource delivers a range of qualities depending on the season and the fishing grounds. In addition, quality buyers are in the minority, and until more can be found or developed, there is still a need to sell product at lower prices. However a decision to remain at a lower price point exclusively will not allow the industry to achieve the goal of extracting higher value. Therefore, the Price strategy must be built around a range of prices, quality levels, target buyers and products. This requires a business model that can accommodate the parallel issues of dealing with the uncertainties of a wild-capture fishery and the need to create an acceptable level of consistency and stability for buyers, as well as the industry itself.

### **5.3.2 Strategic business model**

A number of business models were considered, but one emerged as the best equipped to meet the challenges and requirements of the Canadian lobster industry. The Pyramid can accommodate different grades, price points, products and consumers, which can be positioned to highlight a Canada story. The Pyramid also allows for inclusion of some of the characteristics of the other models examined. The critical success factor for the chosen model is its capacity for integrating demand-side marketing + supply-side marketability + business management + resource variability.

The Pyramid is a choice-based model that fits a range of prices into a system of qualities and products that provide the consumer and customer with options. The pyramid choice model is effective for the current economy as it offers a built-in justification for trading up or down, as needed or desired to retain focus on the appeal of lobster versus substitute products. The quality grade ranges also provide a rationale for ‘quality’ variability to address the reality of quality variances between the Spring and Fall seasons. The pyramid model is illustrated in Figure 5.7 and described in Table 5.5.

**Figure 5.7**



The Pyramid shown in Figure in 5.7 provides an example of how the tiered choice model could be developed, based on a range of qualities, products/SKUs, price points and channels. In this example, marketing communications can target the top-tier Affluents and middle-tier Aspirational with a quality story that encourages the Aspirational to move up and reinforces the Affluent’s Gold tier choices, while providing both the Affluent and Aspirational with a lower but acceptable price point alternative and quality certification to address different circumstances and occasions.

The lower level, the Accessibles, can be targeted with price-accessibility promotions that allow them economic access, to build product exposure to and engagement with lobster. Some of these can be expected to become Aspirational as and if their economic or attitudinal/preference circumstances change.

The tiered approach can be used to define differences in all of the marketing strategy components:

- ❑ different target consumer groups.
- ❑ different products targeted at specific groups.
- ❑ different product quality grades.

- ❑ different price points for different quality grades, different consumers and different channels.
- ❑ different channels for reaching the target consumers.
- ❑ different geographic markets for different products.

The unifying element for this tiered approach will be the Canadian lobster brand story. This will position Canadian lobster as the lobster super power, which is capable of providing a quality opportunity that fits the broadest range of needs.

**Table 5.5: Pyramid Model**

<b>Explanation:</b> A portfolio of different products, price points and customers.	
<b>Examples:</b> <ul style="list-style-type: none"> <li>• gas (regular, premium, super-premium)</li> <li>• range of Blackberry cell phones (Pearl, Bold, Torch)</li> <li>• range of cars in the Toyota line (Corolla, Camry, Lexus)</li> <li>• credit cards (basic, gold, platinum)</li> </ul>	
<b>Lobster opportunities:</b> Bronze, Silver and Gold quality grades in different formats to appeal to different consumers at different price points	
<b>Pros</b>	<b>Cons</b>
<ul style="list-style-type: none"> <li>■ wider margins at the top level of products balance narrow margins at the bottom</li> <li>■ the lowest priced products create a firewall against competition</li> <li>■ appeals to a wide range of potential customers and price points</li> <li>■ provides a roadmap for attracting those who want to trade up</li> <li>■ provides options for those who need to trade down to stay with lobster</li> <li>■ provides a portfolio approach to enable sales of a wide range of quality grades</li> <li>■ creates broader industry awareness of commodity v specialty status and how that status explains margin differences</li> <li>■ forces a cultural shift in thinking about the relationship between the products and the market</li> <li>■ market focused thinking and knowledge provides value criteria to direct new product innovation</li> <li>■ a value criteria system enables resources to be focused on the right products by holding each project to a specific set of go-no go value criteria defined by the Pyramid</li> <li>■ requires a commitment to understanding customer needs which maintains a strong market focus</li> <li>■ fits with a multi-channel strategy to decrease dependence on limited and traditional channels</li> </ul>	<ul style="list-style-type: none"> <li>■ complexity increases with more products and prices</li> <li>■ different marketing and management is needed at all levels - often the higher priced products are not marketed effectively causing the lower priced products to erode potential sales</li> <li>■ production of the lower priced products needs to be ultra efficient as it reflects high volume</li> </ul>

The purpose of the Pyramid model is to provide a template for tiered thinking about the components of the marketing strategy. The tiers have been defined as Bronze, Silver, Gold to provide an example but other labels could be used as long as they show an ordinal progression from lower to higher. The following table illustrates options, NOT RECOMMENDATIONS, for tiered thinking in relation to lobster marketing. Some of these can be combined or completely different options could be considered. The purpose of the table is to illustrate that the pyramid model should be used to identify opportunities for a portfolio of price points and quality levels, whenever marketing decisions are being made.

**Table 5.6**

	Bronze	Silver	Gold
<b>Target market</b>			
▪ Psychographic status	Accessibles	Aspirationals	Affluents
▪ Demographic status	Middle Class	Upper Middle Class	Upper Class
▪ Purchase driver	Price	Price/Quality	Quality
▪ Profit Segment	Low Price Mainstream	Mid Price Mainstream	Premium Niche
<b>Format</b>	Frozen	Chilled	Live
<b>Format</b>	Popsicles	Tails	Splits
<b>Applications</b>	Ingredient	Appetizer	Centre of Plate
<b>Positioning</b>	Special Price Opportunity	Make Any Day An Occasion	The Best, Always
<b>Quality Range Options</b>	Lower meat yield, soft shell, twice frozen	High quality processed frozen once within hours of capture	Fully meatened, hard shell, chilled, live
<b>Season</b>	Fall: processed Summer: (Maine processed in Canada)	Spring: Processed Fall: live	Spring: live
<b>Size</b>	Canners	Markets	Markets/Jumbos
<b>Markets</b>	Europe	US	US/Asia
<b>Channels</b>	Fast food restaurant Value –focused retail	Casual restaurant High –end supermarket	White table cloth Specialty retail

As noted, these are examples of the ranges that can be assigned to each Pyramid level. The key point is that a tiered approach is applicable for most of the strategic decisions to be made in executing a long-term value strategy for the lobster industry.

### 5.3.3 Price strategy

#### Decision options

- ❑ Marketing high for a premium vs. selling low for volume.
- ❑ Relational marketing vs. transactional selling.
- ❑ Long-term sustainability thinking vs. short-term cash flow thinking.
- ❑ Price maker vs. price taker status.

#### Recommended price strategy

- ❑ Industry commitment to a game changing focus on being a price-maker based on targeting quality buyers:
  - This requires long-term thinking for the establishment of premium pricing and relationship-based marketing.

- While this will not happen immediately – this focus will drive decisions in the other levers to ensure that they are developed for the purpose of supporting price-maker behavior.
- In the meantime, the Pyramid approach can be used to focus on the Bronze level for needed cash flow.

## Time-frame

- The current transactional, commodity focus cannot be changed immediately to a relational, quality and prestige focus, as the buyers are not available in sufficient numbers and the Canadian industry needs to address marketability issues in order to support a Canadian quality brand. The brand must be developed and communicated to customers and consumers to build demand for the Canadian product. Thus the timeframe for implementing a change in pricing strategy is likely 2-5 years as this requires work in other strategic areas as well. However if commitment to price-maker status is not initiated immediately by a critical mass of the industry, nothing will change. Canada will continue to be a price taker.

**The immediate objective is to reach consensus on the decision to transition from being a low price, high volume commodity lobster industry to becoming a more diversified and high price, quality-based and prestige lobster industry, with all the marketability and marketing initiatives this entails.**

## Discussion

This is a critical strategic decision. Selling volume at low margins or marketing for a premium. Past research conducted for a company in the seafood industry examined the degree to which relational marketing and transactional selling influenced revenues<sup>1</sup>.

Relational marketing means the focus is on developing a committed relationship with customers. This is based on quality and service. Transactional selling is based on price and volume. For this company, 33% of their top customers were in the top category of committed customers; strong relations were developed and this 33% of customers accounted for 74% of revenues from all customers. This clearly demonstrates the value of relationship marketing, coupled with product marketing.

Interviews in 2010 with international seafood buyers, conducted for this lobster strategy have identified that the median premium of the quality, committed lobster marketing relationship is an additional .75 /pound, with a range from .20 cents per pound to \$2.00 a pound compared with competitive lower quality product. The buyers arrived at their premiums by comparing the quality price paid to the lower-price alternative lobster they had access to. The challenge is to find more quality buyers and give them a consistent and stable reason to pay more.

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<sup>1</sup> Private sector research



A relational strategy is about generating a premium price and strong margin as a result of superior quality and service. Marketing for a premium requires the development of relational thinking, building long-term relationships with demanding buyers. Interview evidence shows that this approach comes as close as possible to ‘bullet-proofing’ that customer to other low cost offers. The alternative is the prevailing transactional approach that sets up Canadian lobster as a commodity that is worth as little as the buyer can get away with paying.

Seafood customers define the quality supplier as:

- ❑ Always accessible to deal with emergency orders or emergency deliveries.
- ❑ Able to connect with/work with other suppliers who can assist with a problem or in avoiding a problem.
- ❑ Always having product.
- ❑ Able to provide consistent sizes.
- ❑ Supplying guarantee-able product quality.
- ❑ Ensuring that product handling from wharf to delivery supports quality.
- ❑ Ensuring on-time delivery – no/minimal bumped shipments.
- ❑ Able to make the customer look good to his customers.
- ❑ Having low death rate/shrink factor in delivered product.

The objective is to gradually transition to a relational, quality supplier strategy, which requires a commitment to that transition by a critical mass of the industry. Education on what is required of a quality supplier and methods for attaining this status is a critical first step.

## Pricing options

- ❑ Pricing strategies will vary by target customer and consumer segment, the lifecycle stage of the live or processed lobster product (introduction, growth, maturity and decline) and the nature of the market (existing or emerging).
- ❑ Skim pricing captures value when a product is new and desirable, among an early group of adopters, in a new market.
- ❑ Penetration pricing drives growth among a wider range of later adopters. A key consideration is around low introductory price deals, which affect later price options as it is difficult to move prices up once low prices are accepted.

Pricing will be determined based on several variables:

- ❑ a value proposition that is relevant to the customer. This requires market data and knowledge of the customer segments being targeted,
- ❑ new product development,
- ❑ markets selected,
- ❑ the ability to effectively set shore prices and to control supply,
- ❑ the ability to execute quality grading and implement quality handling and supplier practices on an industry-wide basis.

## Price actions

Table 5.7 connects the Pricing strategy with the RACE (reduce, add, create and eliminate) actions for changing the current status quo in the lobster industry. The actions are divided into their marketability and marketing components to illustrate the close interaction between marketability and marketing in regard to Pricing strategy.

These are the key action steps required to support a price maker strategy. They will be undertaken in conjunction with actions from the other marketing strategies. For example, reducing tank house costs will be a function of supply control for glut minimization. Fresh start pricing will work in conjunction with new product development for current markets, new market entry for live products and new positioning for Canadian lobster through the development of a Canada lobster brand. These related strategies will be discussed in later sections.

**Table 5.7**

<b>Price Strategy</b>	<b>Objective: Replace the current low value strategy with a high value strategy Key Drivers: Stability, Margins</b>			
	<b>Reduce Weakness</b>	<b>Add Strength</b>	<b>Create Opportunity</b>	<b>Eliminate Barriers</b>
<b>Marketability Actions to Support a Price Maker Pricing Strategy</b>	<p>Reduce industry focus on transactional, low margin volume selling</p> <p>Reduce price volatility which causes retailers and food service to de-list</p> <p>Reduce unnecessary costs (tank house storage costs, shrink)</p>	<p>An industry focus on increasing margins to enable re-investment and build a sustainable ROI</p> <p>Increase speed of price provision to buyers to increase capacity to plan</p> <p>Education and consulting with companies on attaining quality supplier status</p>	<p>Build and implement an industry price-setting mechanism focused on quality, stability, efficiency and unity.</p> <p>Include an industry- minimum price mechanism as a base for incremental quality to incent harvesters to uniform quality practices</p>	<p>Eliminate price-taker status, price matching undercutting, counter-productive competition, short term focus</p>
<b>Marketing Actions to Support a Price Maker Pricing Strategy</b>		<p>Increase focus on relational selling, marketing for a premium throughout the supply chain</p> <p>Position higher prices in specialty stores as a function of higher quality handling (tank rotation, disposal or re-formatting of product that has moved out of its initial quality grading)</p>	<p>Fresh starts enable higher price points: current products in new markets and new products in current markets</p> <p>Negotiate contracts to secure prices and volumes for the industry and to provide stability and price to buyers</p> <p>Consider partnering with Australian wholesalers to augment their declining supply and leverage their higher price point contacts in Asia</p>	

## Premium pricing potential – Operation Fresh Start

The goal of increasing value in the industry through capturing a premium from an increasing percentage of the market requires consideration of current pricing attitudes. Table 5.8 is reprinted from the IPSOS REID European Market Study, *Understanding the EU Consumer for Canadian Lobster*, conducted in 2009. This table presents the percentage of lobster consumers who consider lobster to be too expensive compared to other substitute products.

**Table 5.8**

<b>TABLE 1</b> <b>Shellfish Category – Product Positioning Attributes</b> (Overall Market: Base of 1,217 Lobster Consumers)					
ATTRIBUTE	LOBSTER	CRAB	MUSSELS	SCALLOPS	PRAWNS
Much too expensive	71%	16%	6%	18%	5%
Worth paying more for	43%	28%	15%	33%	31%
Offers good value for the money	9%	20%	44%	15%	54%
Is a premium product	55%	20%	11%	31%	20%
Always high quality	32%	26%	21%	28%	33%
Always fresh	27%	28%	32%	27%	38%
Healthy, good for you	50%	51%	47%	51%	64%
Easy to find where I shop	17%	27%	43%	29%	67%
Excellent choice to serve when entertaining	27%	23%	18%	40%	51%
Great party food	25%	20%	11%	28%	54%
Easy to serve	14%	19%	37%	35%	65%
Easy to prepare	16%	21%	43%	34%	67%
Safe, no concerns about food safety	33%	33%	25%	36%	47%
Personal favourite	28%	18%	12%	30%	31%

**Table Note:**  
 Survey respondents were asked to select for each statement (attribute) which of the shellfish they felt were described by the statement. They were able to select as many or as few of the shellfish as they felt applied to each statement. (Question 9)

Over 70% of lobster consumers in Europe state that lobster is much too expensive, However, elsewhere in the report, is the admission by 78% of lobster consumers that they don't know the price of lobster; that they are unfamiliar with the price of lobster. This suggests that the price image of lobster is playing a role in limiting consumption frequency. This indicates the need to address the power of price image if prices are to be increased, but also suggests that lack of actual price familiarity provides some flexibility in pricing if consumers can be convinced that the value of the lobster experience exceeds the price point.

Further information on pricing is provided by research conducted by the consulting team in July 2010, in Canada, the US and Europe. This research inquired as to how lobster consumers viewed price for lobster, whether it was per lobster, per pound or per kilogram. While 71% of US respondents think of lobster prices by the pound, only 42% of Canadians think per pound and 43% of Europeans think on a per kilogram basis. Fully 43% of Canadians think on a per lobster basis, 27% of US respondents think per lobster and 48% of European respondents think on a per lobster basis. This has strong implications for how lobster pricing is presented. In the world of salmon, portion packs have been very successful. If many are viewing lobster prices as the price per lobster per person, then price per pound may be drawing an unfavorable comparison with per pound prices of substitutes and alternatives. Further examination of the optimum price unit will be an important component of the pricing strategy for lobster.

This research also identified a common response when respondents were asked what they typically expect the total price for lobster for two people (this is the price for the lobster alone). In all three areas, the median price was \$30 CDN, \$30 US and €30. Given that the main lobster sizes cited were 1 or 1.5 pounds, this puts the price at \$10.00-\$15.00 or €10-15 per pound. (The pound weight equivalents were converted to kilogram weight equivalents for Europe). It is notable that in Canada, 56% of the respondents were able to provide a price for 'lobster for two', in the USA 79% were able to provide this price, while 46% of the European respondents were able to provide a price. This indicates that there is uncertainty over lobster prices for a substantial percentage, but there is also a substantial percentage who have a sense of the price, which falls in a similar range for all three areas. The European price of €30 is the equivalent of \$40.00 CDN. Notably, the Europeans were the most likely to report that their lobster consumption had declined over the past three years.

Given perceptions about lobster price imagery, the task of convincing consumers that value counteracts price is not only a positioning task. It is also a product development task, as one of the strongest routes to revenue growth is through product innovation that provides the opportunity for a fresh start in a current market. Therefore, as noted in the actions Table 5.7, a premium pricing strategy could be developed as Operation FreshStart.

New products in existing markets such as Europe, where interviews with trade commissioners and international wholesalers made clear the popsicle was past its time and its prime, would be an opportunity to go into current European markets with both a fresh format and a fresh positioning under a new Canada brand. Simply raising prices in current conditions without making a change in the product is unlikely to be successful. However current products in new markets also reflect a fresh start in that market. Canadian lobster in China could be uniformly positioned on quality at higher prices for live product, which is the only format of interest in China at the moment. In the future, new products developed for current markets will no doubt be acceptable in China as consumers become more "westernized" in their consumption.

As new product development takes time and approximately 70-80% of new products fail, new product development should be an immediate initiative, based on research and partnering with European food service to ensure that consumer and customer preferences are understood. This will be discussed in the Product strategy. The implication for Pricing are the answers to two key questions raised by Pricing consultant Mark Burton <sup>2</sup>, as this will influence the pricing strategy selected:

- ❑ What is the nature of the innovation? Is it a minor tweak, a major change or a disruptive technology?
- ❑ In what stage of the lifecycle is the product category? Is it in the introductory stage, growth, maturity or decline?

**Table 5.9**

	Minor Innovation	Major Innovation	Disruptive Innovation
<b>Introduction Stage</b>	Neutral- slight premium	Skim	Upmarket-skim Downmarket -neutral
<b>Growth Stage</b>	Neutral- slight premium	Penetration	Penetration
<b>Maturity Stage</b>	Neutral - slight premium	Neutral	Neutral
<b>Decline Stage</b>	Neutral - slight premium	Skim	Skim

While live lobster is a mature product from an image and ‘duration in market’ perspective, processed lobster is likely between the Introduction and Growth phase, since innovative new products are being asked for. The new product should aim to be a major innovation in terms of accessibility and usability of the product to increase the chances of setting a premium price on introduction. However even a minor innovation, if successful, will allow for a slight premium, which may be sufficient to generate renewed attention to the Canadian lobster industry.

A number of pricing research tools will assist with setting the price point. They include the Van Westendorp and Revenue Forecast Extension Models that plot optimum price point curves based on answers to a set of core questions.

More effective methods include Conjoint Analysis, which is useful at the product development stage when product attributes are still being determined. This method allows price to be understood in relation to the product features under developmental consideration.

Alternatively, for a finished product, Discrete Choice analysis provides a more realistic assessment of choice as this method is based on consumer preference and selection compared to alternative products that are competing for the consumer’s attention and share of their wallet. This makes for a more realistic method of identifying an optimum and acceptable price point within the competitive context.

<sup>2</sup> Pricing With Confidence, 10 Ways to Stop Leaving Money on the Table, Mark Burton and Reed Holden 2008, John Wiley and Sons

In summary, the first step in developing a pricing strategy is to build commitment to changing the way the industry currently approaches the market: as a price-taker, selling volume at low prices. Change will not occur until other actions have been accomplished, but it will be necessary to commit as an industry to taking those actions in order to be able to pursue a price-maker position. Key initial steps include implementing the marketability actions: shore-price setting, supply management, quality grading, quality handling and quality supplier relations. These will be augmented by brand development and product development to build a platform for fresh start pricing in new and existing markets.

### **5.3.4 Product strategy**

#### **Decision options**

- ❑ Quality Grading.
- ❑ Same vs. new products.
- ❑ Innovation vs. Invention.
- ❑ Live vs. Processed.

#### **Recommended product strategy**

As higher prices on current products will be a hard if not impossible “sell”, a focus on high value products and practices is recommended. This includes the development of quality grading and handling practices, and new product development/innovation to generate fresh interest in Canadian product in support of a fresh start pricing opportunity. Subsequent focus on unique product applications for canners and claws, to position these products as ‘fresh’ items. Live product offers fresh start opportunities in Asian markets, while the positioning of new processed products and the re-positioning of selected current products in existing markets will contribute to the fresh start opportunity.

#### **Time-frame**

Quality grading standards and quality practice development, communication, awareness, adoption and deployment can be expected to take as much as one to two years to build industry-wide fulfillment, depending on industry willingness and support. Product development and positioning is crucial to building renewed interest in existing markets and future opportunities for growth in Asian markets once they have moved beyond their sole focus on live product. New product development can be expected to take at least 2 years for research, development and commercialization.

#### **The immediate objectives are to:**

- **work with the Lobster Science Centre to establish grading and handling practices for industry-wide adoption. This will form the basis for both product development and brand development**
- **position current products more effectively in both existing and new markets**
- **partner with the culinary world, chefs, caterers in France, Belgium and Germany to develop an innovative new product that will appeal to these markets. Europe has decreased its lobster consumption over the past 3 years. Therefore this is an important testing ground for generating renewed interest through new product development, designed to arouse interest and deliver real benefits to consumers and higher value to the industry.**



## Product considerations

The Product strategy includes decisions on what formats are most appealing to each target market selected; matching the right product to the right market. Decisions include the balance between current formats and new product development. This requires thinking about the lifecycle for lobster in various markets. Current markets are accustomed to lobster and entrenched in their views of it. Opportunities for new interest and new price points require new formats. New markets are not entrenched in the image and experience with lobster. The live product will help to build appeal and interest in new and growing markets assuming Canada consistently delivers.

New product development is a key consideration. European buyers and trade commissioners tell us that popsicles are a tired product. The new ‘popsicle’ needs to be developed. There are two key considerations related to new product development: innovation vs. invention and product line complexity. Innovation is needed if the industry wants to move up the marketing ladder away from the current production and selling/transaction focus. The Blackberry is both an invention and an innovation, with its new technology that enables new uses and applications.

- ❑ **Invention** – is often producer-driven. It is what CAN be produced while innovation is customer-driven; what SHOULD be produced to meet a consumer need or solve a problem. Raw lobster is an example of a technology, the hydrostatic process, for producing shelled, raw lobster. But the cost of the shelled product makes it too expensive for retail and even most restaurant applications. On the consumer side, consumers weren’t used to the idea of cooking raw lobster to taste, so the focus became the price, particularly when the absence of the shell highlighted the amount of meat for the price paid.
- ❑ **Innovation** – is customer driven and adds value because it addresses a customer need. Split lobster in the shell offers easier access to the meat, presentation appeal and convenience. Innovation helps customers do or have something easier, better or cheaper. Innovation has not been a driving force in the Canadian lobster industry, nor in Canada in general. In the lobster industry, tight margins have prevented the reinvestment needed for innovation and subsequent commercialization. A recent example of product development is the introduction of Lobster Caviar by a New Brunswick processor. This is a sustainable product legally extracted from non-berried female lobsters. This indicates that there are many opportunities for using lobster to create new products. The key to developing and choosing among the options will be the initial market intelligence with users and influencers to ensure that a real consumer interest is being met.

Methods to help with product development include the Eureka International development criteria (Eureka is working with the PEI Processors on product development). These criteria state that new product development requires an overt /major benefit for the consumer, a credible reason to believe that the benefits will be delivered (could be grading standards), and a genuine difference from what is currently on the market.

The work that the PEI processors are doing may enable the product development task to be moved ahead more quickly. However, this development in conjunction with European food service partners will ensure a strong market-oriented focus for development. This is important because it ensures that new products offer something new versus a product that is ‘produce-able’. This is the important market focus “Does this provide a useful new product to consumers” versus the production focus “Is this product under consideration for development only because it *can* be produced”. Market focus includes the input of both customers and consumers. The effort on product development will have a higher probability of success if it is market-focused.

- ❑ **Complexity** – is another product development and management issue. Complexity refers to editing the current product line assortment to ensure that unnecessary costs are not being incurred by producing and inventorying products not capable of generating value for the industry or the consumer. The challenge lies in creating the optimum product mix, so as not to have too many formats under management. Retailers are starting to edit their products to reduce complexity for the customer. This should be a consideration in product development too. Bain & Co found that lowering the number of products managed, increased sales up to 40% and decreased costs by up to 35%. Their research identified both revenue and cost benefits to having a more streamlined and optimized product line. It is equally important not to ‘cut’ products that any have potential if they are marketed differently. Product selection and editing requires accurate data for decision-making.
- ❑ **Process efficiency** – is a companion consideration to product development. Reducing costs through increased efficiencies is particularly important as declining exchange rates erode the margins made in the past and prevent prices from rising to make up the difference on the price of an export product. These efficiencies must be considered throughout the supply chain from the cost of boat fuel, the number of fishing trips made, the cost of overtime labor due to gluts, the cost of electricity for double freezing of product during gluts, the cost of shrink due to poor handling and harvesting lower quality lobster, the cost of storing multiple processed formats, and packaging costs.
- ❑ **Financing innovation** – is another essential consideration in the product development process. The PEI processors are working together cooperatively and are being assisted by the PEI government. Federal funding programs include the Scientific Research and Experimental Development (SR&ED) tax credit and the National Research Council, which has co-operative development financing to support innovation. Partnering with content specialists such as chefs, culinary institutions, etc. is another option. A stage gate development process also assists with attracting financing as risk is minimized by the setting of progressive goals that provide a ‘go-no go’ signal for development to ensure that continued investment is justified.

## Product development in Europe

A presentation made by Innova Market Insights at the Brussels Seafood Show 2010, *European Seafood Market: Trends and Product Development*, identified that France and Germany were often in the top 5 countries for seafood product launches. The learnings are useful for understanding what is important in new product development for those markets.

- ❑ **Products** – launched included such items as salmon burgers, pouches of pasta and shrimp, ready to heat meals (In Germany, two portions of smoked mackerel with paprika topping that was skinned and ready to eat on a styrofoam tray. In France, two portions of a ready to cook Provençale flavored salmon steak, in a microwavable aluminum tray). New products included all temperatures - ambient, refrigerator and freezer products.





- ❑ **Packaging** – Cardboard allowed for more upscale presentation, with windows for product viewing, but the windows did not show the product well (frozen whole langoustine in a one kilogram box). Plastic film-wrapped trays showed the product to greater advantage, but presented as less upscale.
- ❑ **Flavoring** – was a large part of the value-add for the products. Top preferences included olive oil and tomato, but ran the whole gamut of spices and cheese, as well as smoked options. Vegetables, onions, tomatoes, olives and garlic were noted as key accompaniments.
- ❑ **Positioning** – was dominated by the benefits of Ready-Prepared, Time saving, Omega 3, No additives or preservatives. A further appeal was “Creating the Restaurant Experience at Home” which speaks to more upscale occasion products. These included jumbo shrimp as appetizers in cardboard packages with attractive graphics, featuring claims such as responsibly sourced, responsibly processed and wholesome seafood. Traditional ‘farming’ methods are valued, which reference the absence of pesticides, more natural foods, and sometimes more labor-intensive processes which command premium pricing. Minimal processing and minimal ingredients appeal to those interested in a natural product in a box. Related appeals include such concepts as a stated portion of the purchase price donated to foundations to restore the natural habitat of wild fish, controlled fishing and responsible retailing where products are introduced as responsible alternatives to other seafood products. Further, the recession is creating nostalgia for simpler times and simpler foods. These are “back to basics” natural foods with clean labels. ‘Clean label’ refers to key claims that previously were located on the back of the package, and which are now displayed prominently on the front as a selling feature. For example, “no artificial colours, flavours or preservatives”.

## Lobster Product Development in USA

These are examples of two products exhibited at the 2010 International Boston Seafood Show from Shucks Maine Lobster. The descriptions are appealing in terms of drawing attention, offering convenience, providing usage ideas and information. There is also a continuous focus on positioning and branding. Both the consumer and the food service customer are “romanced” in these product descriptions. The spotlight on claws as an interesting product is important to move them from ‘meat’ status only.

- ❑ **Shucks Maine Lobster "Lobster Meat"**  
*The best value in Lobster Meat today. You get three 4-ounce pouches of cooked, frozen, 100% Certified Maine Lobster meat. Cooked, finely chopped and mixed to offer an easy and convenient way for you to eat lobster any day! Package includes three pouches- use one today and save the rest for later - or open all three and feed the party. Included are recipes for easy and delicious ways you can enjoy lobster today: Maine Lobster cakes, Maine Lobster Rolls, Maine Lobster Spread.*
- ❑ **Shucks Maine Lobster "Lobster Tempura"**  
*These "Certified Maine Lobster" Claws come fully battered and IQF for the ultimate convenience in the food service sector. The Claws are raw, NOT cooked. The batter is deliciously light. Surprise your customers with a fun and simple way to eat Maine Lobster without the fuss and mess! Shucks Maine Lobster "Tempura" is definitely Lobster that is "too sexy for it's shell".*

## Product actions

Table 5.10 connects the Product Strategy with the RACE (reduce, add, create and eliminate) actions for changing the current status quo in the lobster industry. These key actions are divided into their marketability and marketing components to illustrate the close interaction between them in regard to a revitalizing Product Strategy. Fresh start product development is a focus on new product development for current markets, new market entry for live products and new positioning for Canadian lobster through the development of a Canada lobster brand.

**Table 5.10**

<b>Product Strategy</b>	<b>Objective:</b> <b>Make product quality and functionality the basis for price increases.</b> <b>Key Drivers: innovation, consistency, product/market matching</b>			
	<b>Reduce Weakness</b>	<b>Add Strength</b>	<b>Create Opportunity</b>	<b>Eliminate Barriers</b>
<b>Marketability Actions to Support a Product Development and Deployment Strategy</b>	<p>Reduce supply to support higher market prices and rebuild from commodity status – then manage supply to the markets developed.</p> <p>Reduce the incidence of inconsistent quality product from Canada that sets the stage for low pricing.</p> <p>Match processing capacity to the catch through consolidation (reduces overhead and labor supply costs)</p>	<p>Pilot test different supply control options in different LFAs based on an option's fit with specific LFAs</p> <p>Identify critical quality control points along the supply chain from boat, handling, storage, processing, transportation</p> <p>Build an innovation vs. invention focus - collaborate on value-added formats to diversify risks and costs.</p> <p>Build an innovation financing plan</p>	<p>Focus on both in-shell product development, and meat products, such as claws /knuckles.</p> <p>Work with companies such as McCains, for value-added product expertise as well as European food service to develop the next 'chicken wing' product using lobster and the next upscale product to support the in-home restaurant experience.</p> <p>Conduct R&amp;D on allowable health benefit claims for lobster</p>	<p>Eliminate product –origin confusion with packaging and live product markings.</p> <p>Eliminate gluts that affect prices through out the season, increase costs and threaten quality</p> <p>Eliminate competitive fishing that drives up harvesting costs and results in unpredictable supply</p>

Product Strategy	<b>Objective:</b> <b>Make product quality and functionality the basis for price increases.</b> <b>Key Drivers: innovation, consistency, product/market matching</b>			
	Reduce Weakness	Add Strength	Create Opportunity	Eliminate Barriers
<b>Marketing Actions to Support a Product Development and Deployment Strategy</b>	<p>Reduce the supply of low quality products that are negative cues for processed.</p> <p>Reduce the tendency to oversupply a product that 'works' to avoid flooding</p>	<p>Build consumer exposure to Canadian lobster with new lobster products to increase applications and frequency.</p> <p>Increase the distinction between canners and markets to create two clear products and price points, and to leverage the fact that canners are uniquely Canadian- smaller, good quality and taste.</p>	<p>Market portion sizes and stable costs</p> <p>Create a live and processed product deployment plan that aligns with market goals</p> <ul style="list-style-type: none"> <li>• Less live to existing markets to increase price</li> <li>• Divert live to new markets to generate interest (Asia)</li> <li>• Direct processed, convenience formats to existing markets already familiar with lobster</li> </ul>	

## Current Products

The current portfolio of product formats essentially includes live, whole cooks, popsicles, tails and meat. Tables 5.11 to 5.15 present the strengths, weaknesses, opportunities and barriers related to the current product set, to provide a baseline for thinking about product innovation.

**Table 5.11: Live**

Strengths	Weaknesses	Opportunities	Barriers/Threats
Lowest markup from dock price to wholesale price	Quality is highly variable Messy to eat	Expand markets for live lobster in new areas Asia wants live product	Price volatility scares buyers
Seen as luxury seafood – important to white tablecloth restaurants	Risk of significant dead loss at all stages of sale from pound to customer	Improve surviving and grading to reduce dead loss	Western consumer preference for prepared, convenience foods means fewer eat live lobster
Good taste	Many consumers don't know what to do with live lobster	Gain environmental seal of approval- MSC to counter negative imagery for Canada	Poor quality can change consumer perception of lobster as a luxury item

Strengths	Weaknesses	Opportunities	Barriers/Threats
Relatively easy to prepare, cook	Some consumers are uncomfortable with a live lobster. No other food product is purchased live in Western countries	Leverage Maine awareness with an augmentation strategy to continue the availability of Atlantic lobster in months that Maine doesn't fish	'War' of differences between Canada and Maine would hurt producers in both areas
Shell color attractive	Restaurants have difficulty pricing lobster on menu Over 20% of consumers will not ask the price when the Menu says Market Price	Target upscale buyers to reduce the price issue	Higher prices could dry up recent expansion of consumer sales among price sensitive buyers

Strengths, weaknesses, opportunities and threats are relatively balanced for live product. The key opportunity for live is in Asian markets where it is a new product and meets preference for live product. Focusing on Atlantic lobster instead of Canadian and Maine lobster would circumvent any preference for Maine lobster and allow Canadian lobster to fill the role of expanding the lobster experience beyond the current summer season, due to Canada's double season. This augments Maine lobster instead of competing with it. Further, this still allows Canada to emphasize the lobster super power positioning due to our longer total harvest and subsequent greater supply. Live lobster could be positioned as a Gold level product in Asia and a Gold and Silver level product in the USA, if augmenting Maine lobster with Spring or Fall harvest Canadian product.

**Table 5.12: Whole Cooks**

Strengths	Weaknesses	Opportunities	Barriers/Threats
Least expensive way to sell whole lobster	Very much a commodity market – low margin business – a place to 'dump' excessive product	Limited supply can serve specific markets to help maintain value	Oversupply means a commodity price
Can be produced quickly and at lower labor costs	Seen as lower value lobster than live lobster	New techniques such as blanching may help open new markets	Lower quality, packed and sold as a whole cook influences image of lobster quality
Can take range of sizes especially small sizes		Could become more of a retail item to replace live tanks	Product less appealing to restaurant buyers
Suited to casino and cruise ship buffets			Can be replaced by other shellfish- warm water tails, king crab etc
Can be less messy to eat than live lobster			Must compete on price vs. quality

The strengths of whole cooks are countered by the barriers. However the main opportunity may lie in positioning them as a Bronze level product, a firewall product, as long as quality is consistent. This means that production has to be extremely low cost and efficient, which appears to be possible given the strengths.

**Table 5.13: Popsicles**

Strengths	Weaknesses	Opportunities	Barriers/Threats
Inexpensive way to sell whole lobster	Market is limited to a few EU countries	Makes possible the sales of other lobster products in EU	Price volatility can lead to problems for sellers
Provides a market for under 350 gram lobsters	Larger sizes in EU for higher price means lower value perception		Product is vulnerable to inventory build-up if sales are slow
Easy to process	Long shelf means consumers expect a low price		Product seen as old, not innovative
Ability of retailer to sell by the piece	Consumers have to be comfortable with in-shell lobster		Other types of lobster serve as competition

The weaknesses and barriers dominate for popsicles. Given that the main market is Europe and European sources tell us that that popsicles are a low quality, low value, tired product; this is a product that could be retired to make way for new and innovative options. Removing popsicles from the EU market could also signal that Canada is serious about their focus on quality products.

**Table 5.14: Tails**

Strengths	Weaknesses	Opportunities	Barriers/Threats
Strict size grading allows customers to buy for different uses	Price depends on shore price for whole animal- leads to more volatility	'Lobster' idea can expand use of tails on the menu	Poor quality, over-glazing, treating raw product are all threats to product integrity
Primarily a food service item	Price fluctuations can make it hard for food service to commit to keeping it on the menu	Taste can be used to differentiate Atlantic lobster from warm water tails	Price volatility leads to removal from menus and greater difficulty getting back on those menus
Frozen year-round availability	Lack of shell or claws means less differentiation from other tails		
Easy to store and transport	Australian and Cuban tails appear to offer larger tail sizes, as Canadian jumbos are not processed for tail meat		
Versatile to use in centre of the plate presentations	Canadian tails of the same size as Australian tails sell for substantially less		
Canadian tails are sweeter and have a better bite than warm water tails	Additional moisture makes Canadian tails easily overcooked, less forgiving than warm water tails		
	Labor costs are proportionally higher for smaller tails		

Weaknesses currently dominate the Canadian tail market. However if shore price setting is addressed for greater price stability and Canadian tails are actively positioned according to their comparative attributes, the weaknesses can be overcome, to leverage the strengths. If Canadian coldwater tails compare favorably with Australian coldwater tails<sup>3</sup> then Canada could consider positioning tails as a Gold level product that could augment the low volumes of Australian tails, especially given recent quota cuts in Australia. If there is a distinct difference in perception of the two tails, the Silver level may be an option. This provides a jumping off point to leverage the Asian market that Australia has been successfully penetrating.

**Table 5.15: Meat**

Strengths	Weaknesses	Opportunities	Threats
Most versatile of all lobster products	Production limited by production of tails, use of live and whole cooks	Menu uses can be expanded	Price volatility can cause restaurants to take it off the menus – hard to get back on
Can be shipped and stored easily	Can lead to market imbalances	Good candidate for marketing as it is easy to store and ship	Low quality meat can hurt consumer perception
Separate sales of tails provide good supply of CK meat	Industry has in the past depended on a small number of large buyers	Lots of promotion around ‘lobster roll’ sandwiches	Treatments can lead to loss of confidence on product by chefs
Taste is very good	Most expensive lobster product to produce	Market ingredient applications in new markets such as Europe	Must be in a competitive range with other easy to use seafood products: shrimp, crabmeat
Easy way for restaurants to get lobster on the menu Can create menu variety	Has potential to price itself too high if other lobster products are in short supply (live, tails)	Market claws and knuckles as a delicacy in new markets such as Europe and subsequently Asia	Does not necessarily need to be the same price but needs to retain some historic relationship to comparative value
Does not require any specialized handling	Highly dependent on US market	Differentiate the taste and texture between claw and tail meat to position Atlantic lobster as value added vs. rock and spiny	
Similar to how restaurants use other expensive seafood in entrees			
Good use of weak and soft shell lobsters (even though yields are poor)			

<sup>3</sup> A comparison between Maine tails and Australian tails suggest that Australian tails are tougher, saltier and fishier, whereas Maine tails (Atlantic lobster) are more tender and sweeter. However, acquired taste and perception of source can be expected to influence preference.

[http://www.ehow.com/about\\_5315171\\_australian-lobster-vs-maine-lobster.html](http://www.ehow.com/about_5315171_australian-lobster-vs-maine-lobster.html)

Meat has significant strengths related to versatility, but product availability, high cost and high price coupled with low quality experiences resulting from using whatever supply is available must be managed to create a product where the price/value balance is acceptable and consistent. This might be achieved by repositioning claw and knuckle as a delicacy versus ‘meat’.

Aficionados consider the knuckle the best part of the lobster due to its sweetness, but the relative difficulty of extracting the meat means that many consumers have not experienced it. The claws are a more tender texture than the chewier tail as the tail muscle is used extensively by the lobster for propulsion. Claw and knuckle are both more costly to extract, which creates the higher labor costs. Positioning claw and knuckle as a delicacy that is also more labor intensive to extract provides a reason for charging more for this product as long as awareness can be built and demand created. If this is achieved, the claw and knuckle could be positioned as a Gold level product for discerning markets. Although Asia is currently interested in live product, effectively positioning the claw and knuckle as an upscale delicacy would provide a solid basis for competition against spiny and rock lobster tails, which currently dominate Asian lobster purchases.

## Product positioning

The situation analysis for existing products indicates that positioning emerges as a key task to revitalize the present product line. This is further supported by the 2010 Consumer Research<sup>4</sup> that identified where purchase interest was strongest for existing products in Canada, the USA and Europe. Incremental and total purchase interest reflects the current format purchases and the degree of additional interest that could be leveraged by ensuring that consumers are aware of the formats and that retailers are stocking these formats. Purchase interest is presented in Table 5.16 and breakdowns for regions within the countries will be found in the Product Annex.

**Table 5.16**

Comparison of formats and interest in formats they have not bought in the past	Canada N=100		USA N=150		Europe N=300	
	Formats Bought	Formats of Interest	Formats Bought	Formats of Interest	Formats Bought	Formats of Interest
Whole lobster (live -uncooked)	41%	12%	43%	19%	47%	20%
Whole lobster (fresh cooked at the store)	31%	31%	38%	29%	27%	36%
Whole lobster - frozen	18%	16%	40%	22%	19%	19%
Lobster tails - uncooked	47%	18%	16%	30%	51%	26%
Cooked lobster tails	18%	28%	23%	23%	24%	35%
Canned, frozen, cooked lobster meat that includes pieces of lobster	18%	22%	6%	25%	18%	15%
Raw, uncooked frozen lobster claws, tails or knuckles, without the shell, that you cook at home	8%	35%	8%	25%	13%	28%
Frozen, split in half to cook at home- makes it easier to get the lobster out of the shell	4%	35%	18%	36%	15%	34%
Packaged, lobster meals in the freezer section	12%	22%	10%	22%	14%	27%

<sup>4</sup> The Canadian research focused on Central and Western Canada, the US research on cities identified in interviews as having potential for Canadian lobster – NYC, LA, Chicago, Miami, Washington DC, the Europe research focused on current EU market cities- London, Paris, Berlin/Munich/Frankfurt, Madrid/Barcelona and Rome



The level of additional interest in each format and the total of current purchasers and new purchasers indicate the market potential for existing formats with increased awareness and availability .

- ❑ **Canada** – There was additional interest in all formats, but the lowest increases in interest were evident for live lobster and uncooked tails as these are currently the most purchased formats by 41% and 47% of the respondents respectively.

Frozen splits and raw lobster generated the highest increase in interest. Although raw lobster prices have tended to restrict take-up of raw lobster, it is useful to know that the concept is of interest, if the benefits can be positioned to counter the price. Interest was also expressed in packaged lobster meals and cooked lobster tails. These interest levels indicate that formats for cooking at home generate the most “new” interest but they have to be easy to work with such as the shelled raw meat and the split halves. However there is also interest in prepared foods as indicated by the packaged meals and the cooked tails.

Overall the top 3 formats generating the highest total when current purchase and new interest are combined are uncooked tails (65%), whole lobster fresh cooked at the store (62%) and live lobster (53%).

- ❑ **USA** – There was additional interest in all formats, but the lowest increases in interest were evident for live lobster and whole frozen lobster as these are currently the most purchased formats by 43% and 40% of the respondents respectively.

The highest growth in interest was expressed for canned, cooked and raw, uncooked lobster, but the highest level of interest expressed in a “new to you” format was for frozen splits at 36%.

Overall the top 3 formats generating the highest total when current purchase and new interest are combined are whole lobster fresh cooked at the store (67%), live lobster (62%) and whole frozen lobster (62%). Whole lobster dominates interest in the US but solid interest is being expressed in alternative formats. Not surprisingly the split lobster is the highest alternative interest format and the closest alternative to whole lobster.

- ❑ **Europe** – There was additional interest in all formats, but the lowest increases in interest were evident for live lobster and uncooked tails as these are currently the most purchased formats by 47% and 51% of the respondents respectively. These are the same primary formats as in Canada.

Frozen splits and raw, uncooked lobster generated the highest growth in interest. Highest overall interest was for whole lobster, fresh cooked at the store (36%), cooked lobster tails (35%), followed by the frozen splits at 34%. This indicates interest in easy formats that are presentation-worthy.

Overall the top 3 formats generating the highest total when current purchase and new interest are combined are uncooked tails (77%), live lobster (67%) and whole lobster, fresh cooked at the store (63%). This indicates a core interest in fresh product. The strong interest in alternative formats suggests that store cooking is an acceptable form of processing as are uncooked splits as product freshness can be observed at point of sale, and enhanced by references to flash freezing to seal in freshness.



The frozen split lobster format is the strongest alternative format in all three areas. This format combines presentation appeal, ease and the ability to prepare the product at home without the necessity of cooking live lobster. This format has all the benefits of live lobster presentation without the mess, difficulty and inconvenience. Positioning this product as restaurant quality and restaurant ease without the restaurant price holds strong potential to use this product as a fresh take on lobster for in-home consumption.

## Product development and deployment visioning

Fitting new and existing products with markets to identify where price premium opportunities exist requires visioning to match products and markets/channels. This includes several tasks:

- ❑ Re-positioning current products for revitalizing current markets.
- ❑ Positioning current products in new markets.
- ❑ Positioning new products in current and new markets.
- ❑ Deployment of live and processed products to optimize current and new markets.

Re-positioning includes leveraging consumer interests and ‘re-packaging’ lobster by presenting claws and knuckles as value-added parts that are delicacies available with Atlantic lobster and presenting lobster as healthy portion sizes to focus on the meat they are getting versus the added weight of shell as waste cost.

Table 5.17 shows a possible product market deployment grid for consideration of existing products positioned in new markets, re-positioned in existing markets and the development of new products. The grid captures both a present and future vision of product matching.

**Table 5.17**

	<b>Current Products Re-Positioned</b>	<b>Current Product Positioning</b>	<b>New Product Positioning</b>
<b>New Markets</b>	<b>Present Premium Potential in New Markets</b> <ul style="list-style-type: none"> <li>• Whole live product to Asia for food service</li> <li>• Augment Australian tails with Canadian tails for Asian market (live jumbo product)</li> </ul>	<b>Future Premium Potential in New Markets</b> <ul style="list-style-type: none"> <li>• Tails, Claws and Knuckles as delicacy ‘parts’ in Asian food service, then retail Raw meat –foodservice and retail in Asia to capitalize on fresh, unprocessed interest</li> </ul>	<b>Future Premium Potential in New Markets</b> <ul style="list-style-type: none"> <li>• Asia as target for processed products in retail - leveraging Westernized consumer convenience trend</li> </ul>
<b>Current Markets</b>	<b>Present Premium Potential in Current Markets</b> <ul style="list-style-type: none"> <li>• Splits in Canada, US and EU- retail</li> <li>• Fresh cooked products in retail</li> <li>• Claws- specialty retail, food service</li> <li>• Lobster packaged in portion sizes vs. pounds</li> </ul>	<b>Low Premium Potential in Current Markets</b> <ul style="list-style-type: none"> <li>• Popsicle;</li> <li>• Canned meat;</li> <li>• Raw product</li> </ul>	<b>Future Premium Potential in Current Markets</b> <ul style="list-style-type: none"> <li>• Europe as partner for developing and testing new processed formats that are designed to offer freshness and ease of entertaining at home</li> </ul>

### 5.3.5 *People strategy*

#### Decision Options

- ❑ Affluent, upscale consumers who are less price-driven in their purchases, stronger in their purchase capabilities and driven to acquire versus a large group of middle class consumers who are price-sensitive and motivated by ‘deals’ that enable them to access new experiences.
- ❑ Quality buyers vs. price buyers in retail and mid-range foodservice.

#### Recommended People Strategy

Pursue a new ‘share determining segment’ by focusing on the upscale target group to influence demand for Canadian lobster and balance this with the requirements for short-term cash flow and long term growth.

- ❑ A quality price and product focus needs a buyer that cares enough about quality to pay a premium, the Affluents and the Aspirationalists. This is a focus on developing a new ‘share determining segment’ that is smaller than the middle-class mainstream, the current ‘share determining segment’ who will buy only when the price is low enough.
  - The mainstream buyer does not fit with a quality, price-maker strategy, but offers sales opportunity both in the short term for cash flow and the long term for lower value product.
  - Short-term sales to the mid- to low-range will challenge quality image development as low prices set the bar for low price expectations and low quality product imagery.
  - This requires a tiered product and price pyramid strategy that provides for a range of price points and consumer segments.
  - Identifying and developing quality channel buyers is a parallel element of the People development strategy.

#### Time-Frame

Continuing to supply the middle class mainstream provides immediate cash flow. This will help to bridge the time required for enhanced industry marketability to support a quality and prestige Canadian brand positioning strategy, that will target committed use among the upscale consumers. As indicated in the previous Pricing and Product strategies, this will realistically take 2 years, to have both the industry and the brand synchronized for the setting of market expectations and consistent delivery on those expectations. This will lay the necessary groundwork for the dual focus of developing relations with quality buyers (retailers, wholesalers and food service) in the markets of interest and developing awareness with quality consumers via social media tools.

**The immediate objectives are to:**

- **build a unifying commitment to quality delivery among people in the industry**
- **ensure that the industry is able to deliver consistently to a quality buyer and consumer within the quality grades that have been realistically developed**
- **develop a brand that defines quality as value and Canada as the source**
- **focus on product development and positioning that encourage in-home consumption to establish lobster as part of the regular set of ‘indulgence’ proteins**

## People Actions

Table 5.18 connects People strategy with the RACE (reduce, add, create and eliminate) actions for changing the current status quo in the lobster industry. The actions are divided into their marketability and marketing components to illustrate the close interaction between marketability and marketing in regard to a People Development strategy. These are the key action steps required to support a premium customer and consumer strategy, based on coordinating the attitudes and efforts of people working in the lobster industry to meet the expectations of those who buy and use the products in the marketplace. To be effective, a People strategy must connect suppliers, buyers and users.

**Table 5.18**

<b>People Strategy</b>	<b>Objective: Use a tiered target market strategy with a range of product quality and price points, supported by industry commitment to deliver consistent value to receive consistent value</b> <b>Key Drivers; Range of audiences, tiered approach to enable management of legitimate quality variability and product variety opportunities</b>			
	<b>Reduce Weakness</b>	<b>Add Strength</b>	<b>Create Opportunity</b>	<b>Eliminate Barriers</b>
<b>Marketability Actions to Support a Premium Customer and Consumer Development Strategy</b>	Increase awareness of how individual operator status contributes to fragmentation of effort in the industry, which reduces the ability to deliver quality on a cohesive and consistent basis	Build widespread awareness in the industry that the target quality customer has a clear definition of what a quality supplier looks like.	Create an effective and transparent information dissemination network (vertical and horizontal) to build industry trust, knowledge and cooperation, and to provide a conduit for market data and information	Eliminate negative industry perceptions that undermine trust (such as conspiracy theories) with transparency  Eliminate poor handling practices with education for awareness/practical knowledge
	Narrow the focus on the middle class target market – the low price, low margin market  Reduce the occurrence of low quality experiences that erode the Canada brand causing buyers to demand lower prices. Quality grading helps this by providing guidelines as to what quality to expect at a specific grade.	Increase focus on the Upscale Target Market to take the focus off price as a barrier.  Use industry quality and consistency initiatives to develop/acquire more quality buyer interest, so as to reduce reliance on price buyers (retail and food service)	Develop the in-home lobster consumption market as a better value, higher frequency, special occasion lobster opportunity - leverages both ‘cocooning’ and ‘foodie’ trends  Offer product and prices that enable consumers to trade up/down to prevent them trading out to other proteins. Target ex-pats in export markets who are Canada – friendly	Consider eco-certification as a means of nullifying concerns about unsustainability of harvesting practices.  Use eco-certification as a market strategy to put Canadian Atlantic lobster on the same footing as Maine lobster

The marketing actions related to developing quality-driven customers and prestige-driven consumers are preceded by the marketability actions necessary to ensuring industry commitment and consistency. Once this is secured, then the task of building awareness and preference for Canadian lobster at premium price points can begin.

## People/ Target Market Characteristics

Shifts over time have created opportunities and different markets. This continues today. There is justifiable concern over slow economic recovery in Western markets, which will have an impact on lobster purchases as lobster is perceived as a luxury.

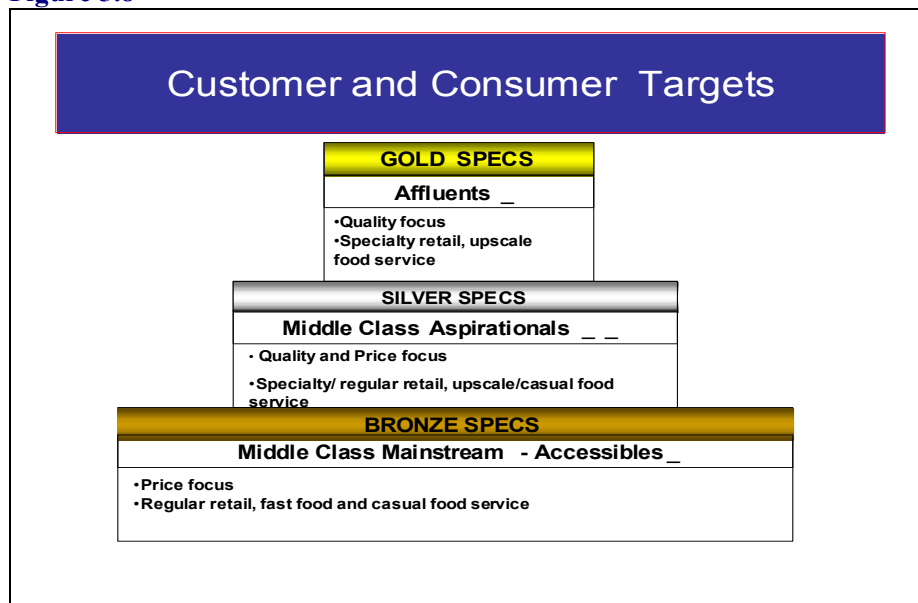
Beer was considered recession, proof, but has turned out not to be. The US 21-35 year old, male beer consumption group, in the \$20,000-\$45,000 income range has been disproportionately hit with unemployment at a rate of 15-16%.

Fast food restaurants have weathered the recession better than casual restaurants, based on discounts and promotions such as \$1.00 meals and cheap combinations. In fact in Japan, France and the UK, total spending on fast food increased. However, many are eating at home to save money. The recession-driven cheap specials have increased from 12% of sales to 20%, forcing many restaurants to change their strategy. They are offering higher priced items to entice customers away from the \$1.00 specials. Lobster is on the menu at new restaurants including Panera Bread, which is offering a lobster sandwich at \$16.99. D'Angelo Grilled Sandwiches offers a lobster roll in three sizes: small for USD 9.99, medium for USD 13.99 and large for USD 19.99. D'Angelo's tiered pricing on lobster sandwiches reflects how restaurants are changing their menus to appeal to a variety of consumer interests and abilities to pay.

However, the top 10% of the income scale has been unscathed by unemployment and are much less sensitive to price for the products that they want. This is the segment that will be less inclined to trade down, and presents a key opportunity for lobster marketing.

A tiered focus on customers and consumers creates three core markets (Figure 5.8).

**Figure 5.8**



The top 10% of incomes are the *Affluents* at the Gold level who are interested in quality and prestige, and are less sensitive to prices. They shop in specialty retail for items that appeal to their sense of better quality. This group could be targeted for increased lobster consumption, 5 times a year or more. This group will pay more for items if they associate them with a specific benefit or image. This is the essence of branding; to extract a premium price by creating desire. This approach takes the focus off price for those who can afford to indulge at the price that the industry finds most profitable. Their focus is on the experience first and the price second. They are the luxury goods group.

- ❑ The goal for this group is to build frequency and preference for Canadian lobster. More committed usage throughout the year among a smaller group of customers paying premium prices. They are the reference group for those who aspire to their lifestyles.
- ❑ Providing them an option to 'trade down' to the Silver level highlights that they are getting the best at the Gold level, and that the Silver level is also acceptable if only Silver level product is available at various times of the year. Scarcity serves to increase the premium potential for Gold level product.

Individuals in the middle class mainstream are the *Accessibles*, at the Bronze level as they consume lobster when it is economically accessible to them. They are the largest group, representing the majority of most markets and are very price sensitive. This group will buy lobster when it moves down to a price that is competitive with other choices they regularly make. They are able to access lobster at this level as their focus is on price first and the experience second. However the prices and margins are unsustainable in this high volume, low value market. Low prices are hard to increase and this price-sensitive group will simply stop buying if prices rise. Therefore, to keep them buying lobster, there must be a price point available to them that they can live with. They are the necessities group.

- ❑ Given that this is a large market, the goal is to build *breadth*. More people trying lobster, to entrench the product and create desire for it, with the objective of trading some of these people up should they increase their incomes or their desire to spend on higher quality product increases.

Individuals in the middle class upstream are the *Aspirational*s, at the Silver level. They are in constant motion between spending and saving, between upstream and mainstream middle class, depending on their economic circumstances and their interests. They are not able to indulge as often as the Affluents, but aspire to consume. The Aspirationals want the better things and will pay more if there is a reason to do so. They are the "fluxury" group. Fluxury is a trend identified in 2010 by the Trend watching<sup>5</sup> group who describe fluxury as "*closely tied to what constitutes status, which itself is becoming more fragmented, luxury will be whatever consumers want it to be over the next 12 months. What constitutes luxury is closely related to what constitutes scarcity. Beyond the basic needs, scarcity is in the eye of the beholder, especially those beholders who are desperately trying to be unique. Millions of newly established middle class consumers, particularly in India and China are sampling 'affordable' luxury via self-treating on 'entry level' luxury products. A slice of luxury could be a short spa treatment, luxury pet foods or chocolates which in themselves don't signify a luxury lifestyle*".

<sup>5</sup> Trendwatching.com, *Ten Crucial Consumer Trends for 2010*

- ❑ The goal here is to position lobster as one of the objects of desire they aspire to acquire. Frequency will not be as high as for the Affluents, but the purpose is to build commitment to the best quality and most interesting formats.
- ❑ The pyramid allows this group to trade up and down as they need to, offering options that prevent them from trading out to other proteins.

Price response was examined in the 2010 Consumer Research. Overall, in Canada, the US and Europe, trading out to other proteins is reported by almost 30% of lobster consumers, while another 30% reduce their frequency of lobster consumption when prices are deemed to be too high. This indicates that offering a range of price points will contribute to maintaining frequency of lobster consumption among almost 60% of lobster consumers. Key competitors to lobster among Canadian consumers are salmon, crab and scallops. In the US, the dominant competition is crab and in Europe, the competition is crab and salmon. Beef, prime rib or sirloin steak, are the next protein choices.

The characteristics of these consumers vary by geographic market.

### U.S. Consumer Targets<sup>6</sup>

- ❑ Older adults 45+.
- ❑ Household incomes \$80,000+.
- ❑ High frequency seafood consumers (3+ times per month).
- ❑ High frequency lobster consumption in restaurants (5+ times per year).
- ❑ Wealthy Food Adventurers Segment<sup>7</sup>:
  - The Wealthy Foodies segment represents 13% of the market, are well off, consume lobster equally at restaurants and at home. They buy both lobster and other seafood;
  - The greatest opportunity is with this group, who are seeking creative, innovative, culinary opportunities and are willing to pay. They are dispersed throughout the U.S.
- ❑ High potential cities are New York City and Chicago where lobster consumption has increased over the past 3 years and is expected to increase further in the next year.<sup>8</sup>

### Asian Consumer Targets

#### China/ Beijing<sup>9</sup> - Sophisticates segment

- ❑ 2002 Beijing research identifies a group called the Sophisticates 4% of the population; they contain similar characteristics:
  - ❑ Middle aged 30-64.
  - ❑ Highest incomes/Professionals.
  - ❑ Married, male.
  - ❑ Like household and personal luxuries, labor saving devices and indulgences.
  - ❑ Frequent consumption of lobster and prawns, chocolate, considered luxury foods.
  - ❑ Frequency of lobster/prawns is monthly for 34% of Sophisticates and weekly/more for 31% of Sophisticates.
  - ❑ Professional and middle management occupations.

<sup>6</sup> Maine Lobster Promotion Council, National Consumer Lobster Survey, April 2005

<sup>7</sup> Maine Lobster Industry Strategic Plan – Consumer Research, June 2009

<sup>8</sup> 2010 Consumer Research in Canada, USA and Europe

<sup>9</sup> Psychographic Segmentation Of Beijing Adult Population And Food Consumption, 2002



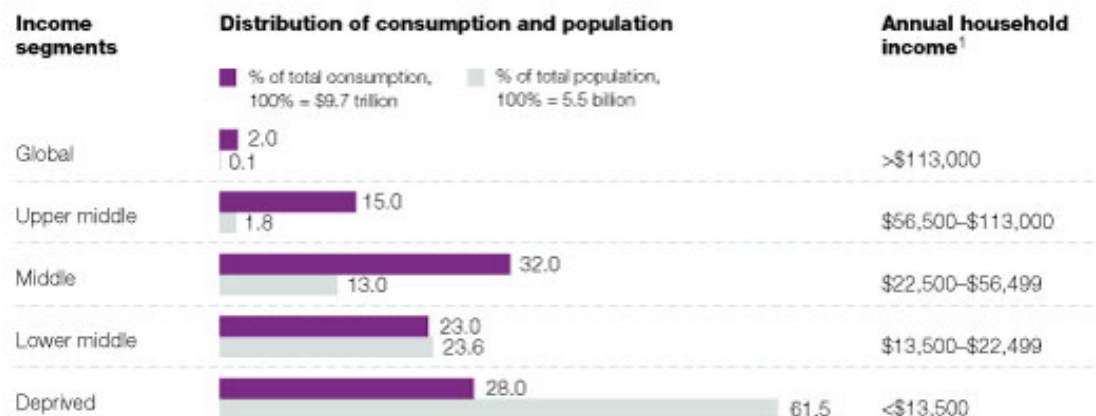
- ❑ The China Brand Association reports that 13 percent of Chinese, about 170 million people, regularly buy top-tier brands. Meanwhile AC Nielsen believes that, “to succeed, luxury-goods companies must woo the top segment of the Chinese consumer market; the 15 million people who earn 250,000 yuan (\$32,000) or more a year.” Chinese consumers are often younger than wealthy consumers in Japan, US and Europe. The Chinese are becoming online luxury shoppers.

### Japan - Innovators segment<sup>10</sup>

- ❑ Like trying out new foods and ingredients
- ❑ Like learning about how to prepare new foods.
- ❑ Like to eat foods from different countries and cultures.
- ❑ Are comfortable cooking with new foods they are not familiar with.
- ❑ Are often asked their opinion about new foods.
- ❑ Have high demands that their foods meet the functional benefits they desire and are produced by a trusted food system.
- ❑ Much stronger emphasis on experiential benefits than the rest of the Japanese population.
- ❑ Higher incomes and educations.
- ❑ Interested in new foods, new recipes, but high nutrition.
- ❑ Low price image devalues Canadian position and raises concerns about quality.
- ❑ Innovators are willing to pay for value and budget issues are low priority.

### BRIC Countries - Brazil, Russia India, China

**In developing countries, the emerging class—  
nearly two billion strong—spends a total of \$6.9 trillion annually.**



<sup>1</sup>Based on purchasing-power-adjusted exchange rate.

Note: Developing countries are Argentina, Brazil, Chile, China, Colombia, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Pakistan, Peru, the Philippines, Poland, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, Venezuela, Vietnam.

Source: Economist Intelligence Unit, June 2009; Euromonitor, June 2009; World Bank, April 2009; McKinsey analysis

Source: McKinsey 2009

### Europe

<sup>10</sup> Agriculture Canada Japanese Consumer Research 2004



## UK, France, Spain 2008 <sup>11</sup> - UK

The 50+ age group is more interested in quality.

- ❑ Luxury factor exists that is refocusing spending from durable to consumables (wine, food).
- ❑ Environmental issues strong (food miles CO2 emissions).

### France

The hunt for low priced goods is a passion but they are prepared to pay more for high quality (Label Rouge signifies food quality).

- ❑ more attentive to origin and history of products + ethical and environmental considerations (have roots in organic and free –range, now fair trade).
- ❑ 71% of seafood consumption is at home (retail opportunities).
- ❑ prefer local seafood but demand exceeds supply.

### Spain

At home seafood consumption = 80%.

- ❑ Prefer whole fresh fish vs. prepared convenience.
- ❑ Very price sensitive.
- ❑ Love shellfish – year round – less at holidays.
- ❑ Little concern for food miles, fair trade and sustainability.
- ❑ Strong preference for fresh European lobster.

## UK, France and Germany<sup>12</sup>, 2009

- ❑ 40% of the total population of the countries are lobster consumers.
- ❑ 36% of these represent a high opportunity to increase lobster consumption = 30 million people= approx population of Canada:
  - 42% in Germany
  - 27% in France
  - 39% in UK

Top Consumer segments = 18% of EU consumers: Lobster Lovers: 13% of lobster consumers and 7% of total adult population of the 3 countries (n=11million)

- ❑ Predominantly in Germany.
- ❑ Younger professionals.
- ❑ Lobster frequency= 4.7 times /year, high opportunity for consumption growth.
- ❑ Prefer Canadian lobster.
- ❑ Interested in all formats, looking for variety and recipes, health benefits are appealing.
- ❑ Opportunity for high-end processed convenience formats.
- ❑ A possible problem may be their interest in environment, carbon footprint given the mistaken issues with Canada's environmental performance (seal hunt, oilsands).

<sup>11</sup> Market Intelligence Study of the Opportunities for Lobster, Gemba Seafood Consulting, September 2008

<sup>12</sup> European Consumer Market Segmentation Study: Canadian Lobster, IPSOS Reid, 2009

- ❑ Appeals = freshness, hard shell/ color, right size, low in fat, good texture/firm, resilient, packaged for freshness, like to receive retail advice, sustainable/environmentally friendly, prepackaged portions, well recognized brands, variety, frozen as option to use later.

**Lobster Live(rs):** 9% of lobster consumers and 5% of total adult pop (n=8 million), Affluent.

- ❑ Prefer live, freshness is key, they take the time to prepare food.
- ❑ Predominantly in France.
- ❑ Retired.
- ❑ Lobster frequency= 3.3 times /year, moderate future growth.
- ❑ Prefer European lobster /quality issues with Canadian lobster.
- ❑ Appeals= freshness, hard shell/ color, good texture/firm, resilient, right size, value for money, low in fat, like to receive retail advice.

**Lobster Leaners:** 23% of lobster consumers and 12% of total adult pop (n=19 million)

- ❑ UK and Germany.
- ❑ Lobster frequency= 2.0 times /year, Aspirational, high future growth.
- ❑ Prefer rock lobster but Canadian is appealing.
- ❑ Convenience is important.
- ❑ Appeals=freshness, value for money, hard shell/ color, packaged for freshness, good texture/firm, resilient, low in fat, sustainable/environmentally friendly, frozen as option to use later.

**UK, France, Germany, Spain, Italy<sup>13</sup>**

- ❑ European lobster consumption has decreased by 33% over the past 3 years, with the strongest decrease in France.
- ❑ France and Germany expect double digit decreases in lobster consumption next year.
- ❑ Over the past year the most lobster consumption was in Spain and Italy.
- ❑ Europeans equate lobster with upscale restaurants but visit casual restaurants more often.
- ❑ Whole lobster dominates in Paris, Germany and Spain and tails are very underdeveloped in restaurants.
- ❑ Consumption is mainly holiday and family occasions.
- ❑ Numbers of people eating lobster together - in Germany more lobster consumption as a couple vs. large groups, France has 5-6 people in attendance and Spain 7-10 people.
- ❑ Europe is much less likely to have a broad use of lobster formats-mainly whole lobster with tails next but at a distance. Tails may be an opportunity to broaden usage in France.
- ❑ Germany has the most interest in new formats-cooked and uncooked tails, raw, splits, packaged meals.
- ❑ France is most interested in cold lobster, tails and roe and least interested in claws. Italy is most interested in the claws and Spain in the shell. Germany has the most preference for hot lobster.
- ❑ France is more interested in the gourmet and presentation opportunities offered by lobster. UK is more interested in health aspects and tail taste attributes. Germany is interested in the properties (healthy, low in fat, the smell, taste of the tail and the shell) and presentation. Spain and Italy like the shell most for presentation and Italy likes the shell for flavoring as well.

<sup>13</sup> 2010 Consumer Research Canada, USA, Europe, Lobster Council of Canada

## Consumer Target Summary

Upscale consumers in all countries exhibit the most potential for lobster frequency and represent between 5% and 15% of the populations.

Heavy consumers are a target for in-home consumption. Frequency measures show that only 4% of all US adults ate lobster 5+ times in the past year at home. In-home consumption is clearly a marketing target as over 3 times that percentage (13%) are eating lobster 5+ times a year in restaurants.

## Activity Targets

- ❑ In-home consumption.
- ❑ Processed formats for ease, variety and convenience:
  - Tails, claws, pre-cooked.
  - Alternative accompaniments to improve health profile, e.g., low fat mayonnaise vs. butter, or lemon juice alone.
- ❑ Seafood department traffic for cross-promotions (heavy seafood consumers are more likely to be lobster consumers so are in the seafood department).
- ❑ Whole-store meal idea promotions (lobster, rice, vegetables, wine).

## Themes

- ❑ Home consumption made easy.
- ❑ Restaurant experience at home.
- ❑ Lobster is a special occasion waiting to happen.
- ❑ Processed lobster is a quality product as well, freshness locked in.

## 5.3.6 Positioning/brand strategy

### Decisions

- ❑ High visibility or low visibility brand for Canadian lobster.
- ❑ American or Atlantic lobster nomenclature.
- ❑ Race leader or race participant positioning.
- ❑ Prestige or price positioning.
- ❑ World Super Power or Gold Standard brand focus.
- ❑ Message targets and messaging.
- ❑ Media channels.
- ❑ Image and issues management.

## Recommended Positioning/ Brand Strategy

Canada is the super power of lobster - but has not consistently or sufficiently captured the value of that credential to warrant positioning Canada as the Gold Standard. Marketability improvements will address this shortfall. The pyramid approach allows for marketing a Gold

level product, as well as Silver and Bronze product levels to align with the variability of the resource. Once the marketability and marketing supports are in place, the recommended strategy is to position Canadian lobster as a prestige, leader brand, the super power of lobster and to execute the brand story with layered media incorporating social media tools that effectively build engagement with the target audience, television food show story segments to build awareness, interest and knowledge, as well as public and media relations tools to build relationships with key groups of interest. 'Canadian Quality Pays' will be a core message objective for the industry as well as the market.

## Time-Frame

Canadian lobster branding must ensure that claims and promises made are claims and promises that are delivered. Therefore the industry must be committed to marketability initiatives required to support a prestige brand. As indicated in earlier sections, this can be expected to take at least a year given fishing seasons and the development of widespread industry support. However the groundwork for brand development can begin immediately.

### **The immediate objectives are:**

- **identifying the legitimate claims that can be made about Canadian lobster in relation to resource, sustainability, quality practices and industry cohesiveness**
- **building the brand architecture for a Canadian lobster brand**
- **communicating internally with industry participants to maximize inclusiveness and transparency**

## Branding and Positioning Considerations

The Seafood Value Chain Round Table has recently examined the basis for developing a national seafood brand in Canada. Research conducted by this consulting group, indicated that Canada should stake a clear leadership position, and this is definitely the case for lobster where Canada is the dominant resource, the Gold Standard of lobster and the world superpower of lobster. Branding provides the flashpoint for building a premium image and a premium price point. An effective brand blends the various elements that make up a brand into a cohesive whole that is greater than the sum of the individual parts.

However, as Canada is quietly selling the majority of its lobster to the US, which is predisposed to buying American ("Maine Lobster"), there are some who believe it is better not to build a Canadian brand if Canada wants to sell in the USA. An example is Blackberry, which does not promote its Canadian origin. However food traceability will require a clear indication of origin, so Canada will have to identify itself to sell in global markets. This is an opportunity for leader brand development.

For Canadian lobster, the process is wrapped in place branding. What does Canada stand for? It used to be "hewers of wood and drawers of water," a strong resource-rich image which has come under fire for the seal hunt and the oil sands, despite the reasons for the seal hunt and the fact that the oil sands could be 'branded' as Ethical Oil compared to other sources of oil. The banking system has positioned Canada as economically strong and well-managed. The Blackberry is a symbol of innovation for which Canada is not normally known. The Winter Olympics were a Canadian medal triumph in sport, representing dedication and excellence. There is much good to say about Canada.

What can be said about Canadian lobster? What has been said about Canadian lobster? Very little compared to Maine, which is effectively promoting and ‘owning’ Maine lobster. Interviews tell us that Canadian lobster is usually well regarded but that quality is not consistent. Maine lobster is different from Canadian lobster in both lower supply and lesser quality as a result of softer shells and lower meat yield. Canada offers the sweeter canner, which the US does not. Canada has a genuine edge, while still having to accommodate the variability of the resource. This variability can be addressed with a clear focus on providing consistent quality within various quality levels and price points. The quality and price pyramid structure allows for legitimate variation in quality due to the resource but not for unacceptable variation due to uneven and ineffective handling practices.

Canada’s national brand is “Quality is in our nature” which is used with the Maple Leaf to designate Canadian food products. Unfortunately this promise is not always delivered in the lobster industry, which signals the need to manage quality if that is what Canadian lobster will stand for- otherwise the Canadian brand will lack credibility and potential brand power will be unattainable or unsustainable.

The key driver underlying the development of a Canadian lobster brand is that Canada can only support a leader brand position if the industry consistently operates at a leadership standard of practice.

## Positioning and Branding Actions

Table 5.19 connects the Positioning strategy with the RACE (reduce, add, create and eliminate) actions for changing the current status quo in the lobster industry. The actions are divided into their marketability and marketing components to illustrate the close interaction between marketability and marketing in regard to a Brand Development strategy. These are the key action steps required to support a premium brand strategy, based on coordinating the attitudes and efforts of people working in the lobster industry to meet the expectations of those who buy and use the products and who have been the target of Canada’s brand messaging, claims and promises. To be effective, a Brand strategy must be what it says it is. Credibility is the core of brand development for both the industry and the market.

For the industry, the brand must ultimately contribute to increasing value, but this will only happen if the industry supports the brand’s promises. Therefore the success of the brand is significantly dependent on the industry that will be the recipient of improved economic value.

For the market, a Canadian lobster brand must successfully backfill the brand void of the past (seafood buyers tell us that Canada has been too quiet about the quality of its lobster resource), overcome current myths and distortions about Canada (seal hunt, oil sands), and position Canadian lobster as a well-managed resource capable of offering choices and prices to provide value at a range of grade-certified levels. In this respect, the Atlantic Canada lobster industry should consider securing MSC certification to confirm the sustainability of the fishery in the minds of consumers.

Table 5.19

Brand/ Positioning Strategy	<b>Objective: Build awareness and commitment to a Canada brand as the super power of lobster, within the industry and within the market</b> <b>Key Drivers: leadership, prestige, quality pays, economic value creation</b>			
	<b>Reduce Weakness</b>	<b>Add Strength</b>	<b>Create Opportunity</b>	<b>Eliminate Barriers</b>
<b>Marketability Actions to Support a Premium Brand Development Strategy</b>	Position the quality focus to the industry as a specialty and specialist focus to reverse the slide into commodity status	Expand on the current industry quality focus with green practices (e.g., MSC) to counteract green –bashing and redefine the Canadian position and product in the marketplace	Create an ‘open for business’ quality supplier climate in the industry that consistently positions the Canadian industry as organized and responsive to the market.  Communicate the ‘Canadian quality pays’ message and evidence to the industry to secure commitment and consistency	Eliminate Canada’s country/supplier anonymity with a clear industry commitment to traceability
<b>Marketing Actions to Support a Premium Brand Development Strategy</b>	Reduce opportunities for misinformed news issues, such as sealing, that arise in the absence of knowledge about Canada.  Reduce the current quantity/price focus that defines the Canadian lobster sales model by re- positioning it at the Bronze level of the Pyramid, with acceptable and consistent quality grading at a lower level	Add Quality options- Canada Gold and Silver, to clarify the difference between price points and to position for higher quality-driven pricing  Make use of ‘new’ communication channels (social media, satellite media tours, video news releases) to introduce and support the brand.	Create a compelling brand and value proposition that drives consumers to ask for and about quality distinctions – the ‘Canada quality pays’ message and evidence  Create generic consumer –focused marketing, to generate demand for quality that ‘pulls’ quality through the industry from wharf to shelf (Pull marketing)	Avoid any possible real or perceived ‘green-washing’ - (pretense around green practices or green commitments) as consumers are hearing green messages that are suspect in their credibility and purpose. Credible information is critical

## Branding and Marketing Trends for 2010 and Beyond<sup>14</sup>

To provide some context for brand development considerations, 10 trends for 2010 and beyond were presented in an article by Robert Passikoff, the President of Brand Keys. He says these trends will have direct consequences on the success or failure of branding and marketing efforts. They are determined using predictive loyalty metrics, which measure the direction and velocity of consumer values 12 to 18 months in advance of the marketplace based on consumer articulations of category needs and expectations. They are able to identify future trends with accuracy.

### 1) Value is the new black

Consumer spending, even on sale items, will continue to be replaced by a reason-to-buy at all. This spells trouble for brands with no authentic *meaning*, whether high-end or low.

### 2) Brands increasingly a surrogate for "value"

What makes goods and services valuable will increasingly be what's wrapped up in the brand and *what it stands for*. Why J Crew instead of The Gap? J Crew stands for a new era in careful chic, being smart and stylish. The first family's support of the brand doesn't hurt either.

### 3) Brand differentiation is Brand Value

The unique meaning of a brand will increase in importance as generic features continue to plague the brand landscape. Awareness as a meaningful market force has long been obsolete, and *differentiation* will be critical for success, meaning sales and profitability.

### 4) "Because I Said So" is so over

Brand values can be established as a brand identity, but they must believably exist in the mind of the consumer. A brand can't just say it stands for something and make it so. The consumer will decide, making it more important than ever for a brand to have measures of *authenticity* that will aid in brand differentiation and consumer engagement.

### 5) Consumer expectations are growing

Brands are barely keeping up with consumer expectations now. Every day consumers adopt and devour the latest technologies and innovations, and hunger for more. Smarter marketers will identify and capitalize on unmet expectations. Those brands that understand where the strongest *expectations* exist will be the brands that survive, and prosper.

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<sup>14</sup> Robert Passikoff, President, Brand Keys, with recognition to Derrick Daye, The Blake Project January 2010



## 6) Old tricks don't work/won't work anymore

Consumers are on to brands trying to play their emotions for profit. In the wake of the financial debacle, people are more aware than ever of the hollowness of bank ads that claim "we're all in this together" when those same banks have rescinded their credit and turned their retirement plan into case studies. The same is true for *insincere* celebrity pairings: think Seinfeld & Microsoft or Tiger Woods & Buick. Celebrity values and brand values need to be in concert, like Tiger Woods & Nike. That's authenticity.

## 7) They won't need to know you to love you

As the buying space becomes even more online-driven and international (and uncontrolled by brands and corporations), front-end awareness will become less important. A brand with the right street credentials can go viral in days, with *awareness following, not leading, the conversation*. After all, everybody knows GM, but not everybody is buying their cars.

## 8) It's not just buzz

*Conversation and community* is all; eBay thrives based on consumer feedback. If consumers trust the community, they will extend trust to the brand. Not just word of mouth, but the right word of mouth within the community. This means the coming of *a new era of customer care*.

## 9) They're talking to each other before talking to the brand

*Social Networking and exchange of information* outside of the brand space will increase. Look for more websites using Facebook Connect to share information with the friends from those sites. More companies will become members of LinkedIn. Twitter users will spend more money on the Internet than those who don't tweet.

## 10) Engagement is not a fad; It's the way today's consumers do business

Marketers will come to accept that there are four engagement methods including Platform (TV; online), Context (Program; webpage), Message (Ad or Communication), and Experience (Store/Event). But there is only one objective for the future: **Brand Engagement**. Marketers will continue to realize that attaining real brand engagement is impossible using out-dated attitudinal models.

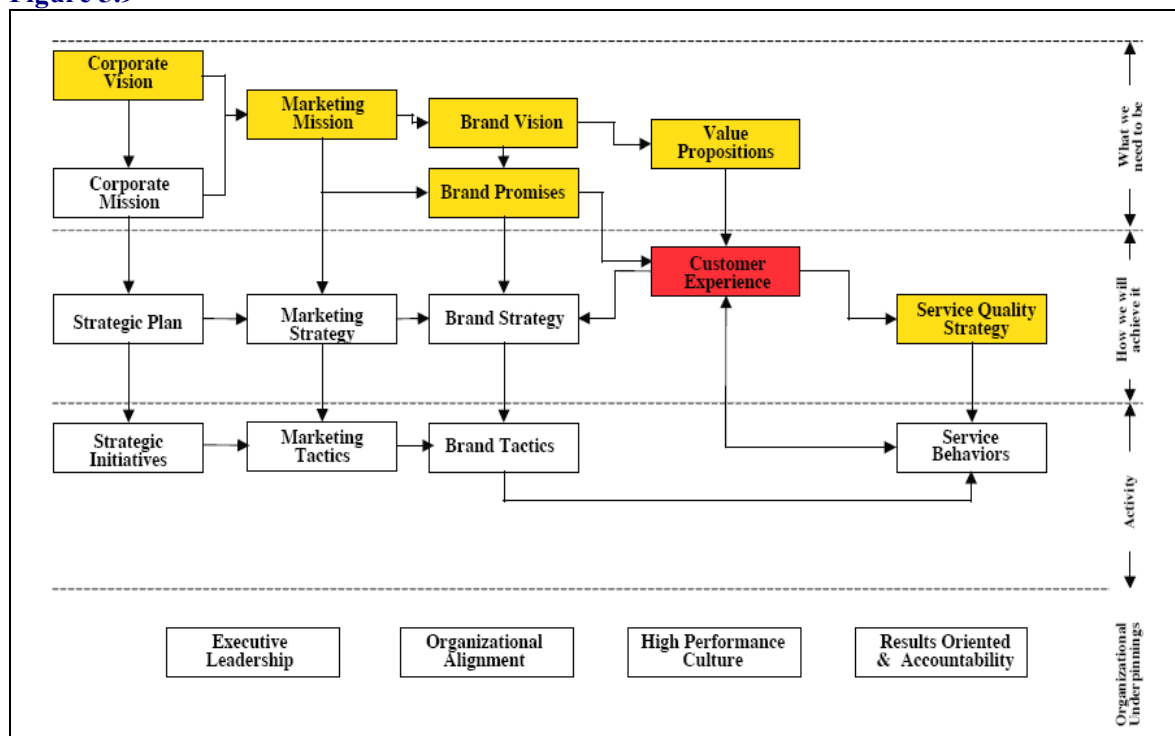
Accommodating these trends will require a paradigm change on the parts of some companies. But whether a brand does something about it or not, the future is where it's going to spend the rest of its life. How long that life lasts is up to the brand, determined by how it responds to today's reality.

These trends indicate the key takeaways are authenticity, meaning connecting and engagement. These will be key guideposts for lobster brand development. Ensuring that the industry is aware of and understands what is required to build a strong brand is necessary to gain their support. Although these examples don't directly mention lobster, the implications are relevant for any brand development.

## Brand Development- Brand Architecture

Brand development begins with a systematic process that defines all the working components of the brand. The brand architecture model in Figure 5.9 is an example borrowed from The Strategic Planning Group in Toronto, Ontario. Their approach is that customer experience is central to the brand strategy because the customer defines the requirements for business success. This means that the ultimate fit between both the customer buyer and the end-user/consumer will be much tighter and ‘leak proof’ if the brand is developed with a clear view of what the value proposition needs to be for both the customers and the consumers, and how it is to be collectively delivered by the industry. Frequently, brand development is considered to be simply a communications process that involves a slogan and a logo, which completely eliminates content credibility, accountability and measurability.

**Figure 5.9**



While some of the labels in this model are corporate words, the intent exactly reflects the situation in the lobster industry. The foundation of the brand architecture is labeled as Organizational Underpinnings (the bottom row on the model), which is parallel to the industry marketability that has been a key focus in this long-term value strategy. The lobster industry requires leadership and alignment within the industry, commitment to a high performance culture related to quality processes and practices, as well as a common focus on what the desired results look like, what is expected of each industry participant, and how successful performance will be rewarded.

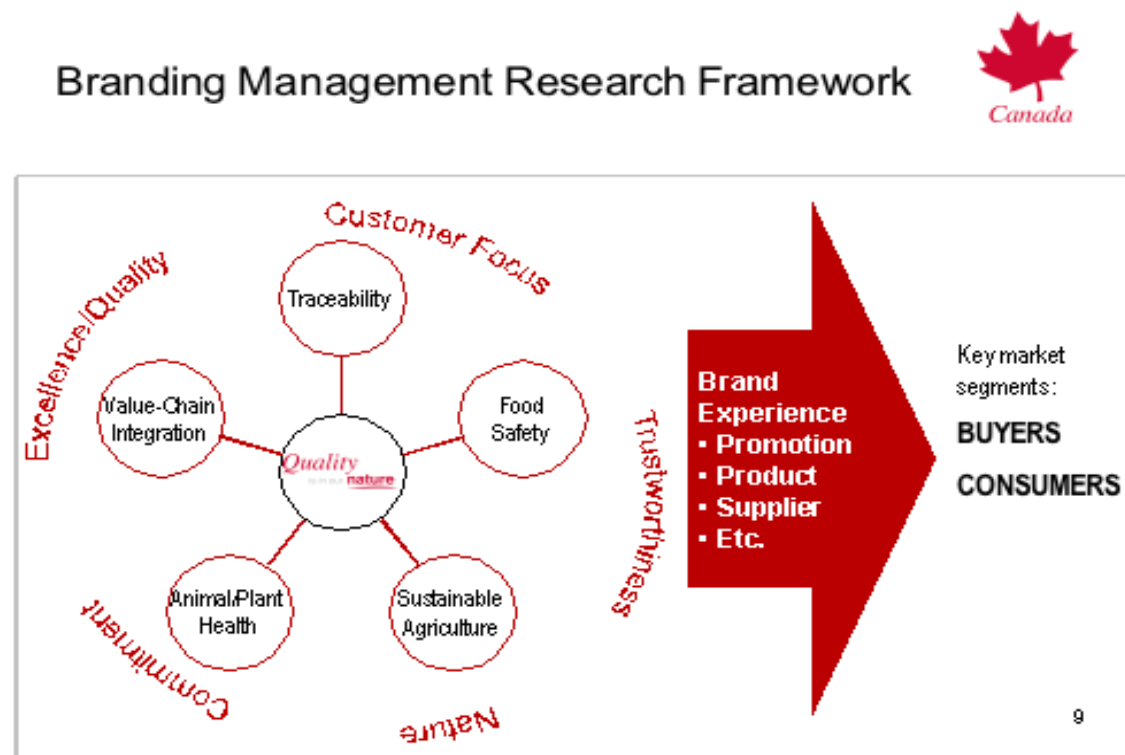
The top row of the model speaks to “where the industry needs to be” in terms of developing a vision and mission for the industry. The desire to create a sustainable lobster fishery that will support industry participants and their communities is the vision that has led to the development of the Lobster Council of Canada. The objective of creating and extracting more value for the industry is the mission. These have led to the development of a strategic long-term value strategy that incorporates both a marketing and marketability strategy, which pertains to the second top row of this model as strategies.

The brand vision that Canada is recognized and rewarded as the lobster super power requires the development of brand promises that can be developed with the assistance of the Lobster Science Centre in terms of quality grading of the lobster product and education on quality handling practices. The brand value proposition will then be developed to reflect what this means to and for the customer and the consumer and how this makes the Canadian lobster worthy of preference over other lobster options.

The brand strategy is described in this Brand Development section of the report. The next steps are at the third row of the model which are the deployment of the supporting tactics, the activity that drives the brand. This will be overseen by the Lobster Council of Canada, in conjunction with the brand consultant hired for this purpose.

The brand architecture model illustrates that brand development is a process requiring vision, strategy and tactics that are supported by strong industry marketability. The rest of this section will focus on the strategic elements of brand, positioning and communication that will be the basis for a tactical plan undertaken by a company providing those services.

### Brand Canada<sup>15</sup>



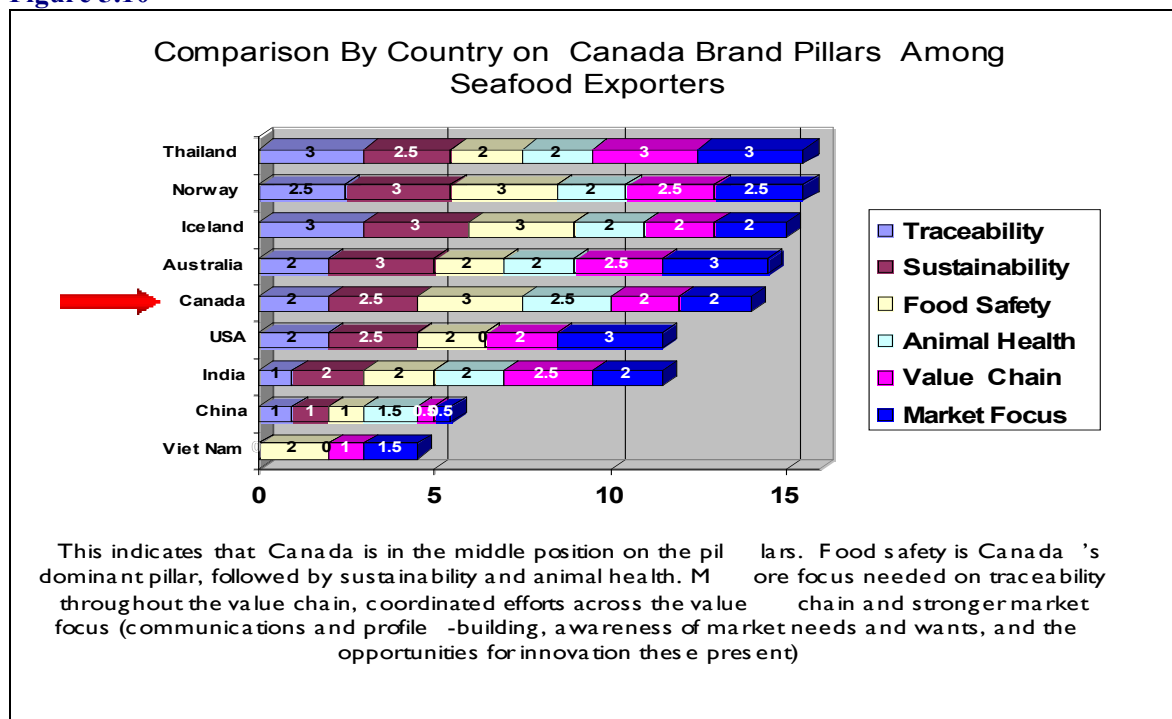
<sup>15</sup> Brand Management Research Plan under Growing Forward, February 2010

Brand Canada is continuing to develop the Canadian brand. The brand framework provides a good fit with both the marketability and marketing objectives of the long-term value strategy for the lobster industry.

Figure 5.10 compares Canada's seafood image<sup>16</sup>, to a selection of other seafood exporting countries, Canada is currently in the middle of the group on these pillars, based on an examination of Canada's focus on each pillar. Canada has less focus on traceability and the market, while its strengths are food safety, sustainability and animal health.

For lobster, food safety would continue to be the strongest claim along with sustainability. Traceability and market focus would be areas of lesser focus. Traceability is becoming increasingly important and represents an area to address, as consumers in all Western countries are more interested in knowing where their food comes from.

**Figure 5.10**



Research conducted between 2004 and 2009 by Agriculture Canada on export markets, identified the following external impressions of Canada that are also relevant for the lobster industry, based on interviews conducted in 2010 for this long term value strategy.

- ❑ There is a low penetration of Canadian food products in EU markets.
- ❑ Canada has traditionally been a source of commodity level agricultural products and is highly regarded for this.
- ❑ Canadian products are not known to be high end.
- ❑ The uniqueness of Canadian food products was not questioned, but it needs to be proven that this uniqueness is worth buying.
- ❑ Commodity image is a low price, low-end image.
- ❑ Canada needs to communicate a market and marketing focus, in addition to an improved supply quality message.

<sup>16</sup> Chart reprinted from Garner Pinfold Brand Claims report to Seafood Value Chain Working Group May 2010.

- ❑ A Canadian brand must define what Canada stands for and what buyers can expect to receive; the Unique Selling Proposition. These benefits must be enhanced and differentiated relative to other countries.
- ❑ Canada was identified by buyers as failing to meet expectations when it comes to business operations, service, and profitability.
- ❑ Comparisons with Australia suggest that Canada is dull and non-inspirational; personality and achievement need to be part of the Canadian story line.
- ❑ Canada does not dominate market share of any one importing country across product types (except for lobster in the US).

These research findings are true today and apply to the lobster industry in 2010.

### Implications for Canada's Lobster Brand: Balancing Essentials and Inspirational

Figure 5.11<sup>17</sup> illustrates the basic elements necessary to support a lobster industry brand- the mix of quality, practices and uniqueness which speak to Internal Quality + External Uniqueness+ Internal and External Transparent Practices. On top of this foundation can be layered the inspirational storyline designed to engage both internal and external audiences with the Canadian brand, and the global role that Canada will own.

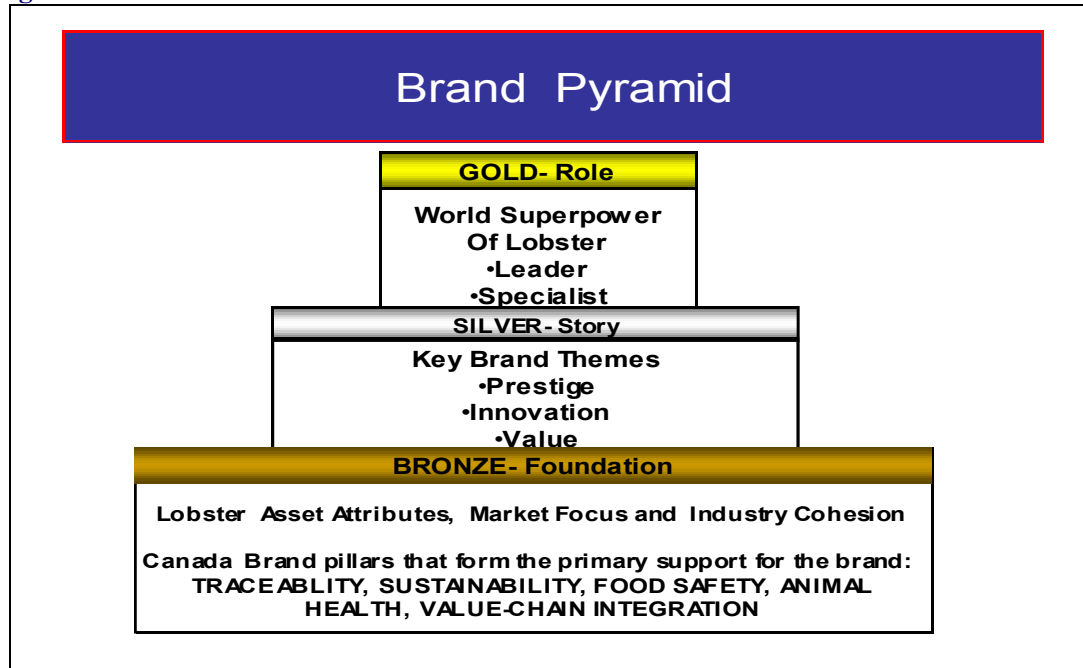
**Figure 5.11**



<sup>17</sup> USA Buyer Research, 2006 Agriculture Canada

For the lobster industry, this role will be as a leader and specialist, which positions Canada as the world superpower of lobster. The inherent quality of the resource and health of the supply, along with food safety expertise and lobster science expertise provide the basis for claiming leadership and specialist status. This is made credible with a storyline built on the themes of prestige, innovation and value, supported by a foundation of industry competence and capability.

**Figure 5.12**



## Brand Messages

The brand pyramid identifies several message categories to be developed and delivered to build brand image and credibility. These categories include claims the Canadian lobster industry can make about:

- ❑ The Brand Canada Pillars relative to the lobster industry.
- ❑ Its distinctive lobster resource attributes and benefits.
- ❑ Its quality handling and processing practices.
- ❑ Its supplier relation's commitments.
- ❑ Its initiative to build a cohesive and cooperative industry model.
- ❑ Its specialties in sustainable fisheries management, food safety, quality control and lobster science that could provide lobster consulting services to other areas, to establish Canada as a specialist in all aspects of the lobster industry.
- ❑ Issues that reflect misinformation in countries outside Canada (ethical oil and seal cull necessity).
- ❑ Why buyers should choose Canadian lobster.
- ❑ Why the industry should internally support the brand.
- ❑ The message that buying Canadian quality pays – it's not cheaper to buy poor quality lobster.

## Message Targets

There are several key target groups for Canadian lobster brand messages:

### Canadians

- ❑ Develop and sell the brand at home first, where the receptivity to Canadian product is high and forgiving, if necessary, during brand development

### Foreign Investors in Canada

- ❑ The economy is perceived as stronger in Canada than many other countries. Canada's stronger banking systems, strong natural resources base, GDP growth and a strong real estate sector are attracting interest and investors from areas such as China and the UAE. This is an important opportunity for Canada to connect with Middle and Far Eastern markets.

### Canadians living outside Canada

- ❑ The Asia Pacific Foundation identifies large groups of Canadians living in other countries that represent a connection to Canada and an opportunity. The largest group are in the USA at 1 million, the second largest group are in Hong Kong at 175,000. In total, Asia Pacific identifies 1,319,196 ex-patriates living outside Canada and 1,690,470 immigrants living in Canada. This is an extension of the focus on Canadians at home, for a receptive audience, with connections in other countries.

### Upscale buyers and foodies - special interest groups

- ❑ Consumer research in several countries indicates that people in upper income, higher education groups are often those who have a lifestyle interest in food, luxury and fine living. These people shop at specialty stores and are prepared to pay more if the experience promises more.

### Potential trade partners

- ❑ The Canadian industry has supply and quality to offer, as well as expertise. Food safety consulting for Chinese processing facilities would solve some of the product quality issue that have been experienced as a result of rapid growth in China. In Australia, the offer to augment their small volume of lobster with Canadian lobster to assist them in continuing to supply their Asian customers, would serve to solidify Canadian supply capability in Asia, with the endorsement of Australia whom the Asians are accustomed to dealing with. Augmenting Maine's summer supply of lobster to prolong the season on a visible basis instead of Canada's current invisible supply status. This is a focus on "getting credit" for Canadian source lobster, since augmentation of the Maine supply has long been invisible. Traceability requirements will assist with this.



### Potential product development partners

- ❑ Seeking product innovation partnerships with food service in Europe would assist in establishing a new view of Canada as committed to new and quality products. There is a large “appetite” for convenience processed foods in Europe. As European lobster consumption has declined over the past 3 years according to 2010 consumer research, and there is a sense that Canada can’t get past the popsicle, there is a need to make Canada’s presence and lobster capability felt in a strong and positive way in Europe.

### Potential quality buyers

- ❑ The experience that 10-15% of global buyers are quality buyers means that lobster has not completely degenerated into commodity status, but has come dangerously close. International buyer interviews indicate a preference for Canadian lobster over Maine lobster due to meat yield, ability to travel and lower mortality. They also mention the low profile that Canadian lobster has had. This indicates that a strong Canadian brand should be capable of generating interest in a higher quality product, that delivers higher ROI for buyers who are currently paying less but losing product to mortality or dissatisfaction among their customers with weaks and low yields. This dissatisfaction among their customers reflects poorly on those buyers. This is the opportunity to make the value case that quality pays, when the costs of low quality are calculated.

### Traditional and new media

- ❑ Traditional media such as newspapers and food shows are still important outlets for brand messaging. However new media bloggers who are looking for content represent a huge opportunity. Blogging has grown exponentially. In 2003, there were 100,000 blogs worldwide, and in 2010, there are about 184 million blogs, with multiple niche blogospheres. In the US, there are 5 million food bloggers, who each reach a massive audience. If there is a food event, they will attend, take pictures and blog about it for free and the audience exposure numbers can be measured.

### Industry

- ❑ The lobster industry itself is a key target for brand messages, to build and sustain their awareness, understanding and commitment to delivering on brand promises. Social media can also be used within the industry to build engagement with the brand on the supplier side.

### Media

Media channels are identified for both external market communications and internal industry communications. These will be developed into a plan by a media consultant for use at the tactical level of the brand development architecture.

### External Market Communications

- ❑ Media relations provides information to the media to inform and alert them to newsworthy opportunities. Materials to media include press releases and advisories that provide event notifications, story leads and content about a subject.

- ❑ Traditional and alternative channels such as newspapers, radio and television have a role to play given the range of target groups that the Pyramid approach offers. For example, while newspapers are available on-line, there are still readers who prefer the paper version for reading in a range of off-screen, off-line locations. These users may be the retired lobster consumers who are affluent and read the food sections of the papers.
  - Alternatives to traditional television advertising include [satellite](#) media tours (SMT). This is a technique used to provide an "expert" to local [television news broadcasts](#) for often-live story segments, to present a specific message. Satellite media tours are related to, and often used with, [Video News Releases](#) (VNRs). A special version of a satellite media tour interview is edited and distributed as a video news release, with the broadcaster adding its own [voice-overs](#). Co-op satellite media tours use one expert to make recommendations funded by more than one client, for a joint 'promotion' (e.g., "Three new ways to enjoy lobster at home").
  - These are also options for Asian markets. A Chinese importer indicated that large first and second tier cities are sophisticated markets that have large circulation newspapers and national television
- ❑ **Digital billboards** – digital technology produces static images on billboards which are changed via computer as often as every six or eight seconds, providing a non-manual way to change billboard "copy." Print and broadcast news media use digital billboards to deliver headlines, weather updates, and programming information.
  - Digital billboards are also available in the larger cities in China and were recommended as a key channel for raising awareness of Canadian lobster
- ❑ **Online video** – on You Tube is another example of digital technology, that can go 'viral' if the content is appealing and generates sufficient buzz. On-line media has advantages in that it reaches beyond country borders, assuming that no limitations have been put in place by certain countries. This has occurred in China.
- ❑ **Social media** – is a community of people 'talking' to each other and sharing their knowledge and stories about a product or an idea. It is an important media channel for its authenticity because the users generate the content. Businesses refer to social media as consumer, generated content and this is the basis of the authenticity factor, consumers take an idea, 'talk' about it and it becomes a dialogue.
  - Social media addresses a number of issues related to traditional media, which is less responsive to shifts in cultural information trends. Consumer skepticism is high as a result of being inundated with messaging. It is harder to get consumer attention, which is even more difficult due to media fragmentation resulting from many channels vying for attention. Increasingly consumers are turning to one another to get 'endorsements' on products, which puts the consumer in control of the message. They decide what messages to focus on and to pass along. This provides both feedback to businesses and an early warning system if problematic issues begin to arise.
  - Key social media tools for lobster branding and communication include the following:<sup>18</sup>

<sup>18</sup> The CMO's Guide to the Social Landscape

- ❑ **Twitter** – a microblogging site that enables users to send ‘tweets’ or messages of 140 characters or less. For brand exposure, Twitter offers unique opportunities for website integration and to engage with consumers in a viral way so that the brand is distinctive. Twitter is also useful to keep track of what customers are saying about the brand via key word search monitoring through programs such as TwitJump, HootSuite or Radian6.
- ❑ **Facebook** – a social networking site where people can add friends, send messages and build their own profile. Facebook brand pages are good for brand exposure via the ad platform. Facebook is good for engaging people who like the brand, who want to share their opinions and engage in giveaways and contests.
- ❑ **Flickr** – an image and video hosting website where community members can share and comment on media. Flickr is heavily indexed in search engines, helping images rank higher.
- ❑ **You Tube** – a video sharing website where users can share and upload new videos. This is one of the most powerful branding tools on the web. You Tube is used for informational video as well as entertainment video and allows the brand to engage customers and respond to complaints or issues.
- ❑ **StumbleUpon** – a social news community where members discover and share webpages. This enables a diverse range of people to discover the brand ‘s content and share links via Twitter. The large user base enables many people to find and link to information.
- ❑ **Digg** – a social news site where users can discover and share content. Considered the grandfather of traffic spikes, this is excellent for promoting objective press/blog coverage of the brand. Even if the brand storey doesn’t become popular, the webpage will still be indexed quickly and if the story does become popular, this is the best site for getting linked to by bloggers.

## Internal Industry Communications

Internal communications will include basic information and updates on lobster community and market facts, as well as facilitation of industry discussion, inclusiveness, and engagement with issues affecting the whole industry.

- ❑ **Basic information** on the industry that will increase understanding of pricing and supply issues, quality handling practices and other core information can be developed for DVD use in home for those who don’t have access to a computer or who prefer other media. The same content can be available on-line through the Lobster Council of Canada website in a section accessible only by lobster industry participants via password.
- ❑ **Update on industry decisions and market information** can be handled on-line via a daily bulletin, similar to Seafood Source. A weekly or bi-weekly printed version for those who prefer hard copy could also be considered.
- ❑ **Inclusive industry participation in discussion** of industry issues can be facilitated using on-line “social” methods to enable feedback and the ability to respond immediately to issues as they arise. Inclusiveness is important to building commitment and industry support based on transparency and involvement.

- ❑ **Townhall/ All Hands meetings and debriefs at season closes** to enable issues raised on-line to be discussed and addressed in person.

### 5.3.7 *Place/markets strategy*

#### Decisions

- ❑ Rifle vs. Shotgun approach to markets.
- ❑ Revitalization vs. Fresh Start markets.
- ❑ Established vs. Emerging markets.

#### Recommended Positioning/ Brand Strategy

A development approach with a dual focus on existing and new markets:

- ❑ Revitalize current markets such as Europe and Japan from the low price position that has resulted from undercutting (negative competition).
- ❑ Pursue ‘new’ markets in both existing (USA/Canada) and emerging/emerged (Asia) markets.
  - Short term Foundation market focus -a domestic campaign in Canada, ‘buy local’ to aid in brand development, and a continued export focus on the US, to provide cash flow during marketability and marketing development. City, specific focus on wealthy US cities- NYC, Chicago, LA, Miami, Washington.
  - Intermediate term, Stepping Stone development to revitalize Canada’s lobster market image in Europe and Japan with new product development partnerships and development of trade partner relations in Australia and Hong Kong as two portals to the Asian market, where entry is driven by relationships.
  - Long term Goal will be a preferred supplier position in China and a preferred supplier status due to re-positioning in Europe and Japan.
  - Post-Goal: Achievement of these strategic steps will position the Canadian lobster industry for strength in other emerging countries, such as India and Russia.

#### Time-Frame

The Foundation and Stepping Stone objectives will be the immediate focus, but can be easily derailed if the marketability improvements are not achieved to support market initiatives. Therefore, the market development activity for the next year should focus on “feet in the street” intelligence gathering and key contact identification.

##### **The immediate objectives are:**

- **a focused market approach vs. the scattershot approach of the past**
- **brand development “at home” in Canada and ‘new’ market development in wealthy US cities**
- **product and partner development - ‘on the ground’ marketing intelligence and networking**

## Market Considerations

Market development requires a balance between three different types of markets: slowing, growing and new markets. This requires the pursuit of new markets and new regions in existing markets, the continued growth of strong markets and the revitalization of existing markets where demand and prices have slid. The economic backdrop demands recognition that slower growth for the USA and Europe will affect Canada. The US is still considered a solid market, although there are concerns about the length of its economic recovery, with California in a near-bankrupt position, 48/50 states facing budget shortfalls and government cuts threatening to slow recovery.

Many Canadian companies are diversifying away from the US, with China and India a close second in importance, and Western Europe a more distant third. The European debt crisis dealt with through bailouts by France and Germany, means that the stronger EU countries now plan to reduce spending to reduce debt. High tariffs (ranging up to 20% on processed lobster products) also represent a major obstacle to expanding sales to the EU. This could change in the next few years as Canada and the EU have just begun negotiations on a new trade treaty which would see a reduction in many tariffs and the outright elimination of others.

These factors are slowing the recovery in Western countries, softening prices, and reducing demand for Canadian exports. Canada is essentially in limbo between Western countries that don't want to spend and Asian countries where many don't want to spend due to a strong savings culture or can't spend due to low incomes. Canada must find those with an interest and the ability to spend on lobster. A key buyer in the US believes opportunities exist in 'new' regions of the US among the top tier consumers (Las Vegas, Miami, Los Angeles, New York, Chicago, Washington), and to avoid Maine and Massachusetts where Maine lobster reigns.

Western Europe is an area for revitalization to regain prices and interest in Canadian product with new product development to leverage the European interest in convenience foods.

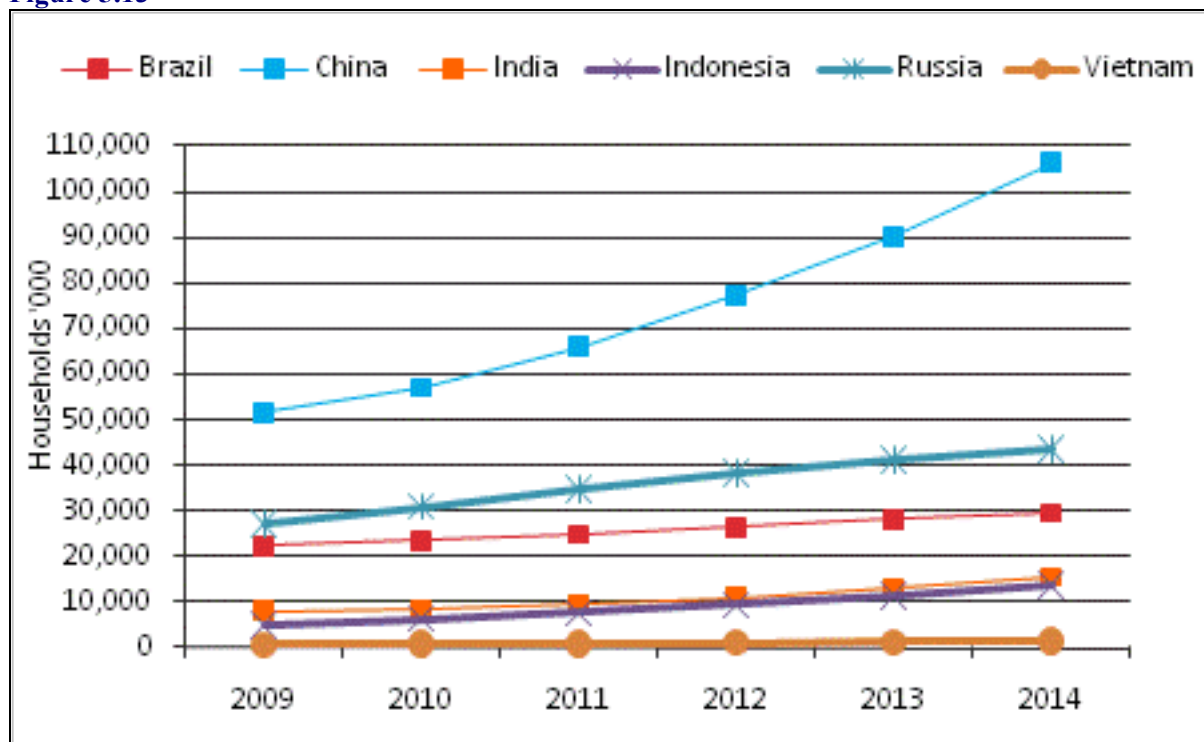
The emerging countries offer significant opportunity but the immediate target is in the Affluent tier. The middle class is still emerging and their pay levels will not allow lobster purchases for many years. The average per capita income in China, 2008 was USD\$2,940.00. The domestic Chinese market is a challenge even for China, which finds it easier to develop export markets than domestic markets, due to a strong savings tendency and the absence of a social safety net. Unpegging the yuan will make Chinese savings worth more but inflation is increasing the cost of the basic food basket. Thus the emerging middle class in these countries will not be the immediate market for lobster, for many years.

However the upper middle class presents an opportunity, where incomes are growing, at a faster rate than in other emerging economies. Figure 5.13 shows the forecast of growth in households with an annual disposable income over US\$10,000 in selected countries: 2009-2014.<sup>19</sup> In 2010, this represents almost 60,000,000 households in China and by 2010 that is expected to be almost 110,000,000 households.

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<sup>19</sup> Euromonitor International

Figure 5.13



The Hurun Wealth Report for 2010<sup>20</sup> reported 875,000 millionaires (more than RMB 10million (GBP 0.96/ EUR 1.1million/ USD 1.47million) in China today, a 6% increase over last year, and 1900 billionaires. Beijing, is home to 151,000 millionaires, the highest concentration, Guangdong was in second place with 145,000 and Shanghai came in third position, with 122,000. These people accounted for 48% of China's total number of millionaires. The average age of China's wealthy is 39 years of age. On average, they are 15 years younger than their counterparts outside of China. The Chinese millionaire population in Tier 1 cities is slightly younger than that in Tier 2/3 cities (40 years old vs. 43); there are also more women millionaires in Tier 1 cities than Tier 2/3. More wealth is created from salary and investments in Tier 1 cities compared to real estate in Tier 2/3. Both Tier 1 and Tier 2/3 Chinese millionaires identify the US and France as top international destinations while Tier 2/3 millionaires also like Canada. For domestic travel Hong Kong is preferred by Tier 1 millionaires and Yunnan by Tier 2/3. There are strong opportunities in emerging countries, China in particular, and Canada must be well prepared to be a consistent supplier.

<sup>20</sup> Hurun Research Institute Research and Report

Table 5.20

Market Strategy	Objective: Balance the Markets Portfolio Key Drivers: Focus, Depth, Consistency, Smart Competition			
	Reduce Weakness	Add Strength	Create Opportunity	Eliminate Barriers
<b>Marketability Actions to Support a Market Development Strategy</b>	Reduce the potential for product inconsistency by adhering to both processing guidelines and quality grade guidelines			Eliminate jumping from market to market  Eliminate market - destroying negative competition
<b>Marketing Actions to Support a Market Development Strategy</b>	Temporarily redirect live supply from low value markets to rebuild quality image and demand: <ul style="list-style-type: none"> <li>• Japan</li> <li>• UK</li> <li>• Belgium</li> </ul>	Add emerging markets: <ul style="list-style-type: none"> <li>• China</li> </ul> Develop preference in growing ‘stepping stone’ markets <ul style="list-style-type: none"> <li>• South Korea</li> <li>• Hong Kong</li> </ul> Add new regions/cities in existing markets to reach wealth groups: <ul style="list-style-type: none"> <li>• NYC, Chicago</li> <li>• LA, Miami</li> <li>• Washington</li> <li>• Western Canada</li> </ul>	Focus on selected markets to build depth  Create partnerships with chefs and culinary in France, Germany, Japan to develop new market- focused products for in home use  Create a trade partnership with Australia to leverage their Asian relationships, by supplementing their dwindling lobster supply	Support Canada in its negotiations with the EU to eliminate tariffs that reduce the competitiveness of lobster exports.



Table 5.20 connects the Market strategy with the RACE (reduce, add, create and eliminate) actions for changing the current status quo in the lobster industry. The actions are divided into their marketability and marketing components to illustrate the close interaction between marketability and marketing in regard to Market Development strategy. These are the key action steps required to support a revitalized market strategy that matches products and markets.

## Market Rankings and Profiles

Twenty-one markets were examined. Detailed market information will be found in the Markets Annex to this report, with a brief summary provided here. Table 5.21 presents the set of qualitative and quantitative factors used to rank the attractiveness of the markets and Figure 5.14 shows the results of the ranking, using a ranking scale of -3 to +3.

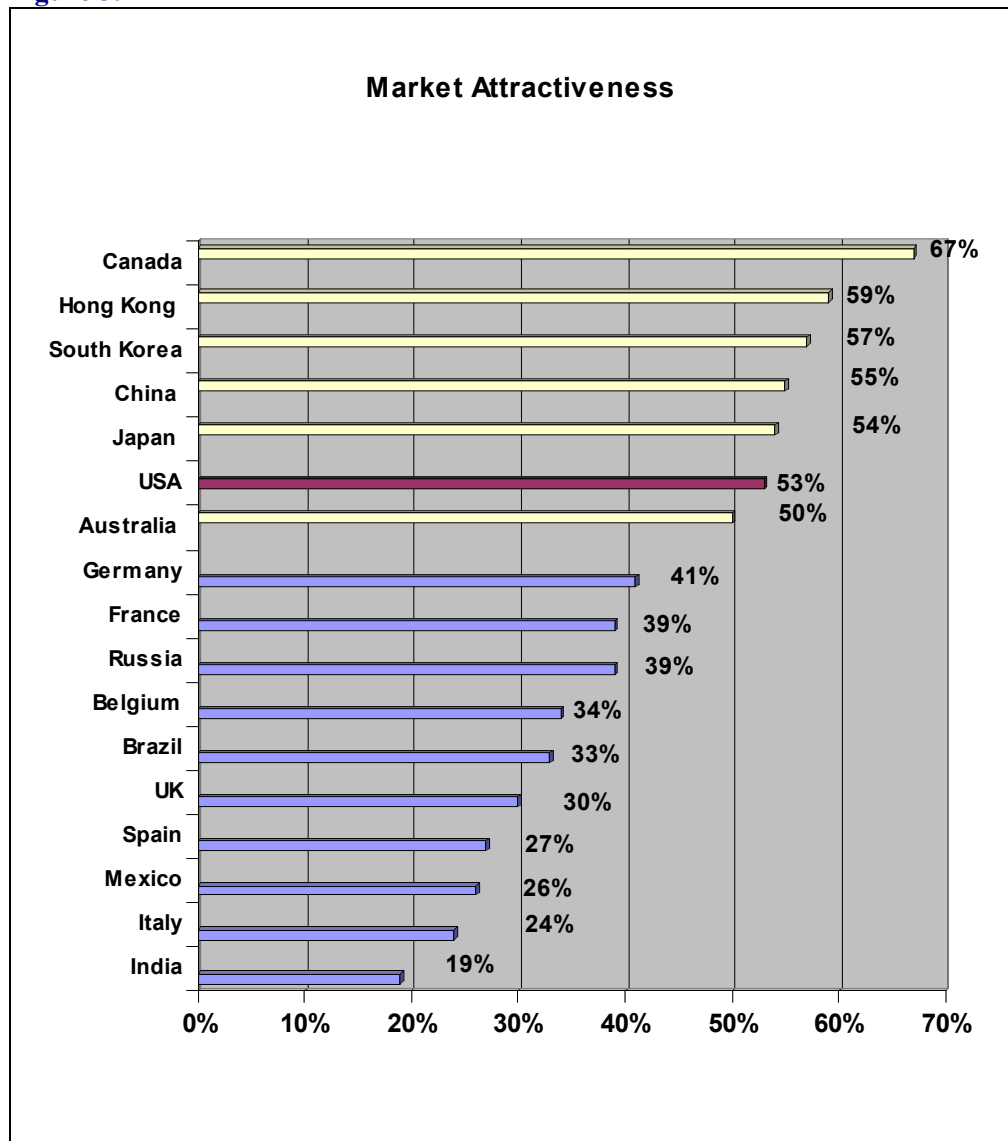
**Table 5.21**

Market Attractiveness Ranking Factors
1. Trade Profile (Surplus or Deficit)
2. Tariffs
3. Taxes (Standard Sales or Value Added Tax)
4. Domestic Profile (GDP/Inflation)
5. Strong seafood consumption
6. Business Safety Profile
7. Degree of awareness of Canadian lobster
8. Degree of preference for Canadian lobster
9. Image of Canadian lobster industry as a quality supplier
10. Image of Canada as a green country
11. Degree of frozen lobster potential
12. Degree of live lobster potential
13. Size of Canadian expat community in country of interest
14. Size of Ethnic community in Canada
15. A market worth focus based on existing trade or potential
16. Possible partnering potential for development
17. Current Importance of Canada as a trading partner

Each factor was assigned a numbered ranking, which were added together. The sums were then divided by the highest total value that could be attained for each country to arrive at a ranking percentage, which is presented in Figure 5.14

This chart illustrates the attractiveness of countries in relation to the USA which is currently the dominant export market for Canada.

Figure 5.14



The top ranking number is only 67%, which indicates that all markets will be difficult for lobster sales due to various reasons at the present time. On these indicators, **Canada** ranks as most attractive due to a relatively strong economy, no tariffs to deal with, strong seafood consumption on a per capita basis (lobster consumption is higher among frequent seafood consumers), a safe business environment, strong awareness and interest in lobster, especially Canadian lobster. Both the consumer and buyer research conducted for this strategy identified that Western Canada has been somewhat neglected regarding lobster sales. This is evident in the higher rate of decreased consumption over the past 3 years in the Western part of the country compared to the Central region. There is distinct interest that can be stirred in the Western provinces with 'at home' formats such as frozen splits and whole lobster fresh cooked at the store. The Western Canadians are much more likely to have eaten lobster in restaurants, which indicates that in-home consumption is an area of opportunity. Currently the main in-home consumption format in the West, is lobster tails purchased uncooked. The shell is much less important to them than to Central Canadians. Their main reason for not eating lobster more often, after price, is that it is not as available to them as other foods and the belief that frozen lobster is not as good as live.

Therefore the interest in the splits and the fresh cooked in the store are key options for generating more interest. Eastern Canadians are lobster lovers and Central Canada is currently more committed to lobster consumption than the West. Canada can be used as a testing ground for industry marketability improvements and brand development.

Although the **USA** is the recipient of about 80% of Canadian lobster, according to statistics, the US ranks 6<sup>th</sup> in a field of 17 countries for market attractiveness. This is due to a weaker economy, no preference for Canadian lobster compared to their own Maine lobster and some negative views about Canada regarding the seal hunt and the oil sands. The latter issues are currently creating a barrier, but the former, no preference for Canadian lobster is more a function of not realizing when they are eating Canadian lobster instead of Maine lobster. The consumer research identified that only 11% of US lobster consuming respondents and 10% of Canadian consumers said they knew the difference between Maine and Canadian lobster. The largest group who state they know the difference are in NYC and account for 23% of the New York City lobster consumers- more than double the average. This does not indicate if they are actually correct in their belief as to which is which. NYC are the heaviest consumers and it is reasonable to expect they are consuming Canadian lobster as well. The US portion of the research examined 5 cities that were recommended as opportunities for Canadian lobster by a large seafood wholesaler that operates in the US. The cities included NYC and Chicago which have the strongest lobster interest followed by Los Angeles and Miami, and then Washington, DC. Las Vegas is also an opportunity. Low potential opportunities were identified as Maine and Massachusetts, as they are devoted Maine lobster states.

Between Canada and the USA, the Asian countries dominate for market attractiveness. Over the past decade **Japan** has bought just under \$300,000,000 of lobster from Canada. Just over half has been frozen lobster. Their dominant supplier is Australia. This is an important market for Canada but one where prices for Canadian lobster have been declining. Industry interviews indicate that this is because of negative competition resulting from too many exporters vying for Japanese business. The result has been market erosion, with lower prices compared to competitor lobster signaling lower quality product. This is a market that illustrates the price impact of uncontrolled competition and serves as a cautionary example of what not to do in the other Asian markets. Japan is a market for revitalization and the interest in frozen lobster may provide the opportunity to partner with chefs and food service to demonstrate that Canada is both innovative and committed to working with the Japanese on quality-focused development. Japan has low tariffs and taxes, a well-developed distribution network and a safe and trustworthy business climate. However, there is evidence that its strong seafood consumption is declining with a preference for meat. Thus, convenience foods which offer the health benefits of seafood without the hassle are the primary opportunity for revitalizing the Japanese market.

**South Korea** ranks higher than Japan, due to a stronger economy and strong seafood consumption. Tariffs are among the highest and taxes are higher than in Japan but unlike Japan, South Korea is growing its lobster purchases from Canada, which are predominantly live. Canadian lobster is gaining a high profile in the Korean market due to low mortality rate and low mercury and lead levels (when compared to product from Australia and the US). There appears to be opportunity to grow the frozen lobster business, which is currently small but also growing. Distribution channels are highly developed, interest exists in lobster and interest has extended beyond the live product.

**Hong Kong** is rated second highest for market attractiveness, due to lack of tariffs and taxes, a strong economy, strong seafood consumption and a large group of Canadian expatriates. This is the financial and trade hub portal to China. Canada is selling live lobster to Hong Kong and business is growing. There is a small but growing business in frozen lobster product from Canada as well. However Canadian lobster product is not well known, which will be an immediate focus to remedy. Distribution channels are well developed and foodservice appreciates a higher quality product. This will be a key area of focus as prices are not 'up' for lobster in Hong Kong, generally. Many Canadian companies are already located in Hong Kong and a key organization is the Canadian Chamber of Commerce in Hong Kong. This is the biggest Canadian business association outside Canada and one of the largest and most influential business groups in the Asia Pacific.

**China** is a strong potential growth market, into which Canada has begun to sell lobster. Targets will need to be high-income individuals as per capita income is very low. Given the population of 1.3 billion, the high and high middle-income earners exceed the population of Canada. China likes seafood better than meat, which bodes well for lobster. Tariff and taxes are relatively high which constitute a barrier unless the focus is primarily on upscale food service. Lobster is presently associated with Australia and Boston. There may be a preference for 'clawless' lobster as a function of familiarity with Australian lobster. A Canadian partnership with Australia to augment their spiny lobster with Atlantic lobster would leverage China's existing relationship with Australia, while assisting Australia to supply its Asian markets. This partnership may become more urgent as there is currently a partnership between COFCO, a conglomerate that includes China's largest food importer, and Hopu Investment Management, who are presently studying the potential of exporting up to 15,000 MT of Maine lobster to China with first focus on frozen lobster to surmount live-lobster logistic challenges. The frozen format would be necessary if Maine lobster is being used as they are unable to survive long trips. However the interest in frozen lobster is very low at the moment based on discussion with a Chinese importer located in Qingdao, China who is focused on second tier cities, which are growing rapidly. In addition, there are 60 cities, including Hong Kong and Taiwan that have populations of over 1 million. The Canada China Business Council is a bilateral trade and investment facilitator, headquartered in Toronto, with offices in Vancouver, Beijing and Shanghai, that brings more than 30 years of experience and business relationship building in China. This will be a useful resource for the Canadian lobster industry.

**Australia** ranks as an attractive market for Canada due to the similarity in their economic strength, the absence of tariffs and the relatively low sales tax. However Australia maintains stringent quarantine regulations that can act as a non-tariff barrier. Import permits are required for live produce. Australia's seafood consumption is similar to Canada and it has a well-developed distribution system. It is a safe business climate, the language is English and Australia, as a strong supplier to Japan, China, Hong Kong and Taiwan, is a potential portal to China for Canada. Australia sells spiny lobster to Asia, but is struggling to supply its customers due to quota cuts. This may present an opportunity for clawed lobsters as well as frozen product, which dominate Australia's lobster imports. Australia has Asian relationships in place and Canada has product.

**Germany and France** are the two highest ranked European countries. They have offsetting characteristics that make them interesting for product development. Germany has the strongest economy but much lower seafood consumption than France. Their taxes are similarly high and their tariff rates are the same. Both indicate an opportunity for processed product development. Over the past decade Germany has imported slightly more live Canadian lobster than France, but volumes have been relatively moderate in both countries. France has been a large importer of

frozen lobster, second only to Japan. There is evidence of increasing interest in live lobster in France, with a preference for European lobster, but significant purchases of Maine lobster. Germany has imported similar levels of frozen and live lobster. Both countries are driven by convenience products, but have different tastes in seasonings, with Germany liking strong flavors such as tomato and horseradish. Working with food service in these two countries would provide a dual product development perspective within the EU. Specialty products for in-home entertaining will be an opportunity as both countries' governments will be scaling back spending in the next few years due to the Greek bailout and this will have an impact on as well. France is a 'foodie' country so entertaining will be more cost-effective at home. Germany is interested in (a) specialty food products; b) attractive, unique, and originally packaged ready-to-eat products, particularly frozen and chilled/super chilled; c) fresh and environmentally friendly products. Both countries have well developed distribution systems.

The other countries have less to recommend them at present. This leaves 9 countries including Canada for sales focus over the next 2 to 5 years. Developing depth in these markets will position Canada for entry into other markets if supply is available or if market conditions change in the focus countries and a market shift is necessary.

**Figure 5.15**

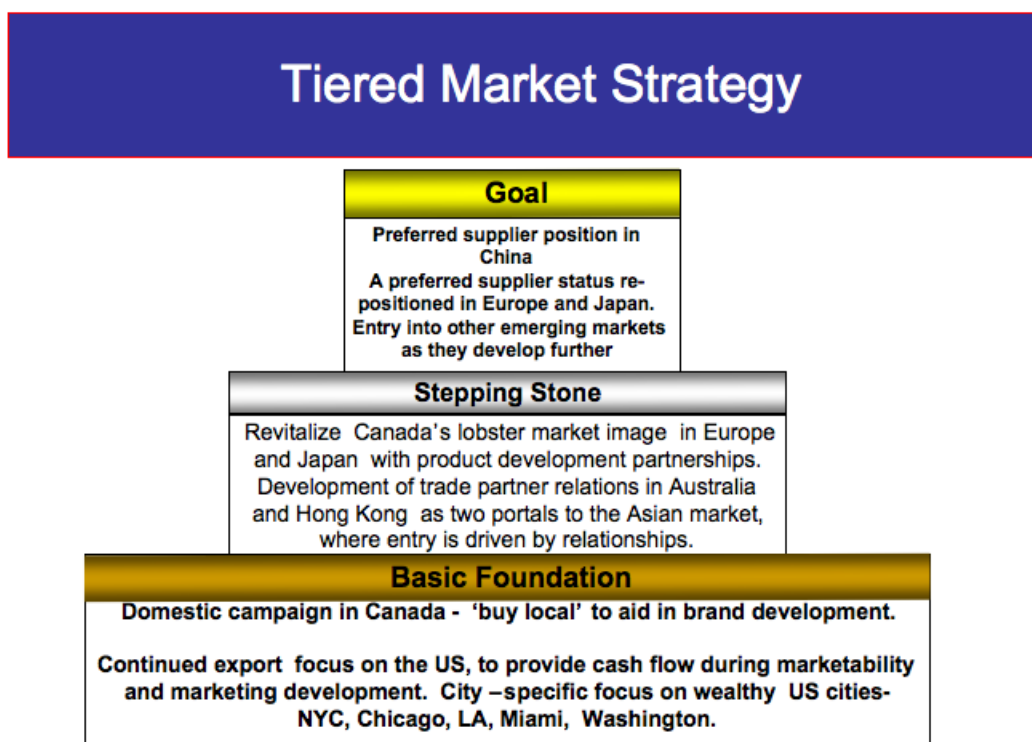


Figure 5.15 summarizes the key market strategy for Canada, using the tiered, pyramid approach that has been the model for the marketing strategy.

### 5.3.8 *Place/channels strategy*

#### Decisions

- ❑ Logistics
- ❑ Value Chain Control
- ❑ Retail vs. Food service
- ❑ Multi-channeling

#### Recommended Positioning/Channels Strategy

In step with the Super Power positioning, the key channel focus is **greater channel power** to support the price-maker strategy.

- ❑ Consolidation, cooperation and smart competition will build industry strength to overcome industry fragmentation, as both power and dollars are draining out through the cracks between the industry fragments. Getting farther, faster by working together towards a common goal.
- ❑ Multiple channels to ‘work around’ the current strength that the channels have effectively built and which has enabled them to achieve the price maker position.

#### Time-Frame

The immediate objectives are:

- **organizing to present a more powerful industry ‘front’ to the channels who are already organized and powerful. This is a necessary first step to prevent channel development efforts from being undermined, again**
- **examining traceability tracking options and methods**
- **a focus on specialty retail, which is the primary retail opportunity for premium pricing**
- **a focus on ‘easy’ in-home lobster consumption as a lower cost entertainment and indulgence option for foodies and those who normally eat lobster in restaurants only**
- **examination of easier access to lobster using ‘clicks and bricks’ (order lobster on line by grade and size, and pick up at up at a local store or receive direct delivery= shortened supply chain)**
- **generic marketing to consumers on quality grades and the related ROI value of better quality (higher meat fill) to utilize the consumer as the ‘sales force, asking the retailer to stock specific origin and specific quality-level foods**

#### Channel Development Considerations

The main goal is building greater control of the distribution channel. Channel options should be matched with consumer group targets. Channels include the traditional venues of supermarket retail and food service, as well as alternative retail concepts and web/online options. Channels also include transportation options.

Supermarkets and casual restaurant chains are the low margin lobster business that is generating breadth among the middle class consumers at the Bronze level of purchase (or lower, depending on how Bronze quality will be defined).

- ❑ For the Accessibles, lobster is made available and affordable for the middle class (low price, many outlets), offers the idea of lobster and the expectation is that desire will be created to move people up to higher price points.

Premium pricing is possible through specialty retail, which typically targets foodies and lifestyle consumers. Seafood wholesalers are seeing this and opening their own specialty retail stores as a way of shortening and controlling the supply chain. These and the upscale white tablecloth restaurants are targeting the affluent consumer and the aspirational consumer, those who want to live an “affluent-like” life on a limited basis.

- ❑ Lobster is available at a higher price, and at fewer outlets for exclusivity. The focus is on quality and the indulgent experience of lobster. The challenge is to position lobster as part of the regular set of protein selections for these consumers.

Power at mass-market retail has evolved from successful efforts to control the supply chain. The elements of retail power were built on the following actions:

- ❑ They have consolidated to increase retail power.
- ❑ They have shortened the supply chain by buying direct to reduce costs.
- ❑ They focus on margins vs. volume which they can pick up elsewhere in the store as total seafood accounts for only about 2% of sales (by comparison, bananas are 1% of supermarket sales).
- ❑ They focus on inventory management to reduce the space needed for stock rooms and to track what shoppers want. They use cost control and market data to make product selection decisions.

**Retail and foodservice power renders the fragmented Canadian lobster industry powerless. The Place/Channels strategy is a focus on building greater channel control.**

### **Methods of generating more supply chain control**

For the lobster industry include:

- ❑ Broadening the network of customers as well as ‘work arounds’ directly to the consumer, by selling direct or by convincing them to ask retailers/restaurants for specific products or quality levels.
- ❑ Use of alternative channels such as social media, on-line ordering and direct delivery are another ‘work around’ that shifts control. This is called multi-channelling when a portfolio of channels is developed to reduce dependence on large buyers and get closer to the ultimate consumer (web to store, store to web).
- ❑ Vertical integration is a structural consideration for increasing control in the supply chain and presenting a more unified front to large buyer customers. However informal collaborative options may be more easily implemented.

**Transportation** in Canada is a major issue. Many issues with Air Canada (rates, routes, schedules, handling).

- ❑ Current ‘work arounds’ include the Gateway air transit facility and AquaLife sea freight.
- ❑ Issues still arise for emergency orders that often need to be trucked to the US; quality issues arise around lobster stress during trucking.



- ❑ A recent Seafood Source article on Aqua Life identifies that the UK is buying substantial Canadian lobster being shipped by sea via AquaLife. This may be an opportunity to breathe new life into the flagging UK market, using new transportation channels for Canada that are green and less expensive than air.

## Place/Channel Actions

Table 5.22 connects the Channels strategy with the RACE actions for changing the current status quo in the lobster industry. The actions are divided into their marketability and marketing components to illustrate the close interaction between marketability and marketing in regard to Channel Development strategy. These are the key action steps required to support an empowered channel strategy to enable greater value to be extracted from the distribution network.

**Table 5.22**

Channel Strategy	Objective: Build Channel Power Key Drivers: Power, Cooperation, Network Diversity			
	Reduce Weakness	Add Strength	Create Opportunity	Eliminate Barriers
Marketability Actions to Support a Channel Development Strategy		Identify green options and clarify misconceptions to counter impressions that Canada is not a 'green' country. Criticisms include the seal hunt and oilsands which have caused stores such as Whole Foods to take issue and celebrity chefs to refuse Canadian seafood due to the seal hunt. Some European countries also take issue with the airfreight carbon footprint and with EPS packaging	Commit to disciplined cooperation to create a dominant market presence consistent with Canada's dominant supply and quality status.  Another term for this is 'connected autonomy' that recognizes separate entities working together on selected initiatives	Eliminate channel weakness resulting from industry fragmentation and negative competition

Channel Strategy	Objective: Build Channel Power Key Drivers: Power, Cooperation, Network Diversity			
	Reduce Weakness	Add Strength	Create Opportunity	Eliminate Barriers
<b>Marketing Actions to Support a Channel Development Strategy</b>	Reduce reliance on powerful buyers by expanding the customer network; <ul style="list-style-type: none"> <li>• specialty retailers</li> <li>• direct sales online</li> </ul>	Add new value chain strategies to increase control, generate new growth areas and options for extracting more value: <ul style="list-style-type: none"> <li>• Digital channels</li> <li>• Value chain control</li> <li>• ‘Work arounds’</li> <li>• Multi-channeling</li> <li>• GIS tracking for traceability and productivity</li> </ul>	Develop events around volume contracts and product education for chefs, retail staff and consumers  The Maine lobster focus in the US has been on food service. Canada can focus on specialty retail in Whole Foods, Trader Joe’s, Wegman’s, Fairway Market and Central Foods  Focus on in-home dining* – restaurant quality and convenience without the restaurant price	

\* The 2010 consumer research identified that overall, more people eat lobster in restaurants (73%) than at home (64%) but this is most pronounced in Canada where lobster consumption in restaurants is 75% and at-home is 51%, and in the US where restaurant consumption is 89% and at-home consumption is 69%. Restaurant and at home consumption is about equal in Europe at 65%.

## Logistics

Traceability is “*the ability to systematically identify a unit of production, track its location and describe any treatments or transformations at all stages of production, processing and distribution*”<sup>21</sup>. Traceability includes internal and external, upstream and downstream tracking. Internal is within the plant and external is within transit. Upstream tracks back towards the harvester and downstream tracks to the retailer or foodservice.

<sup>21</sup> Archipelego 2005

Figure 5.16

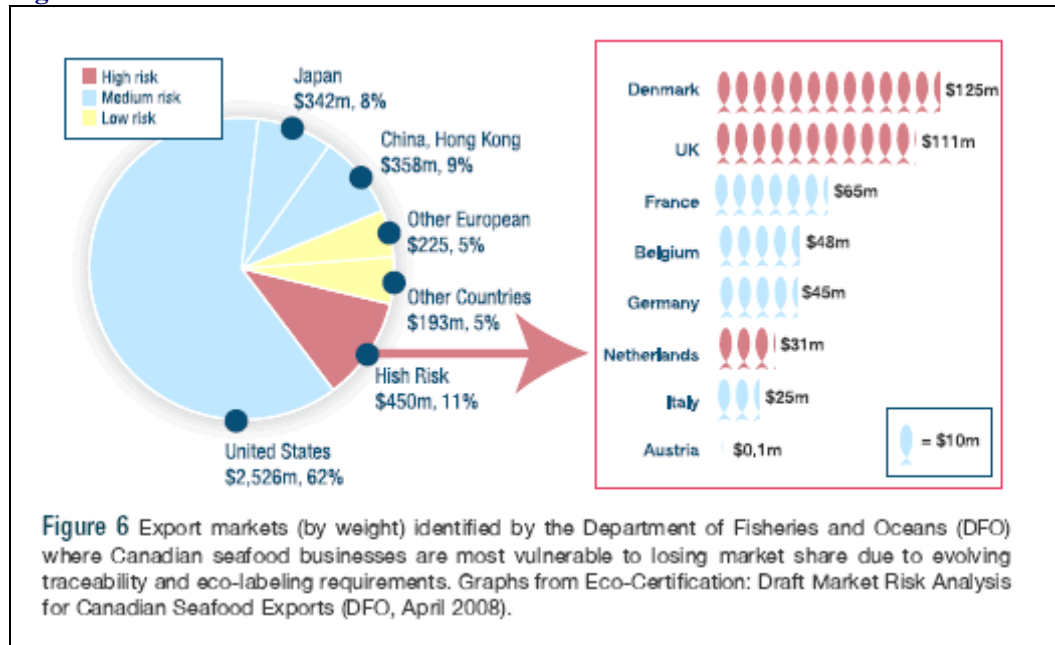


Figure 5.16 shows that markets of interest to the lobster industry are at high to medium risk of lost market share due to evolving traceability requirements. As this graph was produced in April 2008, loss of value in some of these markets for Canada, may have already been influenced and will almost certainly be influenced in the future. Supermarkets in the US and EU are increasingly focused on extended traceability information. With traceability becoming an imperative, implementing an industry-wide system would demonstrate that the Canadian lobster industry is proactively serious about traceability. Productivity and efficiency are additional reasons to track product.

Current electronic traceability systems<sup>22</sup> include TraceTrackers, ScoringAG and Trace Register. Private GIS options are another route. The systems can be costly for tracking lobster throughout the supply chain. Expenses typically include technical support, annual fees, software and hardware. Options for consideration within the industry to achieve the target of tracing full chain of custody include:

- ❑ each industry group (harvesters, processors, shippers, distributors) buy their own traceability system with the cost redundancy and mismatch of information that would generate.
- ❑ the industry collaborates on an industry-wide system to manage cost and data integrity across the industry.

GIS (geographic information systems) is a customizable option for consideration. They provide mapping systems that integrate physical information with constantly updated databases which track products and production. This offers data for traceability, productivity and delivery efficiencies, that will enable the weaknesses along the chain of custody to be identified.

<sup>22</sup> Seafood Traceability in Canada, Magera and Beaton, 2009

This has implications for transportation routes as well if data-evidenced issues with delays and costs can be used to make the case for improved airfreight to support Canada's largest most valuable commercial fishery.

Issues with freight have been addressed by "work-arounds" which include a sea freight solution called Aqualife. This makes use of a patented oxygenation process and ammonia control system for delivering live lobster with low mortality. This is reputed to offer a lower cost and green, low carbon footprint compared to airfreight. However, shipment to Europe takes two weeks, so the destination customer is most likely to be retail as large food service requirements are often time and date-specific. This sea freight option may help to reverse negative impressions of Canada for environmentally focused buyers. (Environmental issues include the seal hunt, the oilsands, airfreight carbon footprint and EPS packaging that is considered less environmentally acceptable than cardboard, despite studies confirming that it is less environmentally harmful to produce than cardboard and is a more effective packing material for minimizing mortality due to its insulating properties and thermal efficiency).

Airfreight is still an important and viable transportation link for time sensitive deliveries. To work around issues with Canadian carriers, the Gateway Facilities opened in 2010. This is a temperature controlled refrigeration facility focused on transporting perishables. It is the largest of its kind, north of Miami. Carriers include FedEx Express, Worldwide Perishables and West Jet. However buyers still report issues with scheduling and freight costs, which are barriers to shipping lobster from Canada. This is a key area to address as US airfreight routes and rates are a competitive threat to Canadian lobster exports. This may also be contributing to statistical data difficulties with tracking Canadian export destinations, if Canadian lobster is sent to the US to be air freighted to another country.

## Food Service

- ❑ Higher overall value; uses more processed product forms.
- ❑ Tails and meat markets are more important to foodservice buyers.
- ❑ Approximately 50% US restaurant lobster sales volume is tails; 21 % is live, and 26% is meat.
- ❑ Meat is the easiest way for restaurants to add lobster to the menu but product development is necessary to go beyond lobster rolls.

A national restaurant survey conducted for the Maine Lobster Promotion Council in 2005, identified that, *"Most restaurants that brand lobster, brand it as Maine lobster. However, it is possible or even likely that the source of the lobster served is unknown. Lobster is not now effectively labeled and the amount of Maine lobster that would appear to be served by restaurants based on this survey might actually exceed the Maine catch"*. This supports the belief that US lobster consumers dedicated to Maine lobster may in fact be eating Canadian lobster.

Traceability requirements will eventually remedy this but the question remains as to how much Canadian lobster is consumed in the US and whether the relative invisibility of Canadian lobster in the US will have an impact on efforts to develop the Canadian brand in the US food service industry. Educating US consumers on the shorter season for Maine lobster and the opportunity to augment Maine lobster with Canadian lobster will be a necessary pre-condition for positioning Canadian branded lobster in the US.

A 2010 report by the NPD group, "A Look into the Future of Foodservice," indicates that restaurants will slow in the next few years due to demographics, which provides a reason in addition to the economy to focus on in- home consumption via retail. *"The aging effect on the*

*restaurant industry will be slightly negative because of aging baby boomers,” said Bonnie Riggs, NPD’s restaurant industry analyst and the author of the report. “A greater share of visits will source to those 50 years and older in 2019, but as consumers age, they become less frequent restaurant users. This means **the restaurant industry will have heavier dependence on lighter buyers.**” NPD analyst Riggs said there is more room for growing traffic over the next 10 years by addressing newly frugal consumer behaviors rather than trying to shift marketing and operational focus to satisfy older consumers. “In addition to being hit hard by the recession, **Americans are eating more suppers at home**, and fewer women are entering the workforce have negatively impacted restaurant industry traffic,” she said. “There is a **huge opportunity in take-out meals and prepared foods for both supermarkets and restaurants**,” Hanson said. “Consumers are not going to wake up tomorrow with more time on their hands and the urge to cook. In the end, it will be about **meeting the consumer’s need for convenience**, whether it’s a restaurant or a supermarket.”*

A Seafood Source article<sup>23</sup> also reported restaurants lagging retail based on a report by the Perishables Group. Retail seafood sales were driven by the lobster sales, where volume was up but prices were down. This indicates that specialty retail will need to be a key focus for Canadian lobster in the US. The pyramid model allows for a portfolio of channels to serve consumers at different price points and qualities.

However in Asia, food service is the primary target channel through restaurants and hotels, as there will be less tendency to buy lobster for home consumption, for the foreseeable future.

## Retail

- ❑ Lower price point, uses least expensive product forms; has highest volume.
- ❑ US Retail is over 90% live product.
- ❑ Live lobster is the most important product for retail markets.
- ❑ All shellfish (crab, lobster etc) accounts for 15% of seafood which accounts for 2% of total supermarket sales<sup>24</sup>.
- ❑ Margins on fresh seafood are 25-30%.
- ❑ Margins on frozen are 35-40%.
- ❑ Retailers move most lobster volume on promotion.
- ❑ Volume is highly price sensitive.
- ❑ Promotional lead-time is generally less than 12 weeks.
- ❑ Live lobster is the most cost effective purchase for consumers at retail – the least expensive way to get lobster.
- ❑ Because meat and tail price points are significantly higher than whole lobster, there is little opportunity for retail promotion; as these items are too expensive.

Loblaws reported that second quarter results for 2010<sup>25</sup> showed that same store sales, a key retailing measure, slipped 0.3 % from a year ago, with food deflation estimated at a 1.5% decline in prices. This has resulted in pushing their suppliers to cut prices as food price deflation is expected to continue. Large supermarket chains will be a challenge. Providing them with Bronze level lobster product will indicate compliance with retailer demands for lower prices, while at the same time demonstrating that the industry is pursuing other retailers for Silver and Gold level products.

<sup>23</sup> US Retail SeaFood Sales Growing , Seafood Source, 2010

<sup>24</sup> Statistics from Peter Chapman, former Loblaw’s executive and selected retail observations by John Sackton

<sup>25</sup> Loblaw Rolls Up Its Sleeves, Globe and Mail

Providing promotion suggestions to retailers was suggested at the international Boston Seafood Show as an effective way to develop seafood at retail. An example was provided of Giant Eagle, a seafood merchandiser in Pennsylvania who partnered with the Alaska Seafood Marketing Institute for National Seafood Month. Part of the promotion was a contest for store managers to encourage them to use point of sale materials to provide cooking tips and information to shoppers. In addition they cross-promoted certain product with other product in the store. For example, data showed that unbreaded seafood was generally purchased with 'upmarket' products such as olives, parmesan/romano and spices while breaded seafood products were purchased with 'downmarket' products such as fried potatoes, ketchup, frozen rolls and toaster pastries. Cross-promotion with these products helped to drive sales of the featured seafood products to diverse consumer segments. Meal deals were also used. Feeding 4 people for \$20.00 provides an idea of where pricing needs to be for conservative spenders. However there were no promotional opportunities for premium products and new products. This suggests an opportunity may be being missed for those upscale consumers who shop both specialty retail and supermarkets.

Being first with a premium product can make the retailer a destination. This might be an opportunity for Silver level products in supermarkets, and Gold level products at specialty retail. Focusing on the health benefits and low fat profile of seafood is also part of the promotional mix for certain consumers.

A seminar at the 2009 IBSS for US retail buyers on procurement practice provides an inside view of what retail buyers are being advised to do with their suppliers. This awareness can help guide the industry as to what they should focus on during product negotiation. Key points are summarized according to the advice being given to retail buyers:

These are also options for Asian markets. A Chinese importer indicated that large first and second tier cities are sophisticated markets that have large circulation newspapers.

- ❑ Buy direct (a key retail tactic among chains).
- ❑ Require packaging for quality.
- ❑ Freshness logistics: buy local and combine shipping points.
- ❑ buying strategies:
  - forward buys ( high risk to retailer, usually for holidays and promotions and usually commodity frozen or seasonal).
  - negotiation, ( they are advised to be tough but that if they push too hard they will lose quality, through short weighting, sell water such as salt soak or STP, etc, net weight /glazing issues, refreshed frozen product).
  - lowering costs ( they are told to recognize that seafood is expensive and to spend 50cents a pound more, but also to avoid custom specs/packs as larger packs are the best sellers, cross dock slow movers, develop in and out items and remember that low cost is not low quality; this is not what quality buyers say in interviews).
  - contracts (RFP to set price for a specific quantity and time frame, cost plus or market based, reverse auctions where suppliers compete online to supply).
- ❑ Buying themes that will need to be addressed for Canadian product:
  - sustainable, traceable
  - transportation minimized
  - packaging minimized (refers to Styrofoam)
  - supports local economy
- ❑ Set aside time to explore new deals/new items and promotion planning. *This suggests going to retailers with an idea for how they can distinguish themselves from their competition.*

- ❑ Be informed via Urner Barry Comtell, Seafood Source.com, Seafood News.com, Seafood.com/Intrafish, NMFS Fishwatch.org., Seafood Business magazine. The industry needs to access the same information that the retailers are accessing; know what they know.
- ❑ Buyer interests to emphasize:
  - health and nutrition
  - value/price
  - frozen seafood
  - prepared /value added
  - sustainable seafood
- ❑ Selling units to showcase premium products, e.g., mobile ice tables with banner space for communications. Other options are chilled display units. (*An example of such a unit is Food Trust, with placed sorted potato display units in stores throughout Quebec and Ontario.*) This offers focal point merchandising assistance to retailers.

While supermarkets are a channel for Bronze quality volume, these findings indicate that mainstream supermarkets are not the channel in which premium pricing can be developed for live and processed lobster products. Specialty retail is an opportunity identified by lobster consumer research in Canada, the US and Europe. International buyers also identified specialty retail as an opportunity for higher lobster prices and several are opening their own shops. Specialty retailers rotate their tanks to improve lobster health, and minimize shrink by using all parts of the lobster. When a lobster needs to be optimized, the retailer will offer prepared lobster products, and will also prepare lobster as high-end, ‘entertaining at home’, ‘take-out’ for their customers. They provide advice and preparation tips due to their specialty focus. In supermarkets with staff turnover and multiple products there is less information offered by staff to the customer. Thus, there is a strong rationale for the higher prices in specialty retail due to care and handling of the product, maximization of product content and assistance to customers.

**Table 5.23 Lobster Purchase Channels 2010**

	Canada	USA	Europe
Specialty store	63%	58%	62%
Supermarket	67%	51%	39%

Table 5.23 identifies that the research conducted by the Lobster Council of Canada in 2010 for this strategy reveals that lobster consumers in all three areas shop both specialty stores and supermarkets for lobster. Specialty retail is the dominant choice in the USA and in Europe and is about equal in Canada. This indicates that patronage of specialty retail is substantial and is a viable focus for development.

US specialty retailers include:

- ❑ Whole Foods (across the US)
- ❑ Central Markets (Texas)
- ❑ Publix can be a slight premium to Winn Dixie etc in SE
- ❑ Vons can be a premium to other west coast stores
- ❑ Trader Joe’s (east and west coast)
- ❑ Wegmans in NY(mid-Atlantic region)
- ❑ Fairway Market (NY)



These stores are focusing on sustainability and secondarily on traceability. Whole Foods has declared that it won't have anything to do with oil from the Alberta oil sands. These stores may be challenging, but they represent the best opportunity to sell Silver and Gold level lobster products in the US.

New trends for US retail and foodservice were identified at 2010 IBSS, that may offer inspiration for new product development for placement in specialty stores. These include:

- ❑ Raw and rare, raw fish is going beyond the Japanese restaurant with sushi (raw), crudo (slightly marinated or just garnished) and ceviche (more marinated than crudo) applications. Also rare and seared seafood is still related to the raw trend. Product development with raw lobster in this direction could be suitable for specialty retail and food service in the upscale cities. Applications are sandwiches, rice plates and entrée plates.
- ❑ Whole product is appealing. Whole Foods is featuring whole fish and people are finding this an interesting presentation. Combining a whole product with related food products in a food 'kit' is an extension that is generating premiums (e.g., one pound lobster, corn and Portuguese chorizo). These combinations also serve to educate consumers about combining lobster with other foods to move away from the traditional and habitual lobster occasion. Using split lobster in this application would also offer a convenience factor.
- ❑ The advice is to use new product ideas and focus on the 'best in class' retailers and food service who are the thought leaders in the food world.

## Multi- Channeling

Multi-channeling reduces dependence on a single channel and enables different segments to be better served. Integrated multi channel retailing<sup>26</sup> refers to online shopping used to complement other forms of shopping including bricks and mortar, catalogue and telephone. Tesco in the UK has successfully developed a clicks and bricks system, while similar ventures in the US have failed. The key success factor for Tesco is that shoppers were already familiar with Tesco and trusted that the system would work. For fresh foods, there is a desire to see the food, check for freshness and inquire about the best before date. As technology develops, this is being addressed through virtual reality enhancements which may possibly be augmented by real time viewing of actual product. Virtual reality in food retailing is being explored by Japanese phone company NTT who are developing technology that will let shoppers smell before buying over the Internet. This indicates the extent to which digital channels will be possible.

The "clicks and bricks" approach is that consumers can buy online and pick up in a store or have the product delivered directly ('clicks' only). Asian consumers are very interested in online purchase of durable goods, which may extend to specialty food products in the future. Figure 5.17 and Table 5.24 on the next page illustrates the segments and related channels for delivering different price points, and the country focus as well.

<sup>26</sup> Tomorrow's Shopping World, Institute of Grocery Distribution, Food Export International 2009

Figure 5.17

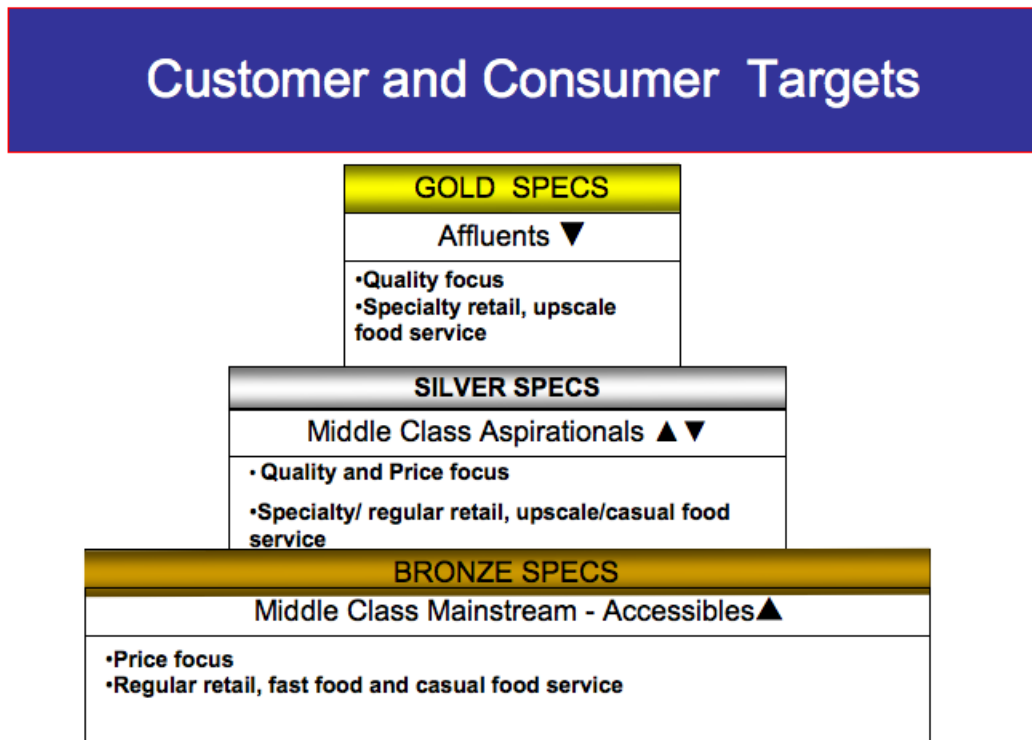


Table 5.24

	China	Europe/Japan	Canada /USA
<b>Gold</b>	<ul style="list-style-type: none"> <li>• Live at upscale food service</li> </ul>	<ul style="list-style-type: none"> <li>• Live at specialty retail</li> <li>• Chilled processed at specialty retail</li> </ul>	<ul style="list-style-type: none"> <li>• Live at specialty retail</li> <li>• Chilled processed at specialty retail</li> </ul>
<b>Silver</b>		<ul style="list-style-type: none"> <li>• Single –frozen or flash – frozen at food service for product development</li> </ul>	<ul style="list-style-type: none"> <li>• Live at upscale food service</li> <li>• Single-frozen or flash frozen at upscale food service</li> </ul>
<b>Bronze</b>			<ul style="list-style-type: none"> <li>• Live at supermarket</li> <li>• Blanched/frozen at casual and fast casual</li> </ul>

Quality grading will determine the quality levels; the descriptions in the table are provided as an example. China is focused on live product, which would be the highest quality meat fill, offered at upscale foodservice.

Europe and Japan are development/revitalization markets, where popsicles would be removed from the market due to the low quality image associated with them. Live at specialty stores would be Gold quality meat fill and processed product. Gold quality at specialty stores might be chilled lobster. Silver quality frozen might be flash-frozen (immediately after harvesting or the quality definition might be that it has only been frozen once). This processed product would be used for the product development partnership with food service.

Canada and the US would have a full range of the Gold, Silver and Bronze quality levels for retail and food service.

# 6

## IMPLEMENTATION

The previous chapters of this report examine *why* industry change is needed and *what* is needed to extract greater value for the industry. This final chapter of the report focuses on *how* to create and extract more value for the lobster industry. This includes:

- ❑ a roadmap to provide an at-a-glance summary of the core tasks required to move from the current situation to a stronger and sustainable situation
- ❑ the roles and functions of industry stakeholders
- ❑ process and tools for defining what change looks like to guide decisions and actions

### 6.1 Road map

The action Road Map in Table 6.1 summarizes the core actions and preparations, with related timeframes. This is an aggressive schedule, requiring an understanding of how to move forward, and a recognition of the factors that will both assist and impede implementation. Implementation issues are summarized in this section.

**Table 6.1**

LONG TERM VALUE STRATEGY ROADMAP	2011 1-6 months	2011 7-12 months	2012	2013
<b>MARKETABILITY</b>				
Price setting	<b>ACTION</b>			
Supply flow rate discussion	<b>ACTION</b>			
Supply flow pilot testing in LFAs		<b>ACTION</b>		
Quality standards development	<b>ACTION</b>			
Quality standards education and training		<b>ACTION</b>		
Price setting, quality and supply audits			<b>ACTION</b>	<b>ACTION</b>
<b>MARKETING</b>				
Commitment to pyramid marketing model	<b>ACTION</b>			
Working groups to identify price, product and market initiatives	<b>ACTION</b>	<b>ACTION</b>		
Brand development	<b>PREPARATION</b>	<b>ACTION</b>		
Market development in Canada and US cities		<b>ACTION</b>		
Product development with France, Germany, Japan food culinary	<b>PREPARATION</b>	<b>ACTION</b>	<b>ACTION</b>	
Partnership developments in Australia, Hong Kong		<b>PREPARATION</b>	<b>ACTION</b>	
Partnership development in China		<b>PREPARATION</b>	<b>ACTION</b>	<b>ACTION</b>
Generic demand marketing		<b>PREPARATION</b>	<b>ACTION</b>	<b>ACTION</b>
Online match-making between companies and markets			<b>PREPARATION</b>	<b>ACTION</b>

Table 6.1 illustrates that **marketability and marketing are integral** to the process for moving the industry from its present situation to its desired state. These two strategic elements are presented prior to roles, process and tools, to highlight their importance for implementation.

### 6.1.1 Marketability actions require immediate decisions

Marketability tasks are the immediate focus, as agreement and action on these are necessary to support the marketing tasks. The previous sections of this report have identified that the Canadian lobster industry possesses several strengths which create a range of opportunities including potential for market diversification, product development, brand development, generic marketing, and more generally, the potential for increased product value.

Set against these strengths are several weaknesses: imbalance in timing of supply and demand adds cost and reduces quality; absence of quality standards; inability to develop a pricing mechanism that rewards quality; a fragmented industry creates a challenging competitive environment in raw material and product markets resulting in an erosion of value; and excessive dependence on a single market (the U.S.), making the industry vulnerable to shifts in exchange rate, consumption patterns and economic conditions. There are many moving parts influencing the situation the industry finds itself in. Some of these moving parts, such as exchange rates, are beyond the control of the industry. However there are other moving parts that are well within the control of the industry and represent the opportunity to create and manage change.

The key moving parts that industry can manage affect lobster “marketability”, the mix of product characteristics the market finds desirable as well as the ability of the industry to deliver what the market wants in terms of stability, predictability and consistency. **Marketability must be addressed because marketability is the foundation of effective marketing.**

Figure 6.1

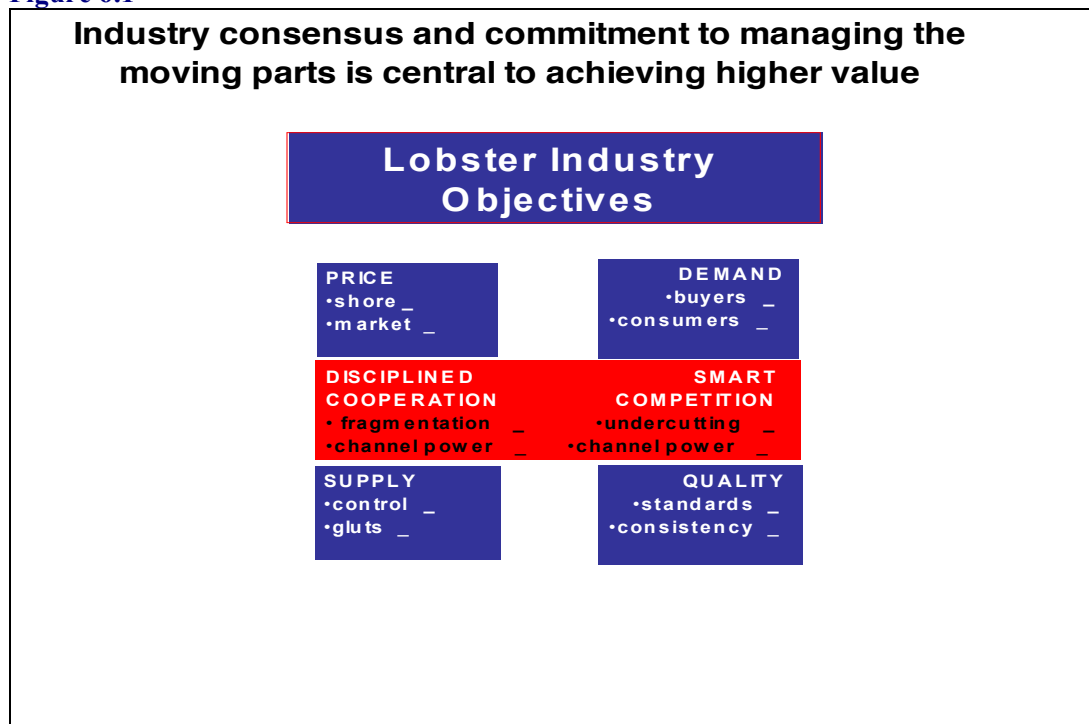


Figure 6.1 illustrates six key factors that must be working together, because they directly influence one another. When they are out of balance or out of sync, the effect is declining value or unsustainable value. These factors are **demand, supply, price and quality**. The management of these factors is helped or hindered by the **degree of cooperation** and the **nature of competition** in the industry.

The diagram presents these factors in a linked framework. Disciplined cooperation and smart competition represent the linchpin - the central, cohesive source of support and stability for the industry, that is the result of industry commitment to taking actions that make a sustainable difference. This is the strong horizontal bar that links price, quality, supply and demand. It should be noted that recommended cooperation and collaboration are not collusive in any sense. The importance of the industry's role in managing the moving parts of price, quality, supply and demand by collaborating for faster gains, and by not undercutting one another, can't be overstated. It is a necessity if the value strategy is to be successful.

- ❑ **Pricing – creating a more stable and transparent system of setting shore prices** allows the industry to provide the market with firm and timely pricing, to make lobster a more attractive product. Among the options are contract/collaboration, final offer settlement, price-to-market formula, auction and collective bargaining.

A contract/collaborative approach makes the most sense. Harvesters and shippers/processors should be aiming to create as much value as possible from the lobster resource, seeing themselves as partners in this larger enterprise, not as competitors each trying to take as much as possible from the other and weakening the whole industry in the process. It could be structured so it simulates what would happen under vertical integration. Harvesters align with specific shippers/processors on a contractual basis, with an agreed pricing formula including a basis for adjustments as market conditions shift. To work effectively, this approach (which incorporates elements of other options such as final offer settlement and the price to market formula) would have to be underpinned by transparency in sharing information.

The **Price** objective is increased shore and market prices that are sustainable and stable within a reasonable and 'to be determined' range. This is a focus on generating price stability supported by disciplined cooperation and smart competition.

- ❑ **Supply – managing the flow of lobster supply** to reduce holding and storage costs, improve quality, enhance production planning, and ease cash flow constraints. Among the options are adjusting trap limits, trip limits and individual quotas.

Reducing the number of traps in the water (and ensuring they are hauled only once per day) represents the most practical and effective way of slowing the early season supply when catch rates are highest. This would provide a better balance of supply and demand, with the ocean holding the inventory in ideal conditions. The trap limit could be adjusted upwards as catch rates begin to drop to ensure the overall catch level is maintained. Another advantage to this approach is that it can be tailored to the specific conditions in each LFA.

The **Supply** objective is increased supply flow control to support stable and increased prices, and to reduce cost-intensive gluts. This is a focus on managing for supply consistency supported by disciplined cooperation and smart competition.

- ❑ **Industry structure – addressing basic structural issues** (including industry capacity and the resulting volume-driven behaviour) that undermine relationships between the harvesting and shipping/processing sectors, limit industry responsiveness to market needs, and lead to destructive price-cutting.

The industry carries considerable cost in the form of excess capacity. This cost shows up in the form of reduced incomes, and also in the form of reduced revenues as volume-driven shippers and processors cut prices to compete for sales. Reducing harvesting capacity (where necessary) through an initial buy-out and then introducing some form of tradable harvesting right would be the most practical way of ensuring optimal fleet size. Shipping and processing capacity could be optimized by removing financial support or other concessions, and not bailing out companies that fail. These measures would help to “right-size” the industry and would complement the pricing and supply initiatives.

- ❑ **Quality – implementing quality standards** that are defined, adopted and reinforced by industry provides the market with a consistent range of choice and a basis for higher prices.

Standards refer to verifiable quality indicators such as meat content and blood protein levels. Standards and testing are essential to support quality based pricing. They would apply to both the live and processed segments of the industry. Criteria and testing (grading) protocols would be developed by industry with the assistance of the AVC-LSC.

The **Quality** objective is to develop quality grades for product categorization and processing, and uniform quality handling practices to deliver a consistent product within the specified quality grades. This is managing for product consistency. The purpose of the quality focus is to support stable demand supported by disciplined cooperation and smart competition.

- ❑ **Demand – implementing an integrated marketing strategy** that provides a structured approach to the market, where all marketing decisions around the 6 Ps of People (targeted buyers), Product, Price, Place (markets and channels), and Positioning (branding, communication and promotion) are made in relation to one another. This integrated decision-making ensures that all 6 Ps of the marketing strategy are synchronized to provide a cohesive plan for building demand.

The **Demand** objective is increased demand from buyers/customers and from consumers that is sustainable and stable within an acceptable range. This is a focus on generating demand stability, supported by disciplined cooperation and smart competition.

During discussion and interviews with various industry and government stakeholders, it became evident that many hoped, essentially, for a silver bullet – a method of creating value that did not require any fundamental change in how the industry does business. Current processes and behaviors have become entrenched over many years and have become the ‘norm. Change appears difficult if not impossible to many. The reality is that there is no silver bullet that doesn’t include decisions and actions by the group of stakeholders that are directly and indirectly associated with the industry. The silver bullet effect is the extent to which these stakeholders manage and implement the change presented in this report. The next sections in this chapter discuss stakeholder roles and functions, and the process for creating and managing change.



### 6.1.2. The marketing strategy works in lockstep with marketability

Figure 6.2

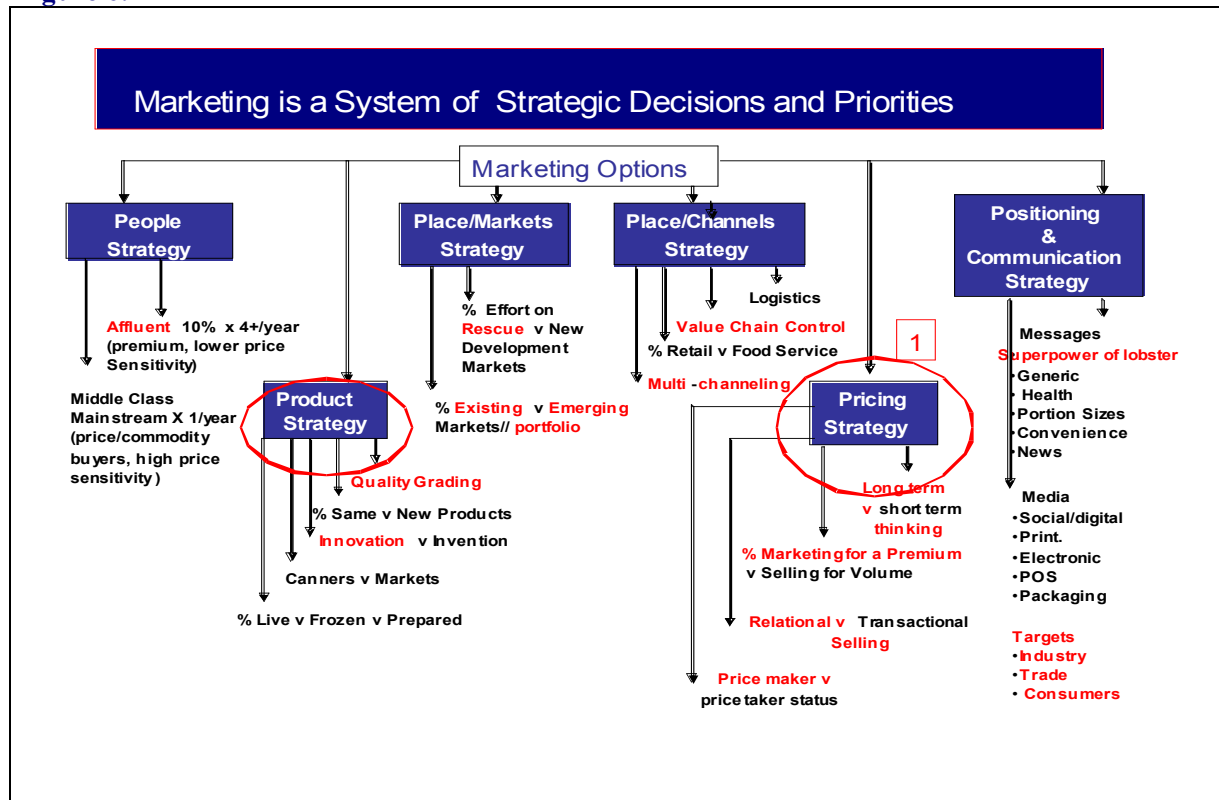


Figure 6.2 illustrates that a comprehensive marketing strategy has six components that provide direction for decision-making. These are usually described using their “P” labels and each offers a range of options that require a decision to be made:

- ❑ what group or groups of **People** are we targeting?
- ❑ in what **Market Places** are we targeting these People?
- ❑ what **Products** are we selling these People?
- ❑ what **Price** or selling strategy are we using to sell these Products?
- ❑ in what **Channel Places** are we selling the Products?
- ❑ what are we saying to **Position** the Products in a way that appeals to the targeted People and causes them to select our Products?

**Each of the Ps has a set of decisions that must be made.**

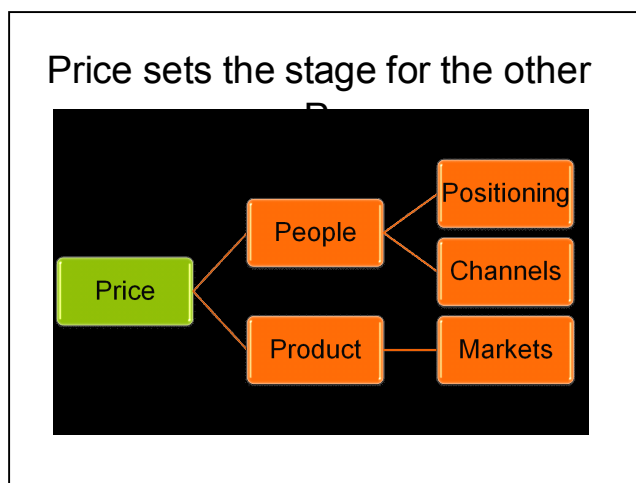
**These six Ps act like levers. When one lever is “pulled” or activated by a decision, it has an impact on the other levers.** Effective marketing strategies ensure that the six levers are working in concert with one another to produce the most efficient output. The usual approach is to identify the leading lever, which will provide guidance on the decisions made for the other levers. This leading lever should be matched with the Strategic Goal that is the expected outcome of the strategy. For the lobster industry, the strategic goal is to extract more value for the industry as a whole. The situation analysis has identified the need for a strategic framework that includes both a Marketability and a Marketing strategy, and for these two strategies to be operating “in synch” so that each strategy is supporting the other.

The Marketability Strategy is focused on accomplishing this by enhancing the ability of the industry to leverage its lobster asset through better management. This is a focus on shore price, setting, rate of supply and quality standard setting. These match with the Price and Product levers of the Marketing strategy, as shore-price setting and rate of supply relate to market price, setting potential, and quality standards relate to both price and product. Therefore, **Price should lead the Marketing Strategy, followed by Product.**

This means that decisions made on Price strategy must support the overall goal of increased value extraction for the industry. The Marketability strategy will address the fact that the lobster industry has a significant resource asset that is being under managed for quality and prestige. Quality management is an important focus for Canada, if value growth is being sought in new markets. Both primary and secondary industry research has identified that **the initial market entry decision hinges on whether to market lobster on price or prestige/quality.** Canada has focused primarily on selling volume at low prices. Therefore, the first marketing decision to support the goal of increased value, must be the decision to build a price strategy around prestige and quality, as the basis for higher market prices and wider margins. **Prices can't be raised without a rationale for doing so. That rationale must be built into the Marketing strategy and supported by the Marketability strategy.**

The challenge with the decision to pursue quality and prestige is the realization that the resource delivers a range of qualities depending on the season and the fishing grounds. In addition, quality buyers are in the minority, and until more can be found or developed, there is still a need to sell product at lower prices. However **a decision to remain at a lower price point exclusively will not allow the industry to achieve the goal of extracting higher value. Therefore, the Price strategy must be built around a range of prices, quality levels, target buyer, channels and products.** This requires a marketing model that can accommodate the parallel issues of dealing with the uncertainties of a wild-capture fishery and the need to create an acceptable level of consistency and stability for buyers, as well as the industry itself. The Pyramid model is recommended as the marketing model as its strength is parallel markets, which makes it appropriate for the goals of the lobster industry.

**Figure 6.3: Price strategy is the game changer**



Industry commitment to a game changing focus on being a price-maker will require **long term thinking** for the establishment of premium pricing and relationship-based marketing. While this will not happen immediately, this focus will **drive decisions in the other levers** to ensure that they are developed for the purpose of supporting price-maker behavior. Figure 6.3 identifies price as the lead component of the marketing strategy. Price, in turn, drives product strategy decisions and the subsequent market decisions for specific products. Price also drives the

people/ target market strategy, which in turn drives the subsequent positioning and channel strategies.

**The immediate Price objective is to reach consensus on the decision to transition from being a low price, high volume commodity industry to becoming a higher priced, quality segmented supplier.** It is recognized that the current transactional, commodity focus can not be changed immediately to a relational, quality and prestige focus, as the buyers are not available in sufficient numbers and the Canadian industry needs to address marketability issues in order to support a Canadian quality brand. However if commitment to price-maker status is not initiated immediately by a critical mass of the industry, nothing will change. Canada will continue to be a price taker.

This reality has immediate implications for implementation decision-making and action taking.

## **6.2 Stakeholder roles and functions**

Evidence of higher prices for live lobster, tails and meat in 2010 compared to 2009 may tempt some or all of the industry to believe that higher value will be the result of waiting for higher prices to return. However, higher prices have a cyclical impact that must be managed at several points in order to sustain an acceptable pricing level. The long-term effect of higher price can be summarized as:

- ❑ an initial boost to margins as buyers accept prices and place orders
- ❑ creating incentives for more production at the same time as higher prices are causing reductions in purchase volume
- ❑ increases in supply that are not in synch with changes in market price set the stage for a decline in prices and with falling prices, margins shrink
- ❑ both price stability and supply stability can help maintain stable, higher margins

Stability requires synchronization among industry stakeholder groups and is critical to extracting and sustaining higher prices. The need for synchronization means that increasing and extracting value is not a task that the primary industry can complete without assistance. This section identifies the nature of that assistance from key stakeholder groups.

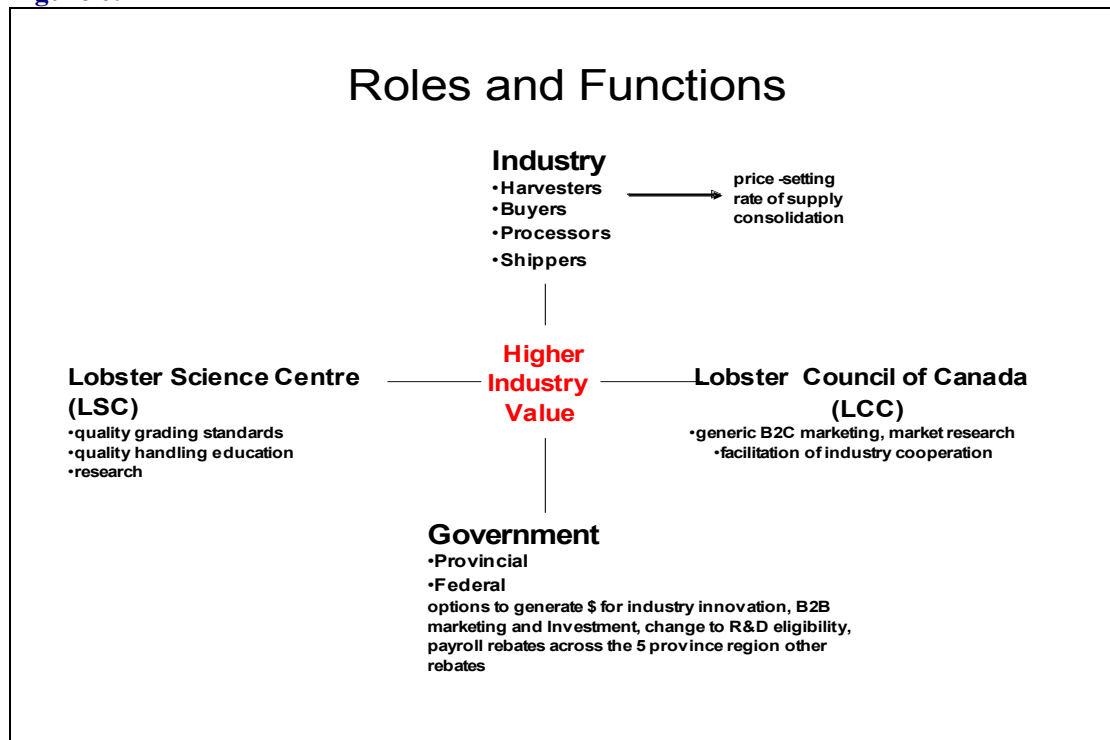
Each stakeholder group has a distinct role and function in achieving industry value-building objectives.

Figure 6.4 identifies the four core groups whose integrated functions are essential to the implementation of the long term value strategy:

- ❑ the direct participants in the industry (harvesters, dealers, shippers and processors)
- ❑ the federal and 5 provincial governments (Quebec, Newfoundland/Labrador, New Brunswick, Prince Edward Island and Nova Scotia)
- ❑ The Lobster Science Centre
- ❑ The Lobster Council of Canada

**The roles and functions of these 4 groups are integral to the goal of extracting and sharing more value for the industry. Core actions are summarized by stakeholder group.**

Figure 6.4



### 6.2.1. Industry roles and functions

- ❑ **shore-price setting** mechanism decision and development with assistance from a pricing specialist retained by the Lobster Council of Canada
- ❑ **supply control** decision with assistance from Lobster Science Centre and support from the federal government
  - testing of supply control options in different LFAs to identify if one or several control options is workable
  - commitment by industry to support the supply control method adopted by their LFA
  - on-going communications among LFAs on supply control options to identify the optimum option with the ultimate goal of a common supply control option for the industry
- ❑ **quality control**
  - determining quality grading standards and practices with the assistance of the Lobster Science Centre
  - compliance with quality standards for industry uniformity and conformity with Lobster Super Power brand status
- ❑ **cooperative initiatives** for specific objectives and better results vs. individual effort
  - joint product development to share costs and risks
  - joint GIS tracking for industry traceability to increase exportability
  - competitive agreements to build transparency, trust and to eliminate market and price erosion
  - joint participation in a check-off program to generate revenue for industry marketing, research and education
  - joint participation in market development and entry to share costs and risks

### 6.2.2. Government roles and functions

- ❑ **support for industry-driven initiatives**
  - given the often divergent needs of industry members, federal and provincial governments are uncomfortable with becoming involved in disputes. However the industry will need to recognize that cooperation among all levels of their industry is necessary to meet the goals of extracting and sharing more value for the industry as a whole. Once the industry has decided on initiatives, the government can provide the necessary controls and remedies to support these initiatives.
  - commitment to review electronic tagging as a supply control facilitation mechanism and a cost saving method.
- ❑ **recognition of divergent operating needs, listening to all members of the industry/reconciliation where possible**
  - decisions in one area often have negative consequences in other areas, such as the differential effects that a decision on season openings can have on harvesters and processors
- ❑ **targeted funding assistance where most needed, such as product innovation**
  - wider eligibility for the SR&ED tax credit might be considered
  - using available programs to assist companies in reducing their operating costs to free up funds for product development. Programs such as payroll rebates
  - reconsideration of trade missions that create unfair competition for companies that have incurred their own costs to open export markets and are then forced to compete with lower cost companies that participate in trade missions
- ❑ **recognition that companies operating in the industry have different cost structures and need different types of assistance**
  - some companies don't use insurance which decreases their costs versus other companies creating unequal and unfair competition, as well as unreasonable price expectations among buyers. Certain export requirements such as insurance should be applicable to all companies
  - more performance-based accountability required of companies receiving government funds
- ❑ **initiating cross-province discussion of options for “leveling the playing field” to support industry cooperation as a single lobster producing region for the purpose of building more channel power and greater industry cohesion**
  - interviews with industry participants indicate that different operating conditions in different provinces related to legislation and utility costs are increasing competition among the provinces and decreasing regional competitiveness in export markets. Consideration of joint provincial cooperation in recognizing the lobster industry as a Canadian regional industry will provide needed support to initiatives that reduce fragmentation.

### 6.2.3 Lobster Science Centre

- ❑ **development of quality grading standards for products and for use in shore price setting mechanism**
- ❑ **training for quality grading inspectors /auditors**
- ❑ **education on optimizing harvest and post-harvest quality and value through quality handling practices**
- ❑ **counsel as to how quality grading influences supply control initiatives**
- ❑ **diagnostic and prescriptive expertise for disease and mortality issues**

- ❑ **consulting services provided to other countries to raise the profile of the Canadian industry as a lobster specialist in support of the lobster super power branding**

## **6.2.4 Lobster Council of Canada**

- ❑ **government relations**
  - representing the industry's issues and decisions to government
  - developing a think tank of joint government, industry and industry experts, to address industry issues
- ❑ **industry relations**
  - facilitating industry communication
  - facilitating industry cooperation on key development initiatives including market entry
  - facilitating industry marketability initiatives on price-setting, supply and quality control
- ❑ **market development**
  - commissioning of market research for strategic markets of interest
    - B2B (business to business- leads and market entry intelligence)
    - B2C (business to consumer-specific consumer trends and preferences )
  - provision of market data and research to companies developing their own markets
  - developing a match- making online service to enable customers in export countries to connect with Canadian companies meeting specific criteria
    - companies will be responsible for promoting their own brands but will have access to market information and match-making assistance
- ❑ **brand development**
  - oversight for the hiring and management of a branding consultant to develop the brand architecture for the industry's brand in consultation with the marketing committee of the LCC
- ❑ **demand development**
  - oversight for the hiring and management of a communications consultant for the development and deployment of a generic marketing campaign to build awareness, knowledge and interest in Canadian lobster with the purpose of having them 'pull' Canadian lobster into stores and restaurants by asking about quality and requesting Canadian lobster
    - in this application, generic marketing refers to promoting the Canadian brand of lobster but is not promoting any specific company. The purpose of generic marketing is to increase the total market demand for the product, such that Canadian companies can sell their products within an enlarged demand space.
- ❑ **LCC organizational development**
  - Executive Director has general oversight, plus principal responsibility for government relations and 'think tank ' issues, representation and management
  - Director of Industry Marketability to manage internal industry structural initiatives, internal communication and education
  - Director of Marketing to manage external market, brand and demand development initiatives

## 6.3 Process – moving the value strategy from the page to reality

### 6.3.1 A communications plan is the first step

The recommended actions that comprise the marketability and marketing strategies are complex and far-reaching. A Communications Plan is essential to promote understanding and buy-in amongst stakeholders. The plan ensures that the right information gets to the right people in a timely and effective manner, and avoids the potential roadblocks to implementation that often exist before any attempt to implement a strategy is initiated. These roadblocks are people factors, which include a range of “choke points” to beware of. The solutions to these chokepoints are identified.

1. **Choke point: lack of awareness or comprehension** among those whose involvement is an important part of the strategy’s success - strategies are usually developed by a sub-group of people, without broad industry input. Strategy developers must understand the necessity of clear communication to those whose support is required and who have not had the opportunity for input in the development of the strategy. While comprehensive reports, such as this report, are useful information delivery mechanisms for some of the relevant audience, this is not effective or sufficient for the majority. An industry communications plan must be developed to target necessary information and concepts to specific groups. The communications plan will identify who needs to know what information and what the best delivery mechanism will be. This will likely include a mix of media to accommodate literacy levels and technology comfort levels. Target groups will vary in the quantity and type of information received as some require more detail than others.
  - a. **Solution: Clear statement of strategic objectives and actions designed for a broad audience and audience-specific messaging for details relevant to different target groups**
2. **Choke point: lack of acceptance.** Varying responses can be expected based on comfort with the status quo, personal or corporate agendas and ability to grasp the overall strategy as well as the details. There must be a means of capturing questions and comments to identify legitimate grass roots concerns as well as misinformed perceptions that could derail the implementation if not recognized and dealt with. This may include people in each LFA serving as local ‘listening posts’ that will forward concerns and identify the areas where more explanation is needed.
  - a. **Solution: A mechanism to capture feedback**
3. **Choke point: lack of engagement.** Stakeholders must believe that the changes recommended under the strategy can make a difference if they are expected to lend their support to implementation. This can be assisted by identifying opinion leaders who understand and support the strategy, and who can provide a trusted viewpoint to others in their LFA.
  - a. **Solution: Engaging opinion leaders to develop support**
4. **Choke point: lack of compliance.** Stakeholders must understand what changes are expected of them and what it means for their day to day operations. The answers to the questions: what does this mean for me, what do I have to /need to do differently, what will be the outcome of the change and how long before I see that outcome?
  - a. **Solution: A practical guide to implementation**



5. **Chokepoint: no proof of progress.** Measures and milestones must be developed for evaluating progress and providing feedback to industry participants.
  - a. **Solution: Results and progress tracking reports**

**Figure 6.5**

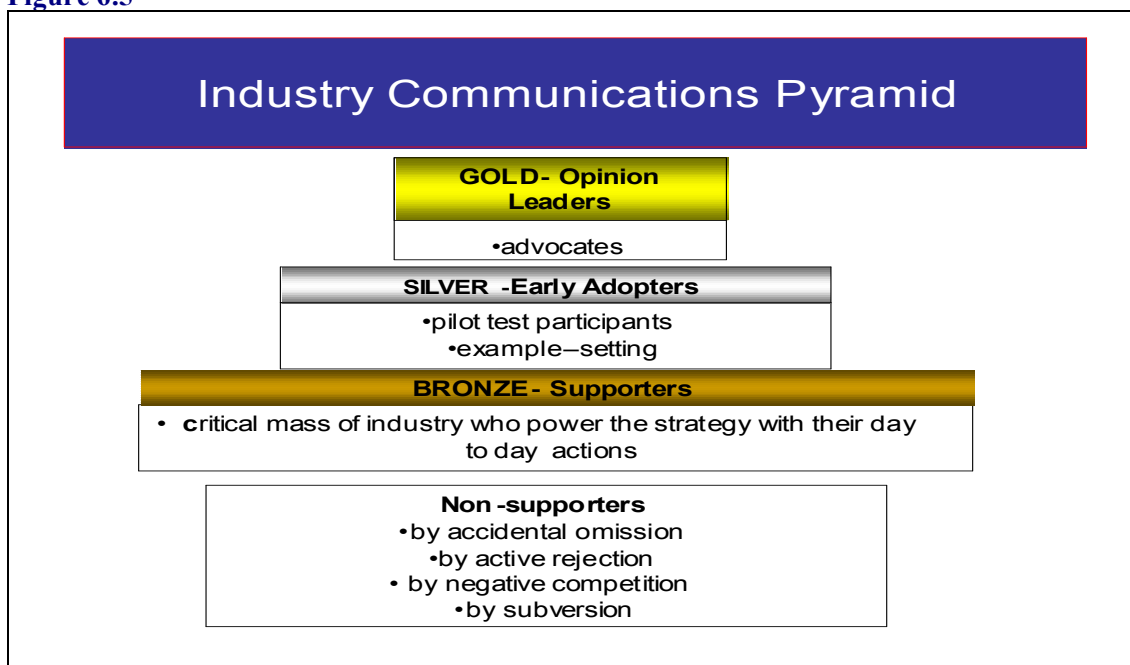


Figure 6.5 identifies four key groups of industry communications targets. These four groups are defined by their likely response to industry change recommendations. Each response level can include harvesters, shore buyers, processors and live shippers. The communications plan must be developed using a matrix that directs relevant information to the harvesters, shore buyers, processors and live shippers in each of the four response categories of opinion leaders, early adopters, supporters and non-supporters. Relevant information refers to core strategy information on goals and direction, as well as what it means for each type of participant in their day to day work.

A key objective of the communications plan will be to build a critical mass of acceptance of the strategy. While consensus may not be possible, a critical mass of acceptance is necessary.

### **6.3.2 Working groups take the report and apply it to decision-making**

The industry has been awaiting the completion of the Long Term Value Strategy to begin the process of building sustainable value for the industry. The first steps that are taken must demonstrate two things in order to build and maintain momentum for results-based change:

- ❑ congruence and fit with the strategic direction accepted by the Lobster Council of Canada on October 1, 2010,
- ❑ a substantive level of effort towards the specific actions identified in the strategy as critical to the success of the industry's value building objective.

Working groups are a useful means of developing action plans. Effective groups are based on the participants selected, the mandates of the group and how the group is organized and operated.

The elements of effective working groups are summarized here.

**Group membership: diversity is key to ensure new thinking, new connections**, and to avoid traditional thinking and solutions. Working group membership should include a range of

- ☐ expertise
- ☐ technologies
- ☐ regions
- ☐ viewpoints, people who have worked in different areas of the industry
- ☐ people with a broad range of knowledge of the industry (harvest, shipping and production), others with a broad knowledge of marketing and business
- ☐ people who are performing well in their businesses and are already collaborating with industry
- ☐ customers

Awareness of who the supporters are (those with the most to gain) and detractors (those with the most to lose). Both of these require a win/win strategy to leverage the supporters and neutralize detractors.

### **Group mandate: use the report for guidance on key issues**

- ☐ review relevant parts of the Report to guide decisions and actions
- ☐ experience consumer and customer thinking via taped interviews or focus groups
- ☐ examine the role of quality grading and practices in daily operations
- ☐ identify the most expedient opportunities for multiplying the value of the industry's current resources (infrastructure, products, technology and expertise)
- ☐ identify what additional expertise is needed to assist the group
- ☐ consideration of how product development and process efficiencies can move the industry towards creating more value
- ☐ use the RACE charts to identify actions to be taken immediately, intermediately and long term to develop a working plan and to address strengths weaknesses, opportunities and barriers

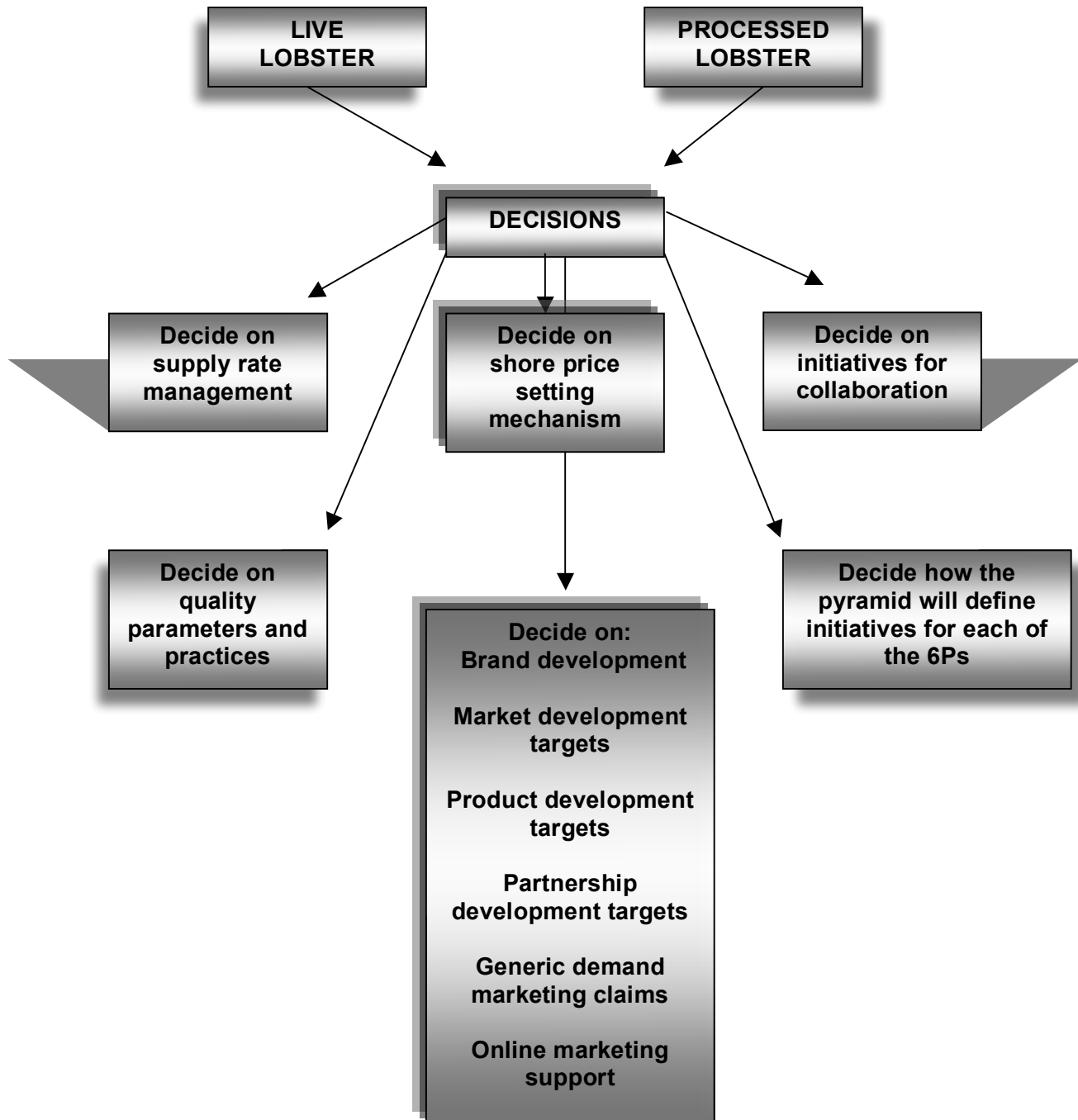
### **Group process**

- ☐ atomization – breaking the issues down into manageable workpieces
- ☐ commit to collaboration for faster progress; may require team building to build trust via getting to know one another (necessary when including new players), airing issues and conflicts and agreeing on how they will work with one another)
- ☐ assess collaborative potential of group with an assessment tool, which identifies potential barriers to collaboration that can be immediately addressed
- ☐ do not use large U-shaped table configurations which inhibit interaction among the group
- ☐ do not use a formal meeting chairman; use a think tank facilitator
- ☐ use facilitation techniques to enable brainstorming and inclusive participation
- ☐ use of report templates as a compass to guide thinking so group decisions will support the recommended strategy; the pyramid is the pointer
- ☐ there should be no assumption of assumed consensus (people who don't disagree are not necessarily agreeing and commitment is low if they are being neutral)
- ☐ the decision-making focus must be on the problem or issue as a whole (holistic approach) vs. each participants' own piece of the issue

- use sub-group breakouts to enable parallel problem-solving that is then presented, defended, critiqued and revised until the best solution is developed
  - this is not a conflict process it is driven by transparency, inclusiveness and respect/fair process

There is interest in examining the industry issues in relation to live and processed lobster product. This captures the two primary product streams. Figure 6.6 identifies that **the core issues in the roadmap are common to both product working groups**. The only exception may be product development in the live lobster group.

**Figure 6.6**



If the working groups are organized around live and processed lobster, the core issues can be discussed in relation to the two basic product formats. There will need to be a third group comprised of representatives from the live and processed groups to develop the recommendations into a cohesive product strategy for the industry as a whole. Both the live and processed sectors should be integrated within the strategy to identify any conflicting issues, opportunities or economies.

Alternatively three distinct groups could be organized around the functional issues of price-setting, quality development and brand development as they are the fundamental areas that will have an impact on the two product groups.

### Functional working group mandates:

1. **PRICE: developing a shore-price setting mechanism** as this is core to building stability and overcoming the price erosion effects of industry fragmentation. This requires transparency to be an integral component of the mechanism. A further critical aspect of this mechanism will be the integration of disciplined collaboration and smart competition to eliminate the current situation where value is being competed away throughout the supply chain.
2. **QUALITY: developing quality standards, monitoring and handling practices** in conjunction with AVCLSC to enable the activation of the Bronze, Silver and Gold price/product/ target market pyramid business strategy. The pyramid provides both the stability of lower priced volume and the upward mobility of higher priced products targeted at specific markets. Within the quality working group, discussion of how live and processed product can be most effectively matched to markets and consumers will be an integral component, once quality parameters are determined.
3. **BRAND: developing a brand presence consistent with the reality of being the lobster superpower.** Canada has something legitimate to say. Canada is a dominant supplier in the USA, and yet must deal with low recognition in that market as many residents believe they are eating only Maine lobster product. In addition, Canada is aware of the need to decrease its reliance on the USA and diversify its market portfolio. This market diversification will require a strong brand presence and the ability to consistently support the brand claims. Otherwise, there is no reason to believe that exporting to new markets will be successful in building value for the industry.

### 6.3.3. Tools to guide discussion and decision-making

The goals of the lobster industry, as identified earlier, are directed towards

- ❑ increasing value through higher prices
- ❑ extracting more value through attaining a greater share of the selling price
- ❑ sharing the value throughout the industry among harvesters and shippers/processors

These goals require tools that serve as a compass to guide discussion and build cohesion into decision-making. These tools include:

- ❑ the Pyramid marketing model for price and product development
- ❑ the RACE actions that reduce weaknesses, add to strengths, create opportunities and eliminate barriers or vulnerability to barriers. The RACE actions connect marketability and marketing.

To enable and support a value creation strategy, working group discussion should recognize three key points:

1. **The industry has to think bigger and better** to drive effective decisions and actions; because, “*digging the same hole deeper doesn’t qualify as a new hole*”<sup>27</sup>. ‘Bigger’ is around methods of increasing the range of price points and ‘better’ is around methods of delivering consistent quality at different price points.
2. **The market and the quality customer segment must be expanded** to enable the industry to move beyond the low price point consumer who buys only when the price is at rock bottom. Single price points fixed at low levels provide no upward potential. No one will pay more if they are not given a clear reason to do so. However the luxury market is rebounding following the global recession, which indicates that there are consumers prepared to pay higher prices for items they value.
3. **Expanding the market must focus on creating demand for quality among consumers.** The Canadian product is primarily a high quality product, but currently quality is not connected to price. Better quality product is sold at the same price points as lower quality product. This provides no incentive to the industry to implement uniform quality handling and grading practices, or to customers and consumers to ask for and pay more for Canadian quality.

## The Pyramid Model

Figure 6.7



The Pyramid is the central concept that will guide the changes required for an effective marketing strategy in the Canadian lobster industry. The focus is on expanding price points and connecting price and quality, while building a solid and stable foundation for pricing. This reflects three key concepts:

- ❑ **stability** – for the industry and consistency for the market
- ❑ **flexibility** – to leverage the variability of the lobster resource
- ❑ **mobility** – the focus on

moving up the market pyramid to higher price points for different segments of the market..

**The Pyramid is a choice-based model** that fits a range of prices into a system of qualities and products. This is a ‘win-win’ model for the industry and the market. The pyramid provides the industry with options and the consumer and customer with choices.

<sup>27</sup> Quote- author unknown

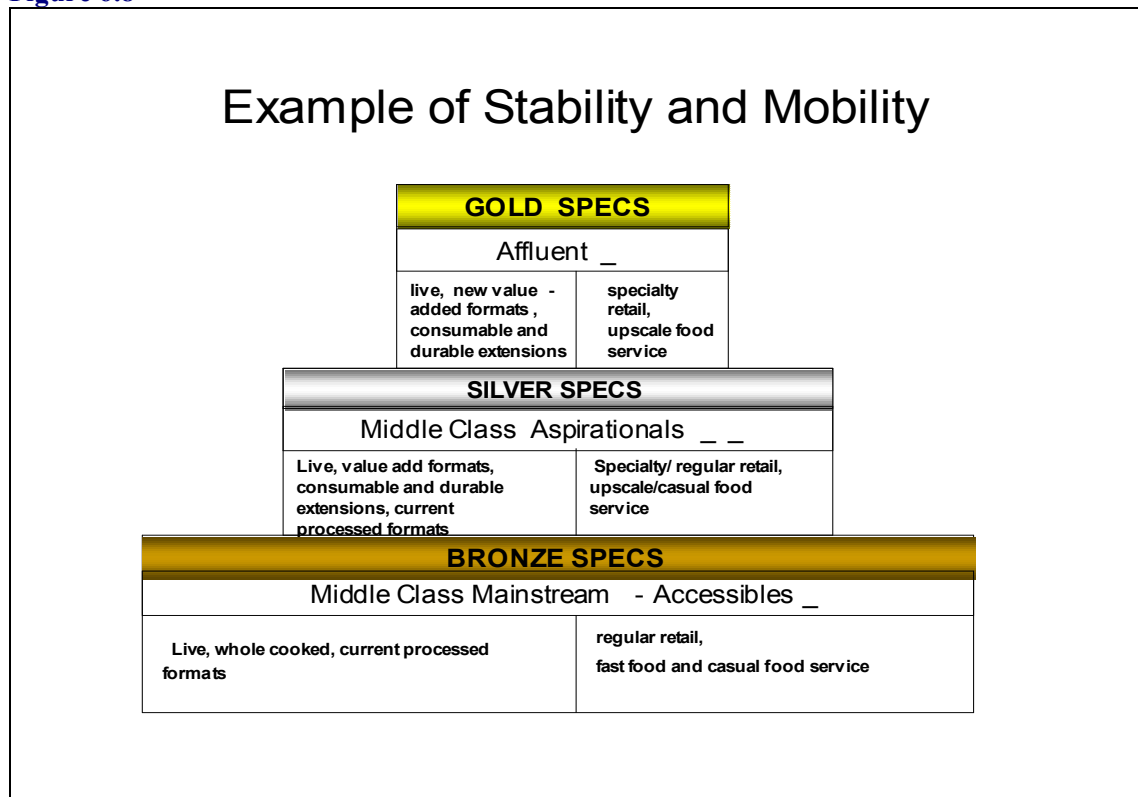
The pyramid choice model is effective for the current economy as it offers a built-in justification for trading up or down, as needed or desired to retain focus on the appeal of lobster versus substitute products. The quality grade ranges also provide a rationale for ‘quality’ variability to address the reality of quality variances between seasons.

**The pyramid offers both price stability at the base, and price mobility upwards towards the peak.** By expanding and lifting the industry’s view of market potential, the pyramid helps to reframe and redefine what success looks like for the industry.

**The pyramid provides a framework for decision-making so that decisions made for one level are made in consideration of their effects on other levels.**

Figure 6.8 provides an example of how the tiered choice model can be used to define a range of qualities, products/SKUs, price points and channels. In this example, marketing communications can target the top-tier Affluents and middle-tier Aspirationalists with a quality story that encourages the Aspirationalists to move up and reinforces the Affluent’s Gold tier choices. This provides both the Affluents and Aspirationalists with a lower but acceptable price point alternative and associated quality certification to address different circumstances and occasions. The lower level, the Accessibles can be targeted with price-accessibility promotions that allow them economic access, to build product exposure to and engagement with lobster. Some of these can be expected to become Aspirationalists if their economic circumstances or attitudes and preferences change.

**Figure 6.8**



- ❑ **The Bronze level is the stability level**, where lower prices attract the larger mainstream market for volume sales. The Bronze level market should not be considered an unacceptable market because it is lower on the pyramid. It is a foundation market, but is not the only market focus for the industry. This is the largest volume, lowest price market where purchases are intermittent as special treats and occasions. The size of this market is what makes for the stability factor, not the frequency of purchase.
- ❑ **The Silver level is the pivotal mobility level**, with Bronze level consumers moving up to Silver and Silver level consumers moving down to Bronze and up to Gold. This mid level is smaller than the Bronze level for volume but higher in price point and potential frequency of purchase. It is a key target for market and value expansion.
- ❑ **The Gold level is the prestige, niche level**. Smallest volumes, but steady purchasing potential and highest margins. This is the group where the targets are frequency of purchase and monetary value. The goal is that Canadian lobster becomes as frequent a retail purchase or restaurant selection as other high quality proteins such as Alaskan king crab, Kobe beef, or New Zealand lamb.

The tiered, pyramid approach can be used to define differences in all of the marketing strategy components. Examples of this are provided in Table 6.2 to assist in guiding working group discussions. The working groups may choose to disagree with the assignment of certain items to the any of the Bronze, Silver, Gold levels. These are provided for illustration only.

**Table 6.2**

	<b>Bronze</b>	<b>Silver</b>	<b>Gold</b>
Psychographic status	Accessibles	Aspirational	Affluents
Demographic status	Middle Class	Upper Middle Class	Upper Class
Purchase driver	Price	Price/Quality	Quality
Profit Segment	Low Price Mainstream	Mid Price Mainstream	Premium Niche
Format	Frozen	Chilled	Live
Format	Popsicles	Tails	Splits
Applications	Ingredient	Appetizer	Centre of Plate
Positioning	Special Price Opportunity	Make Any Day An Occasion	The Best, Always
Quality Range Options	Lower meat yield, soft shell, twice frozen	High quality processed – frozen once within x hours of capture	Fully meated, hard shell, chilled, live
Markets	Europe	USA	Asia
Channels	Fast food restaurant, Value –focused retail	Casual restaurant, High –end supermarket	White table cloth, Specialty retail

**The pyramid is the core visual and functional concept that should be present in all planning and discussion among industry working groups. The pyramid is applicable for consideration of all 6 Ps of the marketing strategy.**



## The Race Chart

Figure 6.9

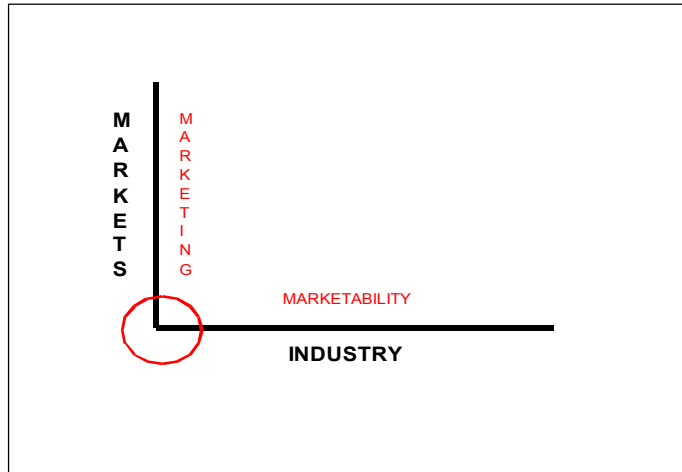


Figure 6.9 illustrates the result of the current situation. **At the present time, there is only a single point of connection between the industry and the market and this is around low price point.** The markets are pushing the price down and the industry is living with that reality. The markets are winning and the industry is losing. To change this, **more leverage points are needed** between the industry and its markets. This requires a dual focus on both marketability and marketing actions.

Figure 6.10

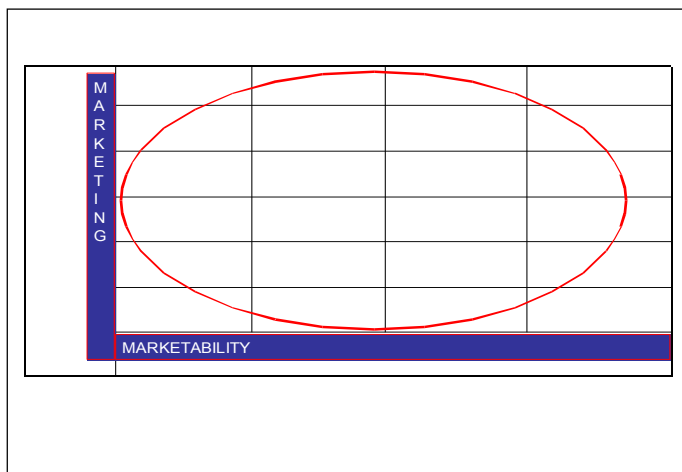


Figure 6.10 illustrates the concept of **increasing the number of intersection points between the marketability and marketing strategies.** This ensures integration so that neither strategy is operating independently of the other. Both the marketability actions, that are focused inward on the industry and the marketing actions that are focused outward on the marketplace are synchronized with one another, so that actions are occurring with a dual focus on the internal and external impacts. The reason for this

is that **neither marketing alone nor marketability alone is sufficient to address the situation in which the lobster industry finds itself.**

Table 6.3

	Reduce	Add	Create	Eliminate
People				
Positioning				
Price				
Product				
Place/Channels				
Place/Markets				
	Weakness	Strength	Opportunity	Barriers

Table 6.3 illustrates that the 6Ps of marketing (people, positioning, price, product, channels and markets) and the 4 change agents of marketability (reducing, adding, creating and eliminating) intersect to address the strengths, weaknesses, opportunities and barriers of the industry's situation. This means that **for each of the 6Ps of the marketing strategy – there are actions focused on reducing or minimizing weaknesses, adding to or leveraging strengths, creating and achieving opportunities, and eliminating or lowering vulnerability to barriers and threats. This is the thinking and doing required to move from the present situation to the desired situation.** It is a coordinated effort where decisions in one area of the chart will affect decisions in another area. **The chart has been populated with numerous actions related to the 6 Ps. These actions will be found in the full report in the sections dealing with each of the marketing Ps.**

#### ***6.3.4. The size of the challenge requires that it be broken into manageable parts***

An important implementation step is the **coordination of all the necessary tasks of the four stakeholder groups.** This requires identifying tasks, timing and task ownership. A process can be developed to provide structure to the combined effort, much like that which occurred in the 1990s to meet the challenge of cleaning up crime in New York City.

#### **Example**

A key element of the success of that large and seemingly impossible challenge was atomization – the **reframing of the challenge into attainable tasks**<sup>28</sup>. They focused on a block by block, precinct by precinct and borough by borough clean-up. This meant that for police on the street, their objective was to make their beat safe. As all beat police had the same goal, this produced a powerful focus on the goal, beat by beat. Each officer received feedback and all officers knew who was succeeding and who wasn't. This was a further motivation to succeed. Precinct commanders were challenged to make their precinct safe and borough heads were challenged to make their borough safe. They in turn challenged the people they were leading. This shifted the responsibility for the challenge to thousands of people, instead of resting in the hands of the few. Each person received feedback on their efforts from their direct report and all had lateral resources through their colleagues to discuss what actions and approaches were working and which were not working. The police chief simply made sure the resources were available or could be found through prioritizing.

The same atomization approach to reduce the magnitude of the challenge and to produce a shared focus on value could be used for the lobster industry. With over 11,000 individuals who stand to benefit from building value in the lobster industry, **a critical mass for achieving increased value could be achieved on an individual-by-individual basis, an LFA by LFA basis, a company by company basis and a province by province basis.** This approach encourages collaboration and cooperation. In fact, the extent to which disciplined collaboration occurs will decrease the time for results to be achieved.

<sup>28</sup> Blue Ocean Strategy, Kim and Mauborgne

**Disciplined collaboration is also defined as connected autonomy. This means that people and companies still make their own decisions, but the decisions are guided by the collective goals for the industry.** The outcome of disciplined collaboration is that more will be achieved, more quickly than by actions that are uncoordinated and unfocused on the long term sustainability of the industry. Individual and uncoordinated efforts will achieve less or achievement will take longer or be more costly for the individual.

### **6.3.5 Change management**

**Change management information** is presented as an appendix to the report to assist the lobster industry in reaching its goal of increased and shared value. As changing the entrenched thinking is more difficult than selling lobster for less money and low value, change management is extremely important to build and sustain momentum for the changes recommended in the Long Term Value Strategy.

Key aspects of change management include:

- ☐ Building agreement on reasons for changing the cultural status quo
- ☐ Readiness for cultural change
- ☐ Ability to change the industry culture – behavioral vs attitudinal change
- ☐ Establishing a unifying goal for change
- ☐ Redefining success from narrow to broader goals
- ☐ The cultural change process
- ☐ Balancing unifying goals with individual goals
- ☐ Sustaining cultural change
- ☐ Measuring change for reinforcement of the change initiative

This list identifies that **implementing change in the lobster industry depends not only on decisions about marketability and marketing actions, but also on effective and sustained actions.**

The industry must recognize and support the need for changing the way the lobster business operates if the industry is serious about creating and extracting more value for all participants. This requires that all participants balance the best interests of themselves and the industry as a whole. **This is a new concept for many and will require guidance around the change needed to effectively create and sustain a higher value industry.**

## 6.4 Summary

This chapter presents an overview of the components that must be in place for implementation of the long-term value strategy. These are summarized here for quick reference.

### 6.4.1 Roles and functions

<b>Roles</b>	<b>Core Function</b>
<b>Section 6.2.1</b> Industry (harvesters, buyers, shippers, processors)	Operations, Agreement on goals
<b>Section 6.2.2</b> Government (provincial and federal)	Support, Regional perspective
<b>Section 6.2.3</b> Lobster Science Centre	Information and Education
<b>Section 6.2.4</b> Lobster Council of Canada	Leadership, Coordination, Communications, Marketing

### 6.4.2 Processes and tools

<b>Processes</b>	<b>Tools</b>
<b>Section 6.3.2</b> Working groups, focused on specific issues	<b>Section 6.1</b> Road map overview of tasks
<b>Section 6.3.2</b> Facilitated sessions to extract the information required for decision-making from the related sections of the Long Term Value Strategy report	<b>Section 6.3.3</b> Pyramid model as a template for marketing strategy decisions around price, product, target buyers, markets, channels and positioning
<b>Section 6.3.4</b> Atomizing the challenge of change into smaller manageable parts	<b>Section 6.3.3</b> RACE charts of marketability and marketing actions required to drive the desired change in industry value
<b>Section 6.3.1</b> Communication of the discussion progress and outcomes to build broader engagement	<b>Section 6.3.5</b> Change management guidance for effective implementation Information appendices for additional information and discussion