



Building an Integrated Plan for the Canadian Lobster Industry

July 2012

**DRAFT
FOR DISCUSSION**

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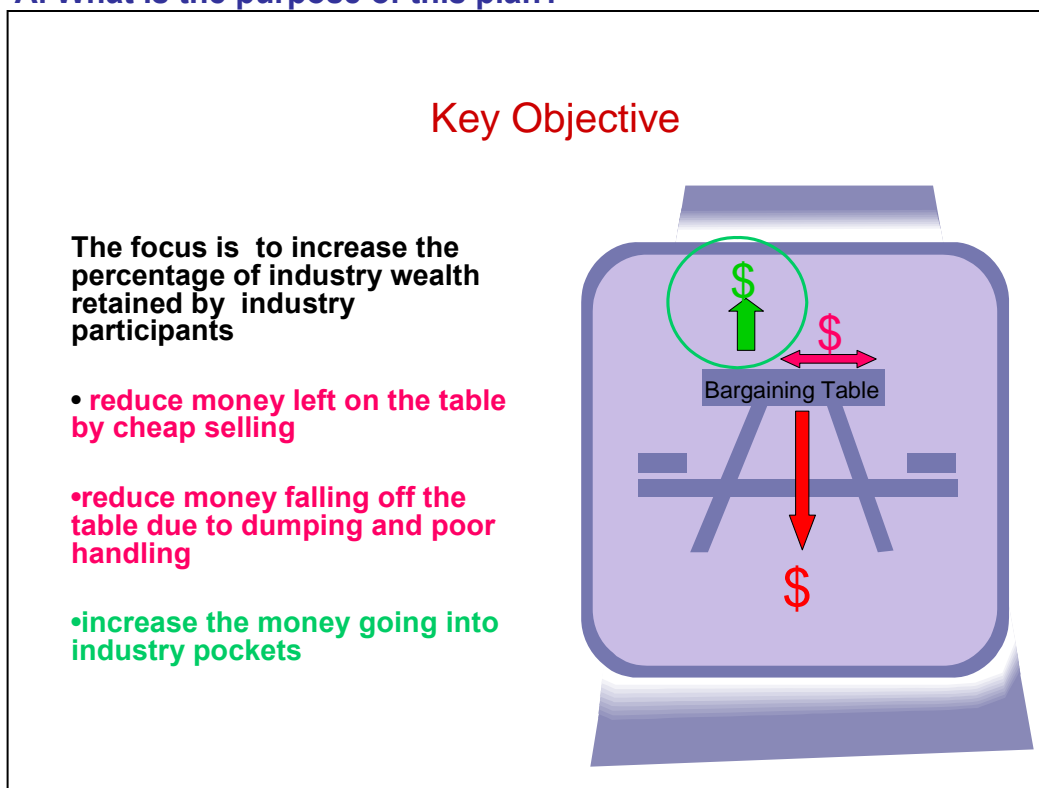
Executive Summary

The Integrated Plan for the Canadian lobster industry has been developed from the conclusions of the Gardner, Pinfold 2010 report, “A Long Term Value Strategy for the Canadian Lobster Industry” and the follow-up 2012 working group sessions. The overall conclusions and concepts discussed during those five sessions provide the foundation for this plan.

This summary answers five key questions about the Plan:

- A. What is the purpose of the integrated plan for the Canadian lobster industry?
- B. What does the plan require to be successful?
- C. What tasks need to be accomplished to activate the plan?
- D. Why are these tasks necessary?
- E. What is the process for getting started on the plan?

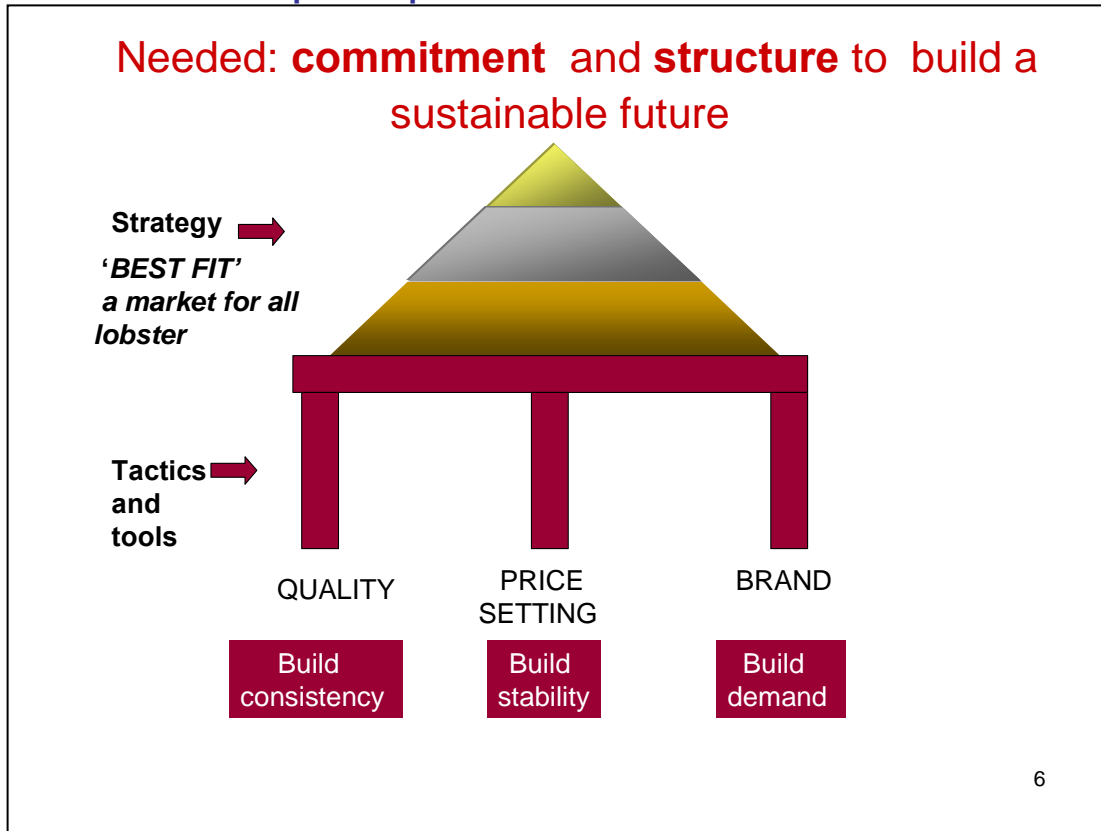
A. What is the purpose of this plan?



This plan must achieve several key goals towards this key objective:

- present a **clear vision** to the whole industry of what is to be accomplished
- **rebuild industry strength** using three key tactics:
 - price-setting, brand-building, quality separation for price point expansion
- serve as a **call to action** to all industry participants to play a role in bringing sustainable value to the industry
- provide a **roadmap** to help the industry shift from a fragmented lobster supply chain to a coordinated and structured lobster value chain
- be a **focus on the future**, not the past
- be a **focus on what the industry can control** versus relying on uncontrollables such as exchange rates

B. What does the plan require to be successful?



The pyramid is the roof of the structure - the overall strategy that provides direction.

The strategy uses the pyramid from the Long Term Value Strategy which targets market and price diversity :

1. finding a market for all lobster products
2. building a range of different prices for different quality levels
3. fitting different qualities and products to different markets to maximize the price

The pillars of the structure are the tactics that will support the strategy. The pillars are:

1. **Quality standards**, handling and grading to build consistency within quality specifications so that market expectations can be set and met. This avoids low cost averaging by the market.
2. **Price-setting** for live and processed lobster to build stability for planning within the industry and within the market. Neither the industry nor the market is comfortable with price uncertainty which leads to low prices paid by the market and low prices taken by the industry. Lack of a clear price-setting mechanism creates a vacuum in the industry that blocks out any potential for value.
3. **Brand building** to guide the industry on what the market expects and to educate the market on why they should choose Canadian lobster. A strong brand is the reason to choose Canadian lobster and the reason to pay more. The focus is to build demand for Canadian lobster at prices acceptable to the industry and acceptable to the market based on recognized quality.

C. What tasks need to be accomplished to activate the plan?

Focus of Each Phase	BRAND INTRO P11	QUALITY INTRO P21	PRICE INTRO P41
Existing What is happening or in place already	Canada Brand generic marketing Individual company/local marketing- 'meroir' Lobster Academy –food influencers/journalists P.13	Education sessions in NB+NS Traceability project ThisFish pilots ACVLSC data on Moults/quality etc P.27	FFAW price-setting model Magdalen Islands price setting model This Fish Quality/Price pilots Maine Supply/Price Example P.47
Immediate Phase DECISIONS Information collection to guide decisions and development	Decide on basis for a branding platform that target audiences care about and that is distinctive vs other lobster messages. P.15	Quality and Value Baseline Audit P.30 Examine seasons and supply for enhancing quality harvested and controlling volume/gluts P.31 Decide on basis for quality pricing. P.33 <ul style="list-style-type: none"> The reason to pay more 	Decide on key components for the pricing mechanism: the must-haves P.52 Detailed investigation of price formation options for live and processed product . P.54 Decide on critical structural factors to enable/support pricing P.60
Immediate Phase COMMUNICATION Industry Outreach and Inclusion	Internal branding: Communicate to industry on key aspects of the coordinated Price/Brand/Quality approach- use of DVD/ social media to reach all industry . P.17	Additional education sessions in all provinces with PBQ factors added P.28	Communicate with industry to build understanding of core issues related to effective price-setting P.49
Intermediate Phase DEVELOPMENT activity in the 3 areas of Price, Brand and Quality	Develop brand icon and language to represent quality brand or 'appellation' P.19 <ul style="list-style-type: none"> Reminder to industry Signal to buyers 	Develop protocols and standards throughout supply chain to build value chain P.35 <ul style="list-style-type: none"> Industry Sector input Scientific input 	Pilot tests for proof of concept and development of business case/business plan for industry response P.64 <ul style="list-style-type: none"> Local area network testing
Implementation Phase ACTION Launch and final testing of options assuming these survive the earlier analysis and development phases . Hybrids may replace these.	Launch Canadian lobster quality brand P.20 <ul style="list-style-type: none"> Soft launch Hard launch 	Launch Managed Quality /Food Trust-type seal of quality system P.39 <ul style="list-style-type: none"> Orientation, recruitment Lobster Academy for Industry Monitoring/ test period, review and modification	Launch price formation mechanisms (s) P.65 <ul style="list-style-type: none"> Wide Area Network Testing Monitoring/review and modification

The plan is comprehensive because the Canadian lobster industry is complex. There are many moving parts that are operating 'out of synch' with one another. The focus of this plan is to coordinate the moving parts to create a powerful engine to move the industry forward. While the three areas (Price, Brand and Quality) are individual pillars that have their own set of tasks, they don't function separately. A decision made for one pillar will have an influence on the others. The pillars work together. The whole is greater than the sum of the parts.

This plan identifies the individual tasks that combine to build strength and structure for the industry. The page numbers show where the detail for the task can be found in the Plan document. The plan on the previous page maps out 26 action items which cover the three areas of Price-setting, Quality and Brand-building. Ten (10) of the items are already happening, and can provide input and guidance to the plan.

The tasks are divided into phases in order to break the plan down into manageable sections, that provide direction for the next phase. The plan includes phases of 6 months in duration. Some of the tasks may not take that long while others will take longer. **The important consideration is not the length of the phases but the completion of the tasks in each phase to provide the information needed to (1) make the right decisions and (2) to assure the industry that the decisions made can move the industry forward. The industry will need proof if they are expected to participate.**

Phase 1: The Immediate Phases for Brand, Quality and Price-Setting focus on two key areas:

- **Decisions** - this phase takes the output of the one-day working groups and provides the time necessary to weigh the pros and cons of those recommendations. This is particularly important as industry commitment and participation in improving the future of the lobster industry depends on being able to answer industry's questions and address industry's concerns.
- **Education/Communication with Industry** - this begins in the initial phase and continues throughout the plan development and actioning phases. Industry communication is particularly important as industry awareness and acceptance of their roles in improving the future of the lobster industry is critical to the success of the plan.

Phase 2: The Intermediate Phases for Brand, Quality and Price-Setting focus on using the information from Phase 1 to develop the tools, tactics and processes for implementing the plan

Phase 3: The Implementation Phases for Brand, Quality and Price-Setting focus on taking action by launching:

- the **Canadian lobster brand** to the marketplace
 - this answers the market question: "why buy Canadian lobster?"
- the **Canadian quality system** that supports the brand and makes multiple pricing possible
 - this answers the industry question: "how can we get the best price for our lobster?"
 - this also answers the market question: "why should we pay more for Canadian lobster?"
- the **Canadian price-setting mechanism** that enables shore price-setting to be market-based, fair and efficient

- this answers the industry questions: “how do we know what the right prices are” and “how can we get to the right prices faster and better”?

D. Why These Particular Brand, Quality and Price-setting Tasks?

The industry is divided in many ways, including the division between those who understand what is needed to build a stable future and many more who don't understand what the right direction is and what is required to pursue that direction. The tasks in this plan focus on providing the time and talent to make the right choices out of the many options that exist and that have already been tried. The plan is aggressive. It needs to be aggressive to meet the challenge of turning the industry around and pointing it toward a sustainable future.

1. BRAND TASK FOCUS: *aligning the external brand story and the internal commitment by the industry to deliver on the brand claims. Build preference and demand for Canadian lobster*

Branding is a multi-step process that requires both an internal industry focus and an external market focus to ensure a good fit between what the industry wants to sell, and what the market wants to buy and how they want to buy it. Branding decisions made without including the market are “wishful thinking” as they are not connected to the part of the sales transaction that provides the ultimate income for the industry. Equally as important - branding decisions made without the buy-in of industry will result in unmet expectations in the market which will not improve Canada's current position as a generally low-cost supplier of lobster.

The tasks include:

- **Key Brand Story Development Questions** - identifying the Canadian lobster story - what are the key messages, where does Brand Canada fit, what must the industry do to support the brand story?
- **Key Brand Icon Development Considerations** - The brand icon is the visual identity for the Canadian lobster brand and the brand language is the verbal summary of what the Canadian lobster brand stands for that makes it distinctive from the competition, attention-getting to buyers, desirable to customers so they will ask for Canadian lobster, recognizable to customers as a quality stamp so they will pay a premium for Canadian lobster and a reminder to the industry that getting higher prices requires more effort than lower prices
- **Key Brand Launch Implementation Success Factors** - identifying how the brand story will be told and who the audiences are - both internal and external:
 - An internal soft launch of the brand to the industry should precede the external hard launch to the market
 - This dual launch starts with the industry to ensure that a critical mass of industry participation supports the brand claims. This is essential as positioning Canadian lobster as distinctive on grounds that are not supported by the industry will derail the brand and highlight Canada as a supplier to be avoided.
 - The hard launch of the brand to the market will be guided by the branding partner to ensure a smooth and professional launch to the key markets.

2. QUALITY TASK FOCUS: quality is the pivotal factor in the Integrated Plan – providing the basis for price-setting and for branding

Quality is also a multi-step process that requires both internal industry awareness and commitment to provide the external market with quality choices and reasons to buy and pay at different price-points for different qualities .

These tasks include:

- **Quality Baselines and Opportunities for Narrowing the Quality Gap are Important Starting Points.** This task establishes a quality baseline for the industry as a starting point, so that the industry is in agreement about the initial and inherent value profile of the resource. This information also provides the baseline for measuring and demonstrating progress resulting from actions, and lays the groundwork for identifying what is working and what is not working to maximize quality for quality –based pricing.
- **Key Quality Development Factors and Connections between Factors** Examining variables that can influence quality and value throughout the value chain, enables the industry to understand their role in building, maintaining and reducing quality. Season change and supply management are areas that have generated discussion. The reason to examine these is to determine how and if they can assist in raising quality, demand and prices for Canadian lobster. These are tools where the pros and cons must be examined to understand their potential contribution to building wealth in the industry, by reducing the quality gap from water to market.
- **Establishing a Basis for Connecting Quality and Price Points** to provide quality -based pricing direction. This pricing task should be undertaken alongside the Price-setting tasks but are included in the Quality column to ensure that Quality considerations are in the forefront of decision-making. Examples of quality-based foundations for pricing are provided in the Plan.
- **Development of Protocols and Standards** enables credible brand claims to be made to build demand and better pricing based on a solid quality platform. The goal is to establish quality standards as handling guidelines to provide operational direction at various touch points in the industry. Touch points drive price points.
- **Launching a Managed Seal of Quality System** includes:
 - building industry’s knowledge of quality standards that affect brand claims and pricing levels, using communication and education with a formal education curriculum for the industry. A Lobster Academy for the Industry using a mix of classroom, portable classroom, on-line, DVD and print materials
 - building participation in a quality system that supports the brand claims and supports stronger demand and higher prices
- **This launch coincides with the Canadian quality brand launch.** The joint focus on brand and quality parallels the Food Trust approach that was used as an example of what could be accomplished. The Managed Quality/Food Trust approach provides the necessary structure to:

- Coordinate the effort of many people to achieve a common goal
- Establish that product quality management is a high-priority objective
- Eliminate inconsistencies in measuring quality
- Eliminate inconsistencies in quality requirements for the same products
- Coordinate widely varying practices for collecting and using data
- Connect quality problems to underlying causes
- Provide a clear definition of responsibilities among people in different roles
- Provide defined/consistent guidelines for making production decisions on the basis of quality data
- Develop usable reporting of quality data to provide input to decision making
- Provide the basis for conflict resolution

3. PRICE-SETTING TASK FOCUS: *identification of a market-based price sharing formula to link the harvesters, dealers, processors and shippers in an efficient and transparent process for creating industry-wide value. Currently, wins for some sectors are losses for others - this is not a sustainable model for long term stability.*

The tasks include:

- **Identifying the core components of a price-setting method that addresses live and processed product.** What are the negotiables and the non-negotiables. What can the industry accept and commit to. What will be required of industry to support a sustainable price-setting model.
- **Deciding on what price-setting model(s) will address industry needs best.** This will include the number of current triggers of price instability that can be addressed by key options such as Auction House and Contract/collaboration or a hybrid of these. See Price-setting section for details on these options
- **Identifying structural/organizational recommendations for coordinating an industry value chain.** Demonstrating the value gap between current practices at each stage in the current supply chain and the potential for building greater value by working collectively. This is to ensure that the industry understands (1) where value is lost/subtracted, (2) where/how value can be built/added, (3) their role in building/adding value. Methods of integration, including clustering and networks, will be examined to identify a structural roadmap.
- **Development of a pilot test for demonstration of proof of concept** to identify what's working and what needs tweaking, revision or modification. This makes use of the analysis conducted in the above tasks during the first phase and entails local trials of one season's duration.
- **Build participation in a price-setting system** with a broader, regional trial for a year's duration (multiple seasons)

Putting It All Together

Identifying the right changes and convincing the industry to adopt them is a complex challenge, that requires finding and delivering the answers to counter the many objections to change. The reasoning and results identified through the

analysis and testing tasks will provide the explanations as to why specific changes are being recommended and allow industry to have input at numerous points along the way to build engagement and commitment.

In the past few years there have been attempts by different groups to improve the industry's fortunes. This demonstrates that there is interest in change but little has changed due to lack of coordination of the various efforts. That is why this plan is broken down into a series of specific tasks within the Brand, Quality and Price-setting areas to define:

- what is known and what is unknown
- what is working and what is not working, what is working elsewhere
- what degree of change is needed
- what change looks like
- how change can be implemented
- who needs to do what

F. What is the process for getting started on the plan?

The First Step is To Recognize These Truths

Fundamental Truths

- The industry depends on the market for a payday but the market has many other options for proteins
- Lobster is a specialty product for the consumer - **they don't NEED to buy it.**
- **The industry needs the market, more than the market needs the industry.**

Inconvenient Truths

- There is **no silver bullet**
- There is **no quick fix**
- **Things will not improve if nothing changes**
- It's **okay to be afraid to change** and want proof of concept, as long as people realize they **can't have a guaranteed return**
- The industry **needs to work together** – your future is limited without one another

1. Decide on the level of effort

The steering committee for the Plan must decide on the level of effort they want to champion. The truths above underline the complexity of the challenge before the Canadian lobster industry. The level of effort ranges from:

- **low:** making no significant industry reforms, much like a 'band-aid on a broken leg' (branding claims without a consistent delivery mechanism and quality claims without quality standards, price-setting efforts without a supporting structure)
- **high:** building the foundation for a consistent and credible position in the global lobster market and a sustainable living for the Canadian lobster industry.

This plan is on the high side of the effort scale with a focus on consistency, credibility and sustainability for the long term. A big challenge requires a big effort.

However, a **midpoint effort** would be the selection of a core task from each of the 3 pillars (brand, quality and price-setting). It is important to work with all three pillars as focusing on one without the others will undermine the long term stability, consistency and sustainability that the three pillars can provide when they are operating 'in synch' with one another.

2. Set up task teams for each Price, Brand, Quality task section

- a. Choose group participants for their skills in the required areas
- b. Give them the authority to make decisions
- c. LCC to monitor group activity via monthly progress reports and provide support as needed
- d. Evaluate progress at the end of each phase to 'graduate' to the next phase or to extend the time required for completion of the tasks

It is recommended that 3 core teams be struck (Brand, Price-setting, Quality) and divided into the task groups identified in the Plan or decided upon as a reduced level of effort. Certain tasks will overlap and can use the same personnel. Other tasks will require the addition of special advice accessed as needed.

Detailed guidance for each task team is available in the Plan (page numbers shown in the Plan summary) and in supporting documents generated by the Working Group Sessions (Plan Appendix, a separate document).

3. Communicate regularly with the lobster sector to build awareness, engagement, cooperation and buy-in. The Plan will not be successful without industry participation

This communication/education task is critical to building engagement and understanding in the industry.

- The **initial goal** will be to raise the overall level of awareness of what needs to happen to create sustainable livelihoods in the Canadian lobster industry.
- The **ultimate goal** is to raise a critical mass of commitment to action within a value chain structure. Better pricing is the result of what the industry actually *does*. Price formation mechanisms will help the process, but market-oriented industry behavior will lay the foundation for better pricing and credible brand claims to send a much stronger value signal to the market.
- Use a conversational discussion style for placing on YouTube, LCC website
 - Communication to industry on existing actions to demonstrate momentum
 - Communication should be frequent and each one focused on one key message. **Key messages for industry are identified in the Plan**
 - Present the task plans to show the direction of effort
 - Report to industry during task plan periods to highlight progress
- Provide industry with website-based chat options to encourage comments and to provide access to FAQs
 - Analyse response to gauge industry receptivity and issues
- Use print or DVDs to provide communications summaries to those who don't use computers
- Use footage from existing materials as permitted (e.g. Stewards of the Sea , Canadian Council of Fish Harvesters)

Integrated Plan for the Canadian Lobster Industry

OVERVIEW: INTRODUCTION

Developing an action plan to build a sustainable future for the Canadian lobster industry requires a clear view of the current situation and a clear vision of what the desired situation looks like. The development of the plan has included the following steps:

- 2010 Long Term Value Strategy- industry analysis and marketing strategy
- 2012 Working Groups to work through the options and build an action plan
- 2012/2013 Action Groups to organize the implementation of the action plan

The current action plan must achieve key goals:

- present a **clear vision** to the whole industry of what is to be accomplished
- **rebuild industry strength** using three key tactics:
 - price-setting,
 - brand-building
 - quality separation for price point expansion
- serve as a **call to action** to all industry participants to play a role in bringing sustainable value to the industry
- provide a **roadmap** to help the industry shift from a fragmented lobster supply chain to a coordinated lobster value chain
- be a **focus on the future**, not the past
- be a **focus on what the industry can control** versus relying on uncontrollables such as exchange rates

The entire industry (harvesters, dealers, processors and live shippers) has a role to play in effectively implementing the plan. The plan focuses on rebuilding the value that used to be in the lobster industry – with the focus firmly on sustainable value for the long term. Sustainable value requires building a strong foundation for pricing and value creation that is within the control of the industry.

The problem with how the industry has done business in the past, is that it worked well only if an external factor such as a favorable exchange rate was in place to hide the lack of coordination and management of the industry. This means that profitability was tied to an economic factor that was beyond the control of the industry.

The only way to change the industry's fortunes is to use the factors that are within the control of the industry in order to build stability of demand for Canadian lobster via recognition of both:

- natural lobster quality – what comes out of the water
- quality that is managed throughout the supply chain for maximum retention of the quality that comes out of the water

This quality-focused approach transitions the fragmented supply chain into a coordinated, integrated value chain, so that the market can depend on a consistently good product.

The plan must reach out to all industry participants – it's not the responsibility of any one group – it's everyone's responsibility. This is collective accountability where all value chain participants understand and accept their roles in bringing about sustainable change.

Looking forward not backward is the direction of focus as change can't occur by looking back or staying back, where old ways of operating are familiar and comfortable, but not effective for building a sustainable future for the industry.

Comprehensive resources to support this document include the detailed documents that were prepared after each of the 5 working group sessions conducted from January to April 2012.

This document includes important thinking and ideas contributed by various industry members and stakeholders, during the working group process.

Layout of this Document:

To provide the necessary background for those who have not been part of the working group sessions, this Plan begins with the Objective and the Structural Considerations for moving forward. One of the outcomes of the working sessions has been the necessity of building structure to support sustainable change for the industry.

To provide support for the tasks outlined in the plan, there is an introduction to the brand quality and price-setting pillars as well as key points following each phase of the plan. The plan is summarized on page 9 with the page numbers where the task plans can be found for each item listed in the summary.

How To Begin the Process of Executing on the Plan

4. Start by keeping industry in the loop to build awareness, engagement, cooperation and buy-in

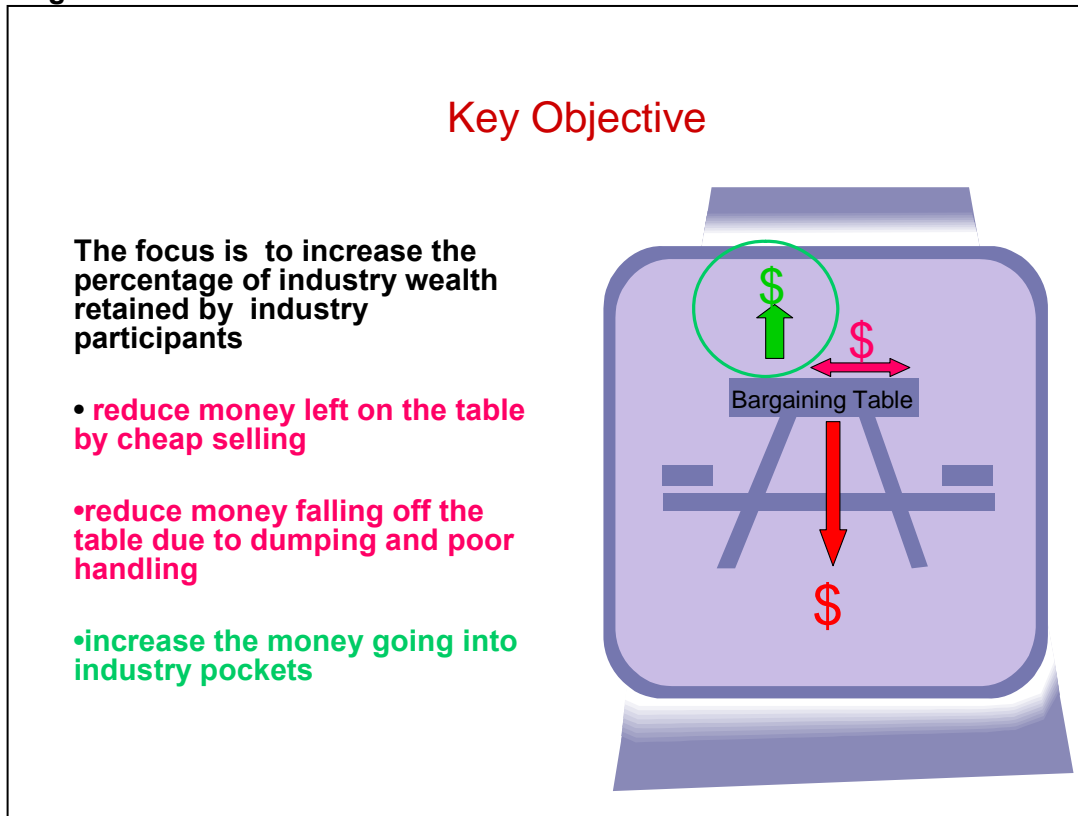
- a. Use conversational discussion style on YouTube, LCC website
 - i. Communication to industry on existing actions to demonstrate momentum
 - ii. Present each 6 month task plan to show direction
 - iii. Report to industry during the 6 month periods to highlight progress
- b. Provide industry with website based chat option to make comments and to access FAQs
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5. Set up action groups for each Price, Brand, Quality task section

- a. Choose group participants for their skills in the required areas
- b. Give them the authority to make decisions
- c. LCC to monitor group activity via monthly progress reports
- d. Provide support as needed
- e. Evaluate progress at 6 month end points to 'graduate' to next 6 month phase or to extend the time required for completion of the tasks

KEY OBJECTIVE

Figure 1



This diagram represents the **industry bargaining table** as a symbol for how money is made and lost in this industry.

The **vertical green arrow** represents the dollars the industry is getting now - the prices that are currently unacceptable to industry. The market knows they can force prices down for 2 main reasons:

1. the lack of coordination in the industry
2. the lack of consistency in lobster quality that causes the market to average their price down to account for the percentage of lobster that is damaged or weak.

The **horizontal red arrow** is the money being left on the bargaining table by undercutting and cheap selling - this is all about **selling behavior** in the industry, where sellers make deals that don't reflect the quality of the product. This means that the market is paying less than it should for the high quality product, and is paying more than it should for the low quality product. The impact of paying too much for low quality lobster is remembered longer than the 'benefit' of getting good quality for less money - with the result that the next purchase is a lower price offer. This behavior is driving the price down for the whole industry- leaving money on the table and in the pockets of the market instead of in the pockets of the industry.

The **other red arrow** is the money falling off the table because of waste and poor handling practices - this is about **treatment of the product** - the industry's actions or inactions that lower the quality of the lobster that they have spent money to harvest, ship or process. This means that a good or reasonably good quality product that is

handled poorly is worth less to the market . Quality handling, sorting and grading takes more time, but provides the basis for educating the market about different quality levels, so they can compare Canadian lobster to the competition for a better understanding of the differences. In addition, quality handling means the industry can consistently meet the market's expectations within specific quality grades, so the market no longer has a reason for averaging down the prices they pay for Canadian lobster .

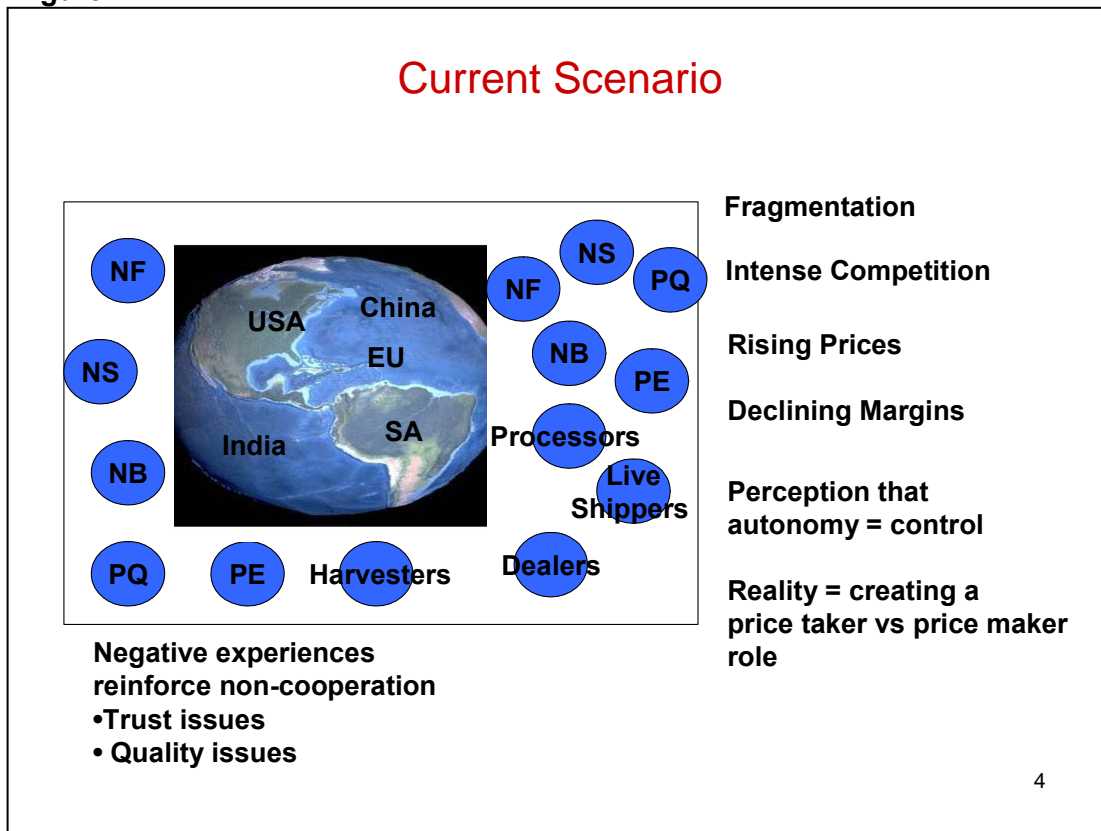
The plan for the Canadian lobster industry is focused on **providing the structure** to allow the industry to:

- reduce the dollars left on the table
- reduce the dollars left under the table
- increase the dollars going to industry.

This requires that the industry do business differently, in order to generate a different outcome with better prices.

STRUCTURAL CONSIDERATIONS

Figure 2



This shows how business is done now. There is no organization - every region and sector is working independently of the others. This means that power is limited to the bigger players. Large industry operators are able to extract better prices initially because they have more resources available for developing their markets. However their efforts in those markets are undermined by smaller players who undercut them, which makes the larger players more determined not to work with the industry.

The small and medium sized industry operators tend not to have the market presence to command higher prices unless they are substantially differentiated and they tend not to have the resources of time, money and personnel to research and build market presence.

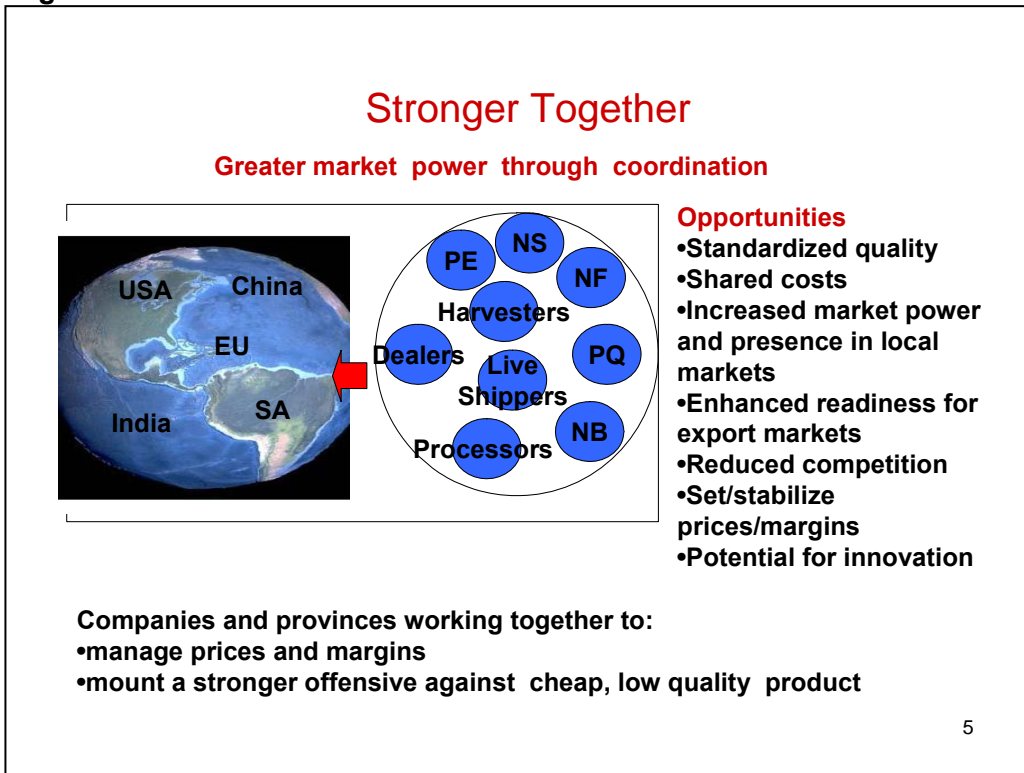
Many in the industry believe they have more control by operating alone but this idea of control is not translating into top or bottom-line control as prices are not where they should be. The market knows they can depend on the desperation of Canadian operators to sell their lobster for any price they can get. **Currently there is no reason for the market to change how it pays the Canadian lobster industry.** The outcome is the market benefits by getting good quality for lower prices and the Canadian industry loses by selling good quality for low prices.

The Canadian industry is contributing to the decline in market value:

- with their rush to sell at the lowest price,
- through poor handling as a result of haste to take their product to market before someone else can get there ahead of them,
- through bringing more product ashore than can be efficiently handled – leading to lower prices and sub-optimal handling at all points in the chain
- through dumping of product for which no money is made, despite the fact that money has been spent to acquire lobster.

This way of operating means that the industry is working against itself. Desperation and distrust emerge. As industry players become more distrustful of each other, the industry becomes more fragmented. This lack of structure creates a lack of market power for the Canadian industry, which allows the industry dollars to fall through ever-widening cracks in the industry.

Figure 3



The alternative is to seal the cracks by working to create a coordinated Canadian lobster value chain which is powered by cooperation and smart competition.

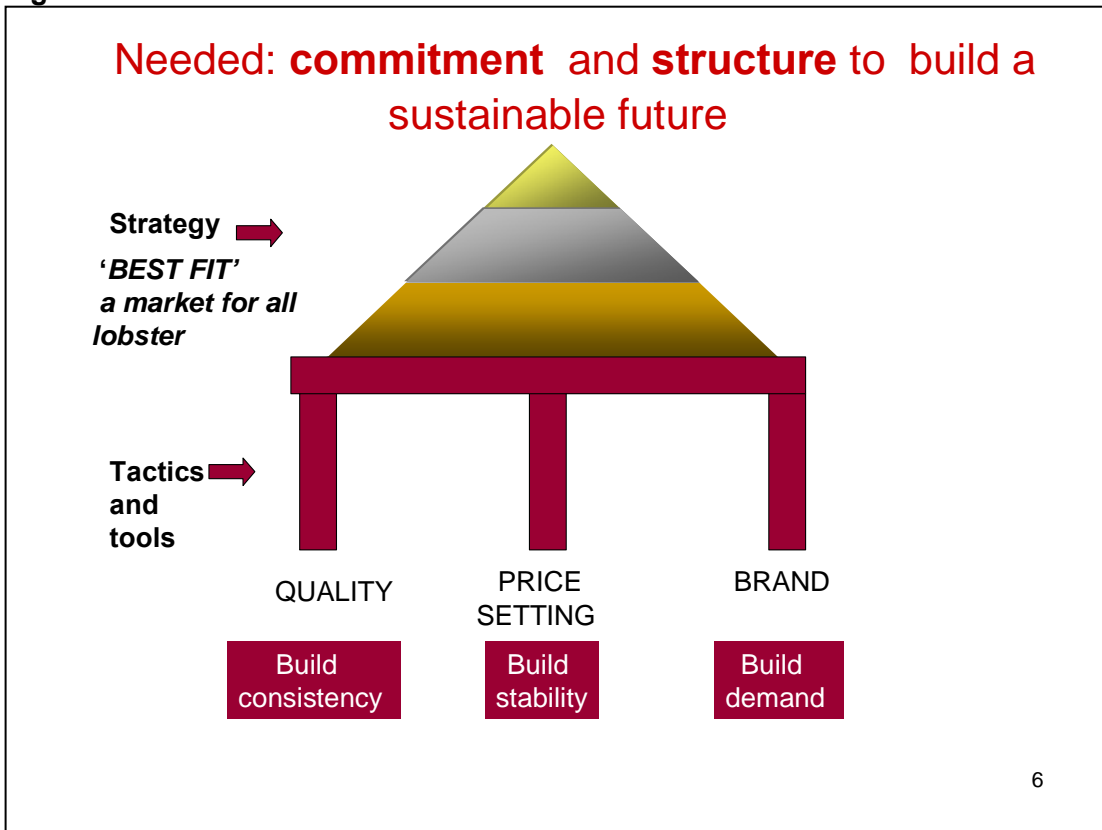
Smart competition is aimed at competing with other lobster –producing countries and other protein substitutes that customers choose instead of lobster. Smart competition is focused on changing the choices that the market is making, instead of competing with each other inside the Canadian lobster industry to bring prices and quality down.

The impact of coordinated effort and collaborative vs competitive behavior is greater collective power for the industry in dealing with the market. This lays the groundwork for being a price-maker instead of a price-taker.

With a critical mass of industry operators focused on building a value chain based on quality, the cheap sellers will either be selling low quality product or taking lower prices than the rest of the industry for their good quality product. This has a self-correcting effect for the cheap sellers when they realize they have left money on the table.

A coordinated approach to the market creates a power structure that provides a series of opportunities to conduct business differently in the lobster industry in the areas of quality, price and brand.

Figure 4



Conducting business more effectively to prevent the leakage of dollars through the cracks of a fragmented industry is a key goal. This goal can be achieved by industry commitment to a stable structure that provides tools, information and

education to grow the industry's capacity to compete effectively in export markets.

The pyramid is the roof of the structure - the overall strategy that provides direction.

The strategy uses the pyramid from the Long Term Value Strategy which targets market and price diversity :

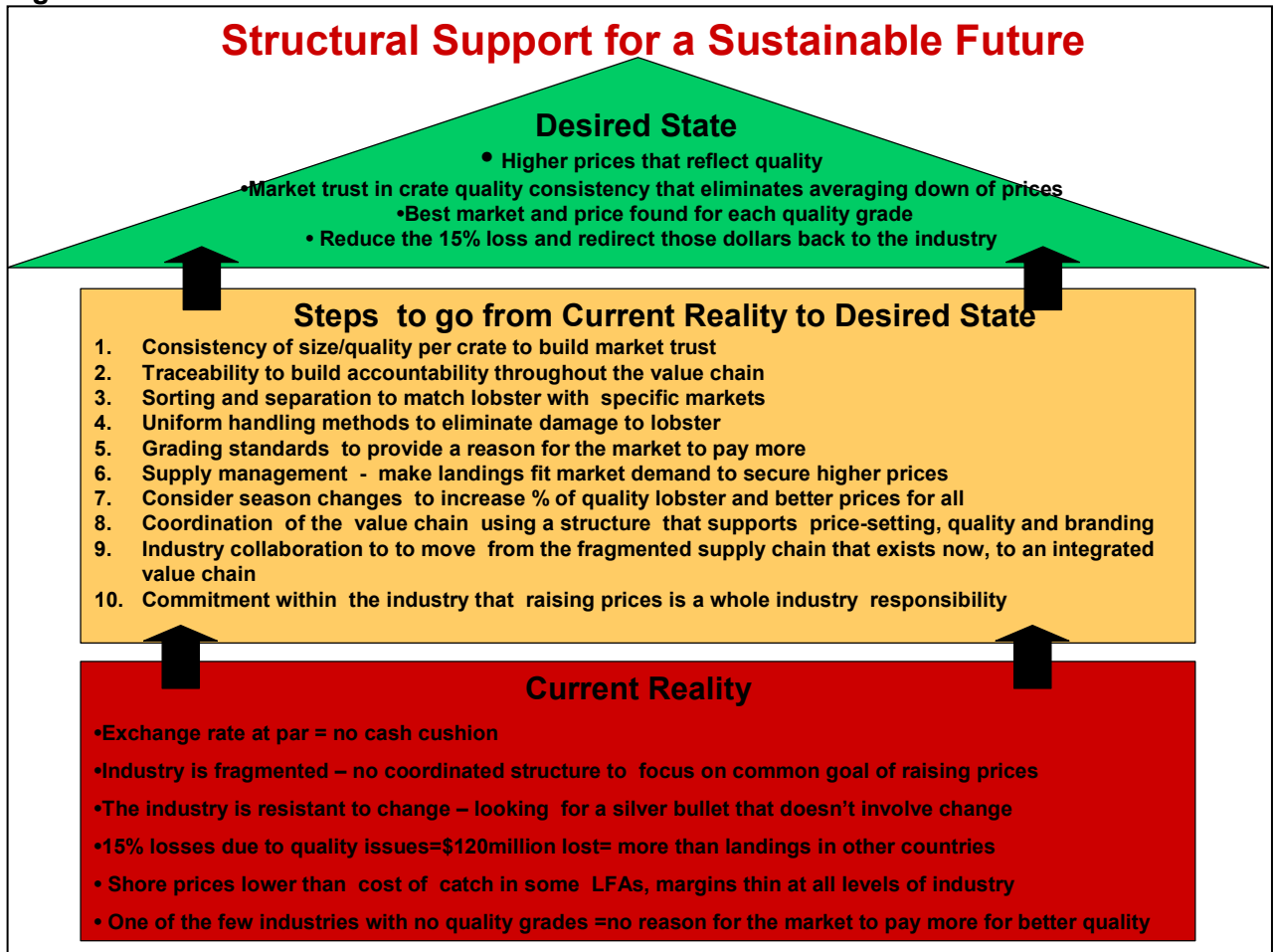
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The pillars of the structure are the tactics that will support the strategy. The pillars are:

6. **Quality standards**, handling and grading to build consistency within quality specifications so that market expectations can be set and met. This avoids low cost averaging by the market.
7. **Price-setting** for live and processed lobster to build stability for planning within the industry and within the market. Neither the industry nor the market is comfortable with price uncertainty which leads to low prices paid by the market and low prices taken by the industry. Lack of a clear price-setting mechanism creates a vacuum in the industry that blocks out any potential for value.
8. **Brand building** to guide the industry about what the market expects and to educate the market on why they should choose Canadian lobster. A strong brand is the reason to choose Canadian lobster and the reason to pay more. The objective is to build demand for Canadian lobster at prices acceptable to the industry and acceptable to the market based on recognized quality.

Every strategy or plan is implemented with specific tactics. When a plan fails, it fails at the tactical level. Executing on the tactics is the responsibility of the industry- at all points in the value chain – Collective Responsibility for building value in the Canadian lobster industry with a solid structure in place for guidance.

Figure 5



An understanding of the **current reality** by the whole industry is a necessary first step in making the changes that are needed to build a sustainable future for the Canadian lobster industry. The current reality includes a strong and healthy lobster population but making money with this asset will depend on how the other issues are handled. Key issues in the current reality of the industry are economic and structural.

The **economic issues** include the world economy as well as the economics of buying and selling for each operator in the Canadian industry.

The **structural issues** point to the fragmentation of the industry which is preventing an improvement in the bottom lines of industry operators. Lack of coordination and focus on the actions that will make a difference mean that nothing can change if industry holds on to the same practices that are pushing prices down.

The **Desired State** at the top of the diagram is the pyramid that represents **expanded opportunity** for more markets and a wider range of prices that reflect actual quality differences. Expanded opportunity also extends to retaining more of the 15% that is currently being lost due to actions that are within the industry's control to change.

Moving upwards from the Current Reality of shrinking dollars to the Desired State of expanded dollars requires the industry to **focus on 10 steps** that start at the bottom step with commitment by the industry to focus on the actions that will raise prices by building product consistency within defined grades. This focus will build industry credibility as a dependable and organized supplier that can't be undervalued by the market.

The key takeaway is that the industry needs structure to guide its progress to a sustainable future. The action plan for this is built around the 3 pillars of:

- **brand** to build demand,
- **quality** to provide the reason for demand
- **price-setting** to reduce uncertainty for the industry and the market

SUMMARY OF THE PLAN

Table 1- Task Plan Road Map

TASK PLAN SUMMARY	BRAND INTRO P11	QUALITY INTRO P21	PRICE INTRO P41
Existing – happening now	Canada Brand generic marketing Individual company/local marketing- 'meroir' Lobster Academy –food influencers/journalists P.13	Education sessions in NB+NS Traceability project ThisFish pilots ACVLS data on Moults/quality etc P.27	FFAW price-setting model Magdalen Islands price setting model This Fish Quality/Price pilots Maine Supply/Price Example P.47
Immediate 1-6 months •Information collection to guide development •Analysis •Information communication to industry	Decide on basis for a branding platform that target audiences care about and that is distinctive vs other lobster messages. P.15 Communicate to industry on key aspects of the coordinated Price/Brand/Quality approach- use of DVD/ social media to reach all industry .P.17	Additional education sessions in all provinces with PBQ factors added P.28 Quality and Value Baseline Audit P.30 Examine seasons and supply for enhancing quality harvested and controlling volume/gluts P.31 Decide on platform for quality – based pricing. P.33 •The reason to pay more	Communicate with industry to build understanding of core issues related to effective price-setting P.49 Decide on key components for the pricing mechanism P.52 Detailed investigation of price formation options. P.54 Decide on critical structural factors P.60
Intermediate 7-12 months •Development	Develop brand icon and language to represent quality brand or appellation P.19 •Reminder to industry •Signal to buyers	Develop protocols and standards throughout supply chain to build value chain P.35 •Industry Sector input •Scientific input	Pilot tests for proof of concept and development of business case/business plan for industry response P.64 •Local area network testing
Implementation Target 13-18 months •Launch and final testing – assuming these survive the earlier analysis and development phases . Hybrids may replace these.	Launch Canadian lobster quality brand P.20 •Soft launch •Hard launch	Launch Managed Quality /Food Trust-type seal of quality system P.39 •Orientation, recruitment •Lobster Academy for Industry • Monitoring/ test period, review and modification	Launch price formation mechanisms (s) P.65 •Wide Area Network Testing •Monitoring/review and modification

1. The task plan includes the 3 pillars of Brand, Quality and Price-Setting
2. The time frame is broken into 3 6-month periods
3. Each 6 month period has a number of tasks that are necessary to the building of an effective structure to support a sustainable future for the industry- these tasks are the building blocks of the new industry structure
4. The approach requires decision teams to be set up and tasked with specific mandates for the 6 month period.
5. This provides the time to develop each building block and how it fits into the whole structure.

The Table 1 Task Plan Road Map provides an at-a-glance summary of the tasks to be completed in the Brand, Quality and Price-Setting pillars and the page number where each individual task action plan is located in this document.

While the three areas (Price, Brand and Quality) are individual pillars that have their own set of tasks, they don't function separately. A decision made for one pillar will have an influence on the others. The pillars work together to support the industry structure.

Quality and Brand work together because quality defines the brand. It provides a reason to the consumer to buy Canadian lobster because it educates the consumer on quality distinctions. This is important as consumers tend to think that all lobster is the same, especially as they focus primarily on the experience of cracking open a lobster or the occasion for having lobster.

Brand and Price work together because a quality brand supports a higher price - no one expects AAA beef to sell for a rock bottom price. The quality brand designation is a reason for retail and foodservice customers to pay a better price as a result of lobster product separation and streaming to match certain lobster qualities and formats to certain markets. Interviews with retail and food service buyers indicate that these buyers need education about lobster because they are not as familiar with lobster as they are with other forms of protein.

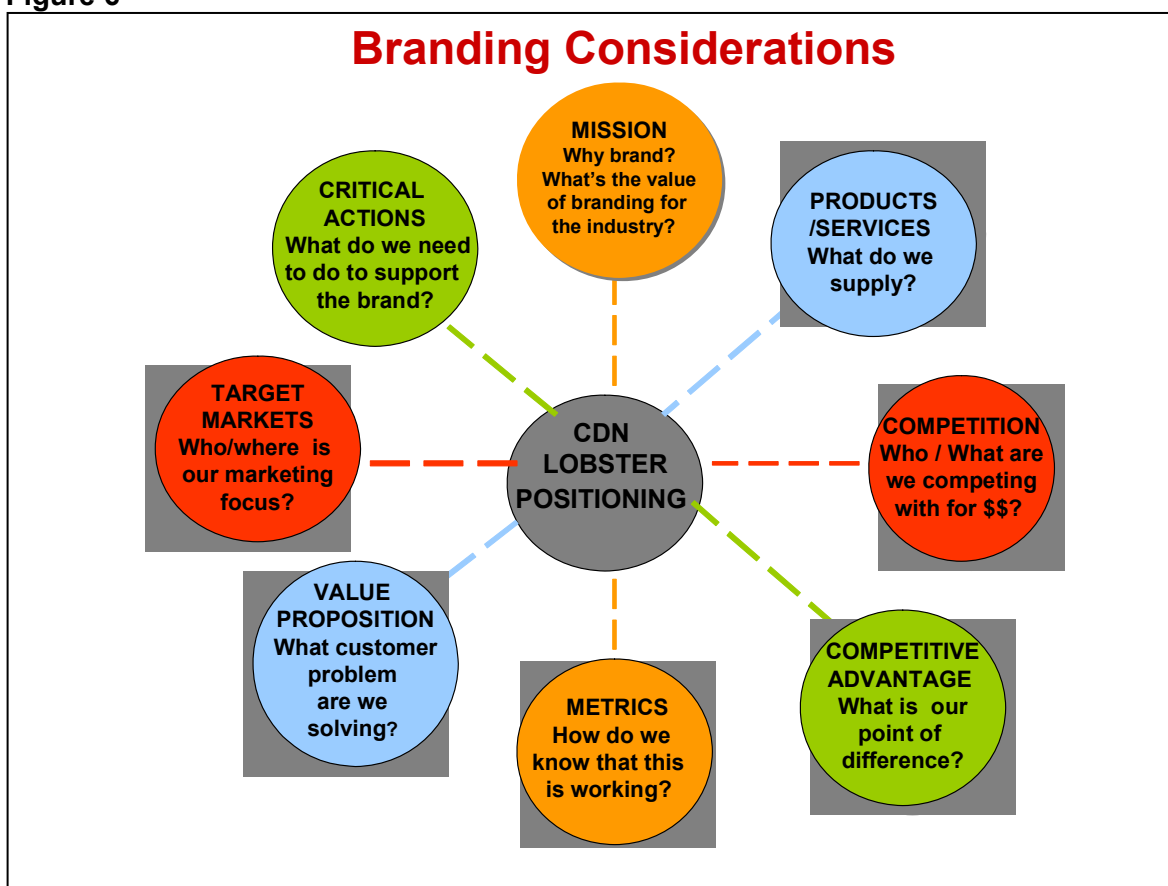
Quality and Price work together because quality enables the industry to charge different prices for different qualities. This is a reason for the industry to change from their current practice of 'one price' for the whole catch and poor handling that causes prices to be averaged down to account for the damaged or weak lobster. A quality handling and separating focus can unlock value for the industry.

The pillars support one another as well as the overall strategy for the industry. This provides the reasons for doing things differently.

The top row of the table, '**Existing**' shows that certain activities are already happening which paves the way for the following three plan periods: Immediate (months 1-6), Intermediate (months 7-12) and Implementation (months 13-18). Although different time frames may be needed for completion of the tasks, the 6 month groupings reflect three consecutive phases that each build on the preceding phase.

BRANDING INTRODUCTION

Figure 6



Industry Objective for Branding:

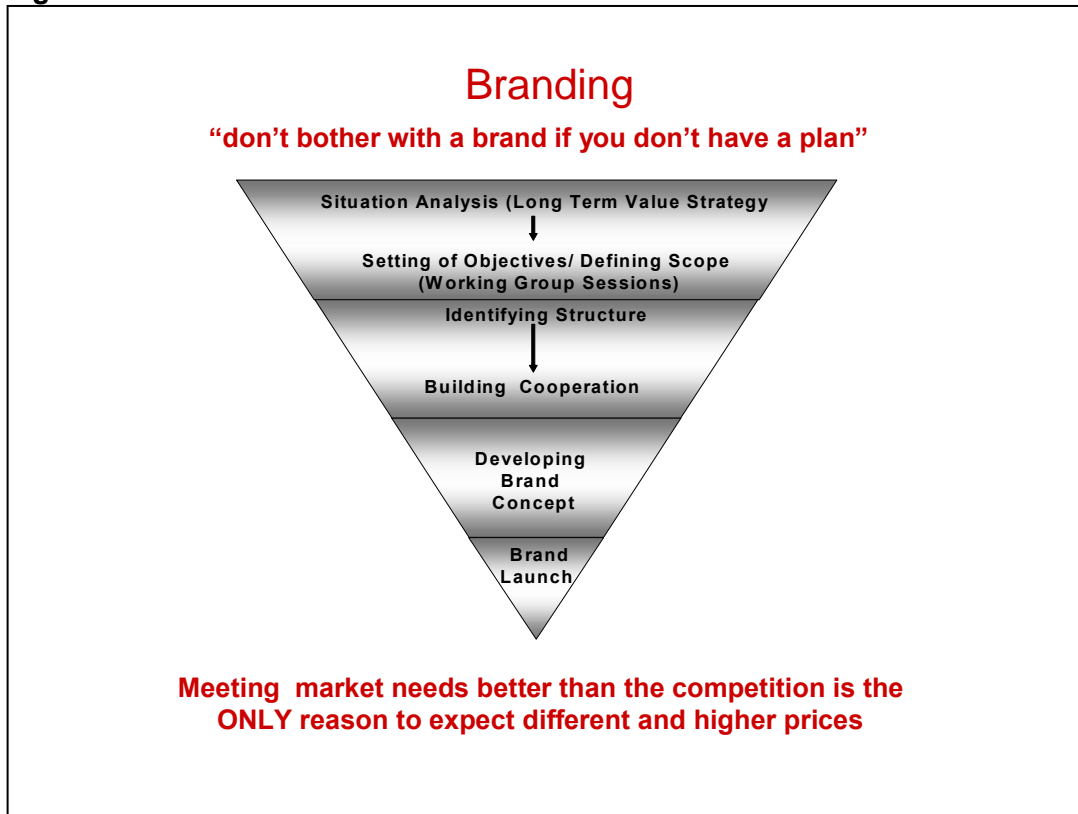
1. to pursue a strategic direction for positioning the Canadian lobster industry in emerging markets and re-positioning for greater value in existing markets.
2. to make lobster a protein choice of greater frequency (e.g. steak of the sea) and Canada the lobster source of greater frequency (e.g. Taste the Canadian Difference)

The branding working session began with a structural example of building premium pricing for a commodity product (Food Trust potatoes). Following this came the question of whether the Canadian industry should develop a brand. It was noted that if Canada does not develop and manage its own brand image, the market will do it.

This has already happened. Currently Canadian lobster is presented as Maine lobster in the US and is confused with Boston lobster in Asia. The New Zealand perception is that Canada “sells to McDonald’s” which is perceived as a low quality /low price positioning.

The key problem identified was that Canada does not assert itself as a supplier, of not only the largest percentage of global lobster volume, but of high quality product. The tendency for lobster sellers to undersell one another has further positioned Canada as a generally low priced product (with certain exceptions). Low price delivers a low value message. This is the current profile that Canada is working against. There was unanimous agreement that the industry needs to take control of its image. Canada has strong assets that can be leveraged.

Figure 7



Maine is talking about trying to position its soft shell lobster as a positive alternative to Canadian hard shell lobster due to 'easy to eat' and 'sweet taste', (easy shell' or 'summer shell), despite low meat yield and low survivability. As they say that 70% of their harvest is soft shell – it is important to them to make this a distinction versus a liability. John Sauve, a consultant for the Lobster Advisory Council and president of the Food and Wellness Group in Portland, says, "The Canadians who harvest hard-shells market them as superior. We can't allow that to occur. ." This is the competitive thinking that Canada faces in our current major market.

Brands in any industry are the sum of all the characteristics, tangible and intangible, that make the offer unique. Brands create a relationship between the buyer and the supplier.

A brand is built not only through effective communications or appealing logos. A brand is built through the total experience that it offers". Building Brands

As the pyramid shows, there are several stages to building a brand. The LCC has completed the first 2 stages - the Situation Analysis with the Long Term Value Strategy, and the Setting of Objectives and Defining Scope with the Working Group Sessions. The process is now at stages 3-6 - Identifying structure, building cooperation, developing the brand concept and brand launch. This process will include the quality standard structure and the price-setting mechanism as well as industry communications to build cooperation and commitment.

The whole focus of this strategy and its 3 pillars is to enable the Canadian lobster industry to meet needs better than the competition in order to have a legitimate basis for expecting higher prices. Given the issues of supply, quality and structure that exist in other lobster-producing countries - the Canadian industry can organize to meet market needs better if the industry can get coordinated and committed to a structure built on the three pillars of brand, quality and price.

Building a brand experience is a process that includes two key components: an **internal premise** and an **external promise**.

1. the internal premise includes the **operating guidelines** for the suppliers of the branded products and a reason to believe that compliance will provide economic benefits
2. the external promise is the **certification** to buyers/consumers that the branded product conforms to the guidelines which define the brand as something that is **meaningful and valuable** to the buyer

Further branding considerations can be found in the separate Plan Appendix

Brand Pillar Plans

Table 2- Happening Now

Branding – Current Activity		
Canada Brand Generic “Place” Marketing	Local Marketing	Lobster Academy
<p>Activities are being organized by the Embassy of Canada to Japan and the various Consulates, in partnership with Agriculture and Agri-Food Canada’s Canada Brand Division.</p> <p>Retail and restaurant promotions with a wide range of Canadian food and beverage products that include lobster.</p> <p>A new Canada Brand Japanese consumer tagline has been developed based on recent public opinion research: the approximate translation being “Taste nurtured by great nature.”</p>	<p>Forchu, Cape Breton and New York City promotional lobster work</p> <p>Fourchu is the ancestral homeland of Dorothy Cann Hamilton, the founder and head of the International Culinary Center, formerly known as the French Culinary Institute, in New York, and she has made it her mission to introduce the high-end dining world to her favorite lobster. She is focusing on the idea of terroir. She borrowed that term from artisanal oyster producers, who derived it from winemakers, who extol their products’ terroir, or distinctive characteristics derived from its geography. “Terre” is French for “land;” “mer” is French for “sea.” Just as wine made from grapes from one side of a hill can taste different from wine made from grapes from the other side of that hill, or oysters from one estuary bank can have different qualities from oysters from farther into the bay, so do lobsters from different waters taste different from each other, she believes.</p> <p>By extolling the unique qualities of the lobster of a particular bay, harbor or community, Hamilton said she hoped to help those communities take more control of their own destiny.</p>	<p>Journalists and food influencers such as chefs will visit the Lobster Academy in New Brunswick, and experience other products in the region as part of an international media tour. Their Canada Brand culinary experiences will be communicated to consumers through various online and print media channels.</p>

Maine lobster is talking about the superior eating experience - the experience is what consumers care about. Generic activities are already taking place and the Fourchu focus

on mercoir offers an interesting jumping off point for Canadian lobster. The industry needs to build on this existing work to establish a solid reason for consumers and customers to demand Canadian lobster, and value it enough to pay the price.

A competitive example from another industry where the market leader was content to rest on being the dominant supplier: RIM/ Blackberry continues to stand for security features and platform reliability - attributes and features that are valued but expected. Apple iPhones stand for clever, smart, cool - the types of intangible feelings that make users feel good just by using the product. The difference is 'demand'- people want the iPhone, which is considered less secure, while demand for the Blackberry has dropped as it is no longer saying anything that grabs the attention of potential users. The learning is that Blackberry was the first into the market but let the competition get ahead of them with a stronger message that resonated better with the market.

The Canadian lobster industry is the largest global supplier of lobster with high quality as well. Australia has a small supply of lobster but has built a strong brand on scarcity of supply and size/quality of their tails. Maine has the second largest supply of lobster and lower quality, but a strong focus on marketing their name.

The competition is making strides in price- building (AU) and profile (US and AU) despite lower supply and lower quality (US).

Canada can build on its lobster strengths of superior quality and dominant supply with a quality- based value chain structure and philosophy that demonstrates that Canada is different in a superior way from other suppliers. Concern has been expressed about promoting Canadian lobster at the expense of US lobster as the US has traditionally been a large market. However emerging markets offer greater promise if Canada can position effectively and deliver consistently.

Differentiation provides the brand talking points but a demonstrated reason to believe in the difference is needed to build demand for Canadian lobster. A quality value chain structure and industry commitment to the structure provide the needed demonstration of legitimate difference

Table 3- Phase 1 Brand Tasks

<p>Branding: July-December 2012 Decide on basis for branding message that target audience cares about and that is distinctive vs other lobster messages.</p>
<p>Key Brand Direction Factors:</p> <ol style="list-style-type: none"> 1.Does the brand promise a clear benefit to the target audiences and to the industry? 2.Is the brand promise relevant in a distinctive way to the target audiences and to the industry? 3.How will the brand experience meet the promise- what has to be in place to guide decision-making and consistent delivery of the brand promise? 4.What is the role of the industry in making the brand real? <p>Months 1-2: Examine brand proposition options using case studies and available research Months 3-4: Test in Nova Scotia quality sessions to examine response Months 5-6: Finalize brand proposition for inclusion in Industry Information video</p>
<p>Action and outcome within this period :</p> <ol style="list-style-type: none"> 1. Identify the core brand decision team of 5-6 people - the brand development group tasked by the LCC with the authority to make decisions to move the brand forward 2. Identify a branding partner to guide the brand deliberations and decision-making 3. Conduct a review of what other lobster and seafood – producing countries are “saying” (country marketing scan) to identify brand power opportunity for Canada. (e.g. Alaskan Salmon marketing and Brasmar marketing of Brazilian lobster tails) 4. Decide on which brand proposition the Canadian lobster industry should support and whether to pursue a North American sub-brand (processed products) 5. Produce a brand strategy summary that explains to the industry the reasoning behind the strategy and their role in the strategy – industry response and receptivity will be measured. The summary will be used in the industry communications video
<p>Also occurring within this period for consideration in brand development:</p> <ul style="list-style-type: none"> • Decisions on key factors for the pricing mechanism, and decision on basis for quality –based pricing • Quality sessions being conducted in Nova Scotia provide a preliminary testing opportunity for brand proposition considerations. Making the link between internal industry focus on quality and an external brand promise that is built on quality actions by the industry, can be “tried out” with these groups to better understand the nature of the questions, issues and objections that can represent industry barriers to supporting the brand

Examples of Brand Benefits that might be used to form the basis of the Brand Promise :

- Know what to expect in a quality lobster/All lobster is not the same = education focus
- Consistency due to standards/processes through value chain = quality management focus
- A quality for all uses and price points = user choice focus
- Social responsibility (buy at \$10/lb and industry donates \$2/lb. to ABC/ Red Cross etc) = altruism, charitable focus (after industry is paid)
- Experience the Difference _____Makes= a focus on the experience of eating lobster/ making a 1-2 time a year experience the best it can be
- Superpower status (supply health, inherent quality, food safety expertise , lobster science expertise)= global leader focus
- Canadian Quality pays- commercial focus for lower mortality and lower shrink
- Brand Canada pillars

The first step is developing an internal working premise as the foundation for making a reliable promise to the market, and to guide the Canadian lobster industry in making their decisions on a day to day basis. There is significant potential to build on in the Canadian lobster industry and it is important to underline the fact that the power of this

brand will lie with the commitment of each operator at each stage in the lobster industry value chain - harvester, dealer, shipper and processor.

Working together is not about giving up power but about gaining more power, through using a common focus and a strategy that provides clear direction for positioning the Canadian lobster industry as a preferred provider in the luxury lobster market – “*a rising tide floats all boats*” is the key message to help industry get ‘on-board’

The value proposition for Canadian lobster can build on current strengths:

- the quality and size of the resource
- The Brand Canada pillars of sustainability and food safety

The brand will need to address current gaps in the Brand Canada pillars as they relate to lobster:

- animal safety, traceability and value chain integration are the other three Brand Canada pillars that the lobster industry will need to work together on to demonstrate clear superiority in a world that is looking for value as well as authenticity and responsibility
- the industry also needs more focus on the customer for their products – both live and processed. This is about how Canadian lobster products meet customer needs and preferences.

Defining what the Canadian lobster industry stands for to the market is followed by defining the guidelines for how the Canadian lobster industry will stand behind that promise with their actions. This provides reference points for the industry to ensure consistency for the market.

Branding is a multi-step process that requires both an internal industry focus and an external market focus to ensure a good fit between what the industry wants to sell, and what the market wants to buy. Branding decisions made without including the market are “wishful thinking” as they are not connected to the part of the sales transaction that provides the ultimate income for the industry. See brand appendix in the separate Plan Appendix for more on the process.

Table 4- Phase 1 Communication Tasks

Branding: July-December 2012 Communicate with Industry to Build Internal Commitment to a Canadian Brand that Stands for Quality in the Market and a Sustainable Living for Those in the Industry
<p>Make the message to the industry clean and clear: the plan combines quality standards and branding to build better prices but needs the cooperation of the industry to make it work.</p> <p>The plan to be communicated to the industry is :</p> <ol style="list-style-type: none"> 1. to build on our natural lobster quality with better handling all through the value chain 2. to improve our brand position in export markets 3. in order to increase demand for Canadian lobster 4. and provide higher prices to the Canadian industry. 5. The only way this works is for everyone to get on board and be committed to building the basis for better prices <p>Months 1-2: Identify communications tools and develop messaging. Liaise with quality and pricing teams Months 3-4: Produce messaging and measurement tools for evaluating response. Begin to deliver messaging to industry Months 5-6: Continue to deliver messaging to industry. Measure and evaluate industry response to identify issues with the plan or lack of clarity in communicating the plan</p>
<p>Action and outcome within this period:</p> <p>Identify the core communications team of 5-6 people - the communications development group tasked by the LCC with the responsibility to bring the plan to the industry. This group will include a representative of the brand group for continuity</p> <ol style="list-style-type: none"> 1. Identify a communications partner to guide the process and production on selected communications platforms 2. Identify communications media (Quality sessions curriculum, townhall presentations, train LFA presenters, DVD production and delivery to all industry members, You Tube, web-site etc) 3. Produce messaging on selected communications platforms 4. DVD Interview Format example: http://www.youtube.com/watch?v=qGDI4yccAul&feature=youtu.be 5. Deliver communications via quality sessions in NS and planned for other provinces, DVD, You Tube 6. Use LCC website to collect industry response to video and questions (weigh-in to buy-in), as well as to measure degree of support for the approach presented in the video
<p>Also occurring within this period for inclusion in the video:</p> <ul style="list-style-type: none"> • Decisions on key factors for the pricing mechanism • Decision on basis for quality-based pricing • Incorporate brand work into the NS quality sessions to make the link between internal industry focus on quality and the external brand promise about quality actions by the industry

Resistance to change has been common in the industry due to entrenched habits, (the way things have always been done), fear of change and uncertainty as to whether change will be better than the present situation.

There is a sense that change should occur in another sector of the industry- that changes are the responsibility of other sectors. A key aspect of the success of this plan is to communicate and educate the industry to move them beyond current thinking and to build an argument for change that includes all sectors.

The key messages the industry will need to hear :

- there is **no silver bullet** - improvement requires change by the industry in how they do business. The exchange rate used to be the silver bullet - it is gone
- there is **no quick fix** - this won't happen overnight but will never happen if the industry doesn't commit to doing things differently
- it's okay to not want to do anything differently (i.e change) as long people realize the consequences of that decision - **things will not improve if nothing changes**

- it's okay to be afraid to change and want proof of concept, as long as people realize they **can't have a guaranteed return** given to them. This is not possible in a market –driven world. Lobster is a specialty product for the consumer - they don't NEED to buy it. In fact, consumer research indicates that people are trading down to lower priced proteins. In addition, for higher priced proteins such as beef - grades and cuts provide the consumer with the information that allows them to expect consistent quality for the price they are paying. Without this, lobster is in a weaker position as an expensive protein.

Specific goals must also be communicated to industry to build commitment. These can be summarized as follows:

Industry Communication Objectives:

- Overcoming resistance to change
- Understanding the problem, solution and their role in the solution
- Commitment to working together towards a common goal
 - Industry commitment is the silver bullet
 - Structure / integration is the launch pad

Targeted Outcomes of Industry Commitment:

-  In cheap selling
-  In losses due to poor handling
-  In dumping due to supply non-management
-  In price control by channels
-  In price points based on quality
-  In fitting right product quality to right markets
-  In dollars generated for the industry
-  In profile of Canadian lobster as premium supplier

Required: pressure reduction to lower panic reactions

- clear roadmap to provide direction
- choices to allow late adopters to wait and see
- choices to allow early adopters to start making more dollars

Table 5 – Phase 2 Brand Tasks

Branding: January- June 2013 Develop brand icon and language to represent quality brand or appellation
<p>The brand icon is the visual identity for the Canadian lobster brand and the brand language is the verbal summary of what the Canadian lobster brand stands for that makes it:</p> <ul style="list-style-type: none"> •distinctive from the competition •a reminder to the industry that getting higher prices requires more effort than lower prices •attention –getting to buyers •desirable to customers so they will ask for Canadian lobster •recognizable to customers as a quality stamp so they will pay a premium for Canadian lobster <p>Currently Lobster Council of Canada has a visual identity. This might be usable to define the Canadian lobster brand proposition, if it adequately captures the message of the brand proposition, identified during the June –December 2012 brand development process. Options for brand visuals and brand positioning should be tested to examine how well they resonate in various countries. This testing can be conducted on- line or through focus groups</p> <p>Months 1-2: visual creation and brand language development Months 3-4: testing of brand visuals and language Months 5-6: evaluation and revisions to brand visuals and language</p>
<p>Action and outcome within this period:</p> <ul style="list-style-type: none"> • The brand partner will lead the visual creation and brand language development: 2-3 options will be developed for resonance testing in the market and with the industry • A representative of the brand development team will also be a member of the quality development team to ensure that the brand reflects the quality standards development process . (Alan Miller , former CEO of Food Trust would be a key partner here) •Consumer testing of the brand visuals and the brand proposition can be conducted quickly and inexpensively on-line (or via focus groups which take longer and are more expensive.) A blend of on-line and limited focus groups would be ideal as this allows for probing and questioning of issues that arise in the online testing • A go –forward option will be selected as the face and form of the Canadian lobster brand
<p>Also occurring within this period to inform brand development:</p> <ul style="list-style-type: none"> •Develop protocols and standards throughout the supply chain to form the basis for making brand claims and the basis for price differentiation

The brand visuals and language must quickly and effectively capture what the brand stands for - what the Canadian lobster industry, as a whole, brings to the table for their customers and the consumers of lobster. This reflects the value proposition that Canadian lobster stands for and that the industry supports with their behaviors and practices. The visual imagery and language should be as much a reminder to support the brand within the industry as it is a symbol to the market that says Canadian lobster is desirable.

Table 6 - Positioning Values

Industry- Market Brand Value Linkage Example for the Lobster Industry		
What the Canadian Lobster Industry Stands For	What This Looks Like to the Customer. The Industry is...	What This Means for the Customer. This means that...
Honesty	Trustworthy	Can Count on them
Passionate	Dedicated	The brand means Quality
Holistic	Balanced	Sustainable
Evolutionary	Future oriented	Try new things/innovative
Simplicity	Uncomplicated	Easy to use/work with
Inclusive	Cooperative	Win/win

Table 6 shows an example of the brand positioning values that link what the industry stands for with what the market wants. This linkage between industry and market is critical to communicate and to implement.

The connection between the quality standards development and the brand development is another important linkage during this development period. This was how the Food Trust organization was built - brand imagery and language were developed as the growing, harvesting, handling and storage standards were developed. Only farmers that adhered to the developed standards could use the Food Trust name and logo.

This is similar to what has recently occurred in the Nova Scotia wine industry, where the Tidal Bay appellation was developed for white wines that reflect specified grape varieties and stringent production standards. This standard setting provides credibility and profile for the Nova Scotia wine industry on a global basis. The same goal of positioning the Canadian lobster industry for growth and prosperity is the objective of the lobster branding process.

Table 7 - Phase 3 Brand Tasks

Branding: July-December 2013 Launch Canadian lobster quality brand
<p style="color: red; text-align: center;">An internal soft launch of the brand to the industry should precede the external hard launch to the market</p> <p>Soft launch: Brand goals and industry roles are communicated to industry with a rationale: Meeting market needs better than the competition is the ONLY reason to expect different and higher prices. There is a roadmap for meeting needs better in the Managed Quality/ Seal of Quality (will have a name such as Food Trust did) brand plan which includes quality protocols for the industry and promises to the market based on the quality protocols and industry commitment to better prices through better handling of the resource from water to customer. This requires recruitment of industry participants to be part of the Seal of Quality program that requires specific quality- defining practices in order to enable higher prices to be justified to the market</p> <p style="padding-left: 40px;">Month 1-2: Orientation sessions and brand presentations, Recruitment of industry participants Month 3-4: Monitored test period to ensure quality standards and protocols are being followed by those industry people participating in the Seal of Quality program Month 5: Evaluation and modifications as needed</p> <p>Hard launch: Taking the Brand to Market Month 6: social media (thought leadership) and print media used to launch the Canadian lobster brand in time for the Christmas /New year season followed by international trade shows in 2014, possible trade missions</p>
<p>Action and outcome within this period :</p> <ul style="list-style-type: none"> • internal and external launch plans developed by the branding partner, including market selection and schedules for launch • internal launch and participant recruitment overseen by brand/quality task group personnel/designates • measurement and evaluation of internal test period by brand/quality task group personnel/designates • external launch plan implemented by branding partner and brand/quality task group personnel/designates
<p>Also occurring within this period to support brand launch:</p> <ul style="list-style-type: none"> •set up of Managed Quality/Food Trust /seal of quality system •set up of quality based pricing system for live and processed sectors

This launch is a dual launch starting with the industry to ensure that a critical mass of industry participants is on-board to support the brand claims. This is essential as positioning Canadian lobster as distinctive on grounds that are not supported by the industry will derail the brand and highlight Canada as a supplier to be avoided.

The recruitment can be started earlier in the process but a critical mass must be on-board for the testing of consistent handling practices. Food Trust started with about 25% of the potato industry and grew from there. Alan Miller will be an important partner in the development of a Managed Quality brand. Critical participation mass will also be important for the Auction House if that goes forward, or for other pricing mechanisms. Recruitment may focus on both Managed Quality and Price -mechanism participation to maximize the recruitment initiative.

A key part of the soft launch will be monitoring quality handling at all points of the value chain to ensure that the specified standards are being met. This stage will focus on inconsistencies and oversights, for correction as industry participants are getting used to the change in how they do things in order to be part of the seal of approval/ Food Trust/ VQA (Vintners Quality Association) type membership. The hard launch of the brand to the market will be guided by the branding partner to ensure a smooth and professional launch to the key markets.

QUALITY INTRODUCTION



**Green tomatoes are not poor quality- they are not READY to harvest
Lifecycle moult in lobster is like tomatoes- lobsters are
not ready to harvest at certain stages within their moult lifecycle .
Fishing seasons that cross the moult cycle mean that harvested quality will vary.**

Industry Objective for Quality

1. To create a structure that will facilitate a quality-focused business model
 1. This will be initiated using a nucleus of industry participants who are ready to try out new ways of operating in a pilot testing process
2. To build collective accountability within the industry to ensure consistent quality that leads to a wide range of prices/markets for all products.

1. Both the industry and the market need to recognize there is a wide range of quality which needs to be matched to the right market and the right usage occasion
 2. This requires a clear focus on the market as the driver for industry decisions
 3. Currently industry participants are focused only on their piece of the supply chain and not on how to build sales at the market end using a value chain approach.
3. To eliminate losses through poor handling and poor management of the resource
 1. Losses are being estimated at 15% of industry volume which is greater than the landings of other lobster producing countries

Key goals requiring action:

- collective industry accountability for raising prices (WHO is responsible)
- consistent quality product promised and delivered (WHAT must be done)
- 15% loss reduction for \$126million revenue capture (WHY is this important)

Key Action Areas:

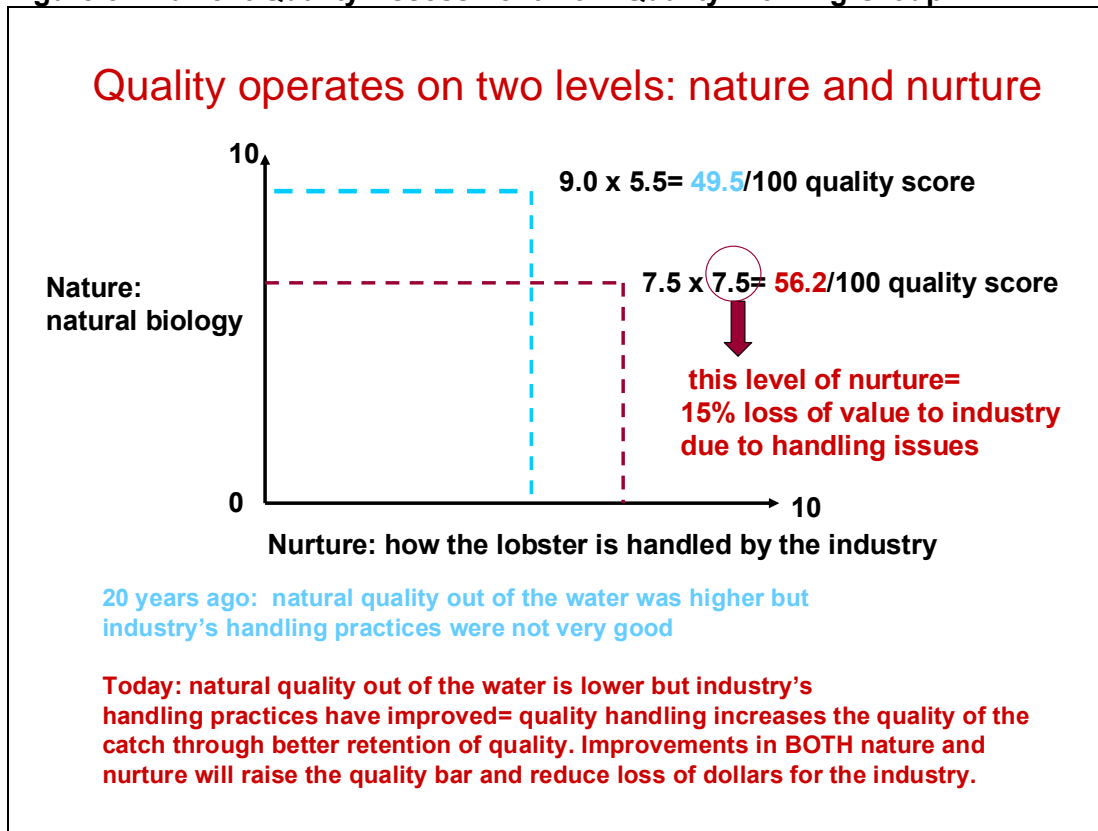
Implement quality grading based on standards to build broader credibility and dependability for the Canadian industry

Use traceability to build accountability among the industry

Create an integrated structure to overcome supply chain fragmentation and to support consistency and stability.

- A. Determine required quality standards and practices
- B. Run pilot tests in the lobster industry to demonstrate the concept and identify area-specific considerations around quality, seasons, live and processed
- C. Build in tools/education
- D. Manage the supply flow rate to market to build better prices.
- E. Connect traceability with monitoring/separation/product streaming
- F. Recapture lost value to pick up the dollars being left on the table and under the table
- G. Communicate to industry that quality is the first step to higher prices and retaining the value that is being lost

Figure 8- Current Quality Assessment from Quality Working Group



Managing for better quality is the key opportunity for making a change in the Canadian lobster industry. About 80% of the industry would benefit from quality focused pricing, but are being averaged down by the other 20% and the poor handling of good quality, when mixed qualities are found in crates. The majority, whose quality is good but whose prices are being averaged down due to market expectation of inconsistent crate contents, should be actively endorsing the quality approach to building better prices.

It should be noted that the lower quality product that comes out of the water is not 'poor' quality - it is just not ready to harvest until later in the year. Poor quality must be distinguished from premature harvest quality based on what stage of lifecycle the lobster is in - lobster can be premature or harvest ready in the same LFA depending on the timing of the harvest

The 15% loss is more than some lobster-producing countries land = \$120,000,000 in losses (18,000 tons @ \$7000/ton, estimated). This can be reduced by better handling of the lobster from harvest throughout the value chain. For example: claws or legs ripped off through rough handling can cause the lobster to bleed to death. Rough handling is partly due to having to deal with high volumes. A key message about handling is that quality is a lobster health issue, which becomes a lobster value issue.

If the industry wants higher prices - they will need to find a way to justify higher prices to the market. Quality grading + yield can influence price. Quality grades serve as an insurance premium for the retailer or the restaurateur as they tell the customer what they

are getting. A competitor selling a lower priced lobster that is a lower quality grade does not undersell the higher graded, higher priced lobster which are targeted to different consumers.

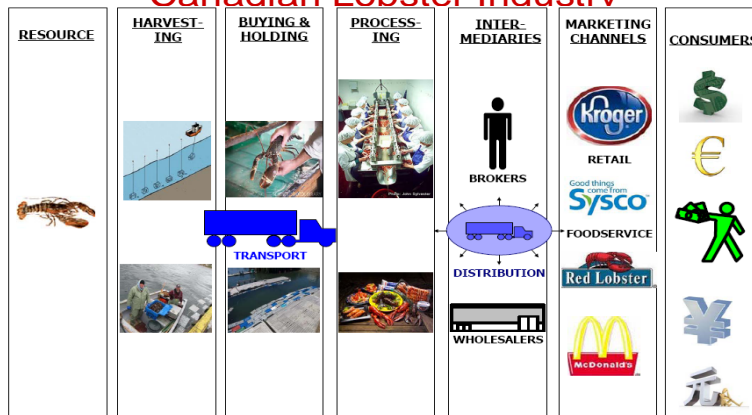
Industry's objection has been that the market doesn't pay for quality. This is because the market has had no benchmarks for lobster quality- both the consumer and the customer. Quality grading will address this problem. This is an opportunity to establish grading guidelines to eliminate the mixed grade pricing by the market.

Retailers are uninformed about lobster, compared to other proteins they handle. They can only judge quality visually or after a certain percentage of their lobster purchase dies before sale. This is the shrink factor that causes retailers to push their prices down because they don't know what they are getting and whether they can sell all that have purchased. Grading will help build the trust of the retailer because grading is a tangible sign that industry is committed to reducing shrink.

The quality drive must come from all sectors of the industry, as consumers don't understand about different quality levels in lobster since there are currently no defined standards. Therefore many customers believe one lobster is the same as another and have no reason to pay more.

The key to a quality focus is a consistent method of grading - universal grading. Currently quality is elastic with variable raw material + variable grading+ variable buying/selling. A grading standard will provide structure for handling, grading, sorting, separating, market matching and pricing. Grading standards tell the market what they are getting, to reduce the current uncertainty. The market dislikes uncertainty and responds by offering low prices to contain their risk.

CARE Points for Building Quality into the Canadian Lobster Industry



VALUE CHAIN	SOURCES OF QUALITY VARIATION	KEY QUALITY INDICATORS	QUALITY MANAGEMENT ACTIONS/TOOLS	CANADIAN QUALITY MANAGEMENT STANDARDS
E.G. Buying & Holding	# of live shippers # holding facilities # trained employees Distance to markets Purpose for holding	Shell hardness Meat fullness Liveliness Limbs Intact	Oxygen levels Ammonia levels Temperature levels Seasoning Length of holding	To be determined

Handling decisions at all points of the chain of custody influence lobster quality. Each point in the chain is a “Point of Care” and each point of care reflects dollars made or lost for the industry. Quality is not the responsibility of any ONE sector within the industry. Handling practices throughout the chain of custody will either maintain the value or destroy the value that comes out of the water.

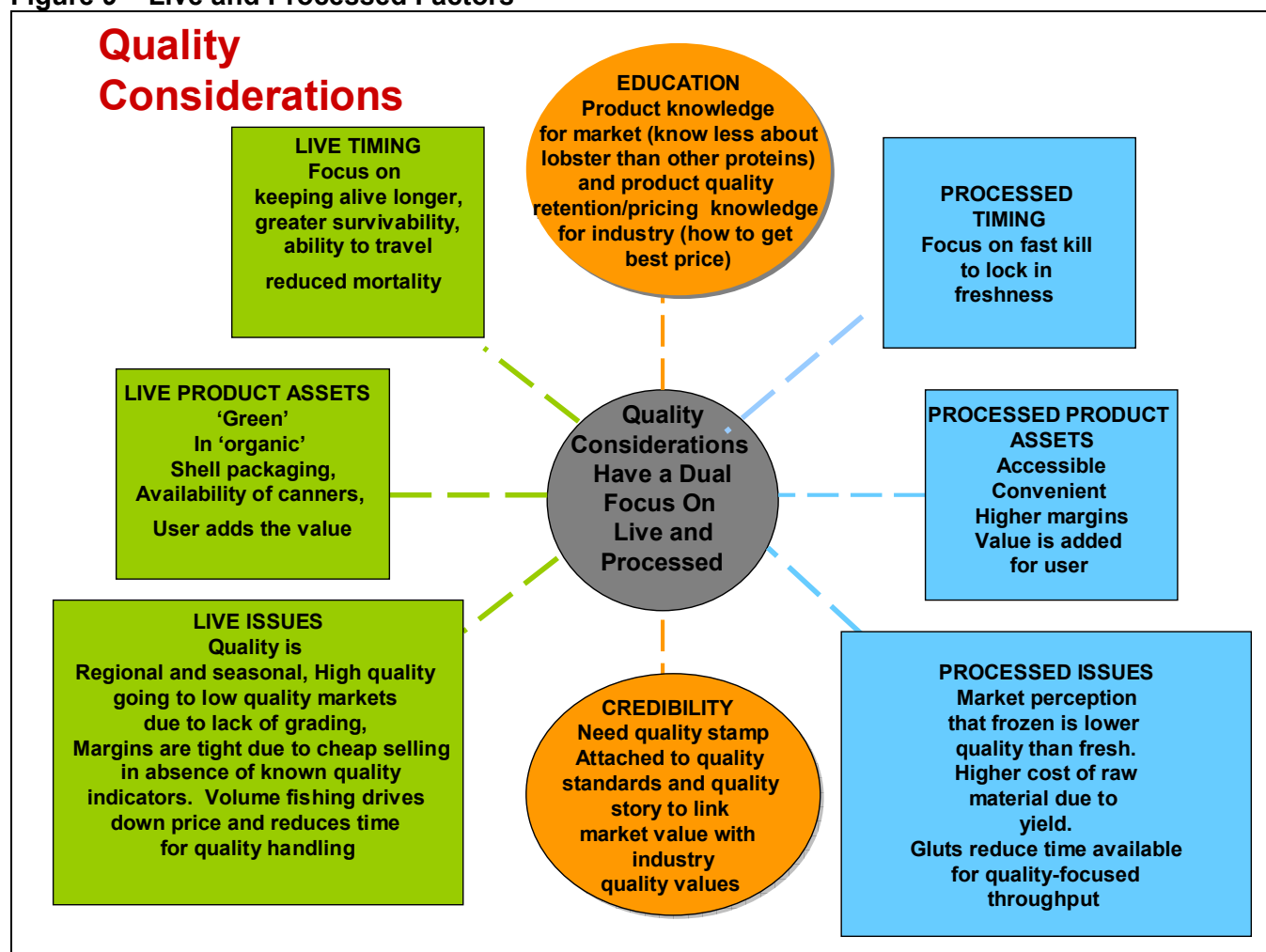
The quality focus can be highlighted as the gap between quality that comes out of the water and the quality that is eventually delivered to market. The gap between natural, out of the water quality and quality by the time it gets to market is the quality gap. The size of this gap can widen with each stage of the supply chain as all who touch the product influence its quality. This underlines that there is a shared responsibility to improve the consistency of delivered product quality. This is an integrated value chain where each sector hands off good quality to the next point in the value chain - on the way to market.

This integrated value chain will enable the industry to manage lobster quality from water to market because each sector is focused on how their actions add value instead of the current situation where value is being subtracted due to poor handling. Managed quality means that quality must be defined in order to manage quality. Defined quality levels make it easier to identify when product is inside or outside the acceptable range for a certain quality level. Product quality variations can originate either in the harvest (taking the lobster out of the water at the wrong time in the moult cycle) or post-harvest (the way the lobster is handled, stored, transported and/or processed following harvest). A change in quality can creep in at each link in the value chain, so the key is to identify the potential sources of quality devaluation and what actions will prevent this devaluation from occurring. A key element will be measuring quality, and identifying where quality breakdowns are occurring so that people at all points in the chain are accountable for their respective roles. This is collective accountability.

Traceability can play a major role for building market trust because it identifies the source of lower quality product due to poor handling or premature harvesting. Traceability ensures accountability which also builds trust within the industry as everyone is being held to a standard.

The quality management process starts with a description of the value chain for delivering lobster products to consumers. Those consumers buy different products, pay different prices, and have different expectations, so it is important to have a specification for each end product if prices are to be linked to quality.

Figure 9 – Live and Processed Factors



In addition to working on quality across the industry sectors from harvest to market – it will be necessary to work on quality within the live and processed sectors as well. Standards for live and processed lobster must be developed.

- Live grades might be based on size, meat fill/yield, blood protein, all limbs intact etc
- Processed grades might include number of times frozen, uniform sizing or shaping, brine levels etc. The processed lobster could also include the live grade from which it originated

Grades for processed lobster may not be as important as live but this will depend on the level of processing and the intended use for the processed product. For restaurants, if processed lobster is mixed with other ingredients in a restaurant dish - *grading may be based on yield, or consistent sizes/weights* (e.g. tails) or *uniform shapes* (e.g. claws). The food service market can provide guidance here.

The live and processed sectors differ substantially on timing to kill, shelf life, packaging, freshness perceptions, convenience and raw material costs. However, a common theme for live and processed is that gluts create quality issues by reducing the time for quality

handling and processing. The sheer volume of product coming ashore influences both quality and price as the market reacts to volume with discounted prices, knowing that the 'shelf life' issue will exert pressure on harvesters, buyers and shippers to sell live product as quickly as possible. The downside for processors includes having to freeze product until it can be processed than refreeze once processed. For both live and processed product-high inventories are a point of vulnerability unless holding is designed to maintain quality to reduce supply on the market and increase the price. This works only if the 'held' quality can support a quality price when it is eventually sold. This adds another level of risk into the objective of maximizing price. Voluntarily controlling the supply that comes ashore would enable a key quality and price influencer to be managed more effectively.

The main quality objective is the credibility provided to the industry by the quality stamp. This identifies that the industry is organized and is providing clear reasons to support price differentials.

Quality Pillar Plans

Table 8 – Happening Now

Quality – Current Activity			
'This Fish' pilots	Traceability Project	NB Education Sessions	Lobster Science Data
<p>Pilot projects in Nova Scotia where tagging lobster with the "This Fish" traceability tags are leading to higher prices for harvesters. Live shippers are working with harvester groups who want to take the time to identify their highest quality lobster for tagging and a higher price for this quality of their catch. This Fish connects quality and 2-way traceability using numbered tags that let the harvesters know where their lobster ends up and lets the consumer/customer know where the lobster originated from.</p>	<p>The goal of this project is to test the implementation of traceability in the lobster industry, with real life situations and challenges, from boat to plate. These tests will broaden the industry's collective knowledge and understanding of the workings of full chain traceability. After the pilot is completed, the positive aspects and lessons learned in the project will be shared with the lobster sector and other interested sectors of the fish and seafood industry</p>	<p>New Brunswick conducted a set of 18 quality workshops for harvesters and buyers in eastern NB. The sessions were based on content developed and presented by the Atlantic Veterinary College Lobster Science Centre. This included practical advice on lobster handling, quality and ways for all parts of the value chain to change their handling practices to ensure better quality and value for the product.</p>	<p>The AVCLSC has been building data bases of information on inventory levels and quality levels in different LFAs . This information would be very useful in price-setting for reserved product, quality maintenance and tanking input, as well as to season and supply management. This information would assist with improving the quality of the catch and the quantity of the catch in relation to volume-based pricing.</p>

In the past year or so there have been several initiatives focused on quality. This provides a good start. The next step is to coordinate these initiatives into an overall plan so that they provide a springboard for building better prices.

During the sessions, a chef indicated strong interest in ThisFish tagging as a value-add for the customer experience. This serves to both engage the customer and educate them at the same time. He valued it highly enough that he would be willing to pay \$1.00 more per pound for lobster that was tagged. This shows the potential for higher prices from the market, if there is a tangible reason to pay more.

This same premium price response was also described in the UK, where despite economic barriers to spending, shoppers were paying more for organic eggs because they believed these were better quality. Quality cues give the market something to work with as they consider what they will spend for various products.

The following plan provides a systematic approach to developing quality as the central focus for creating and recapturing value in the Canadian lobster industry.

Table 9 Phase 1 Quality Tasks

Quality: July-December 2012: Educational sessions for industry built on the NB sessions
<p>Key Quality Development Factors: Education around quality factors will inform all industry participants about:</p> <ul style="list-style-type: none"> • What contributes to quality in the water • What actions maintain harvested quality on the boat and on land at each point from boat to market • What actions reduce quality at each point from boat to market • What the benefits of quality grading are to the industry <p>Nova Scotia has already approved a similar set of quality sessions as those held in New Brunswick. The NS sessions will also include a section on lobster branding and how quality is linked to brand claims and credibility. This will be an opportunity to both educate the industry and include them in the process of moving towards greater value for the industry.</p> <p>Months 1-2: Develop expanded curriculum and schedule sessions. This will include an evaluation tool provided at the end of the sessions to capture participant understanding and receptivity to the proposed actions needed to drive the quality foundation for branding and price-setting</p> <p>Months 3-5: Conduct sessions in NS</p> <p>Month 6: Evaluate participant response to session concepts and summarize key issues to be addressed in subsequent sessions and in industry communications, including the DVD</p>
<p>Action and outcome within this period :</p> <ol style="list-style-type: none"> 1. Identify the core curriculum development team of 5-6 people - the group tasked by the LCC with the authority to develop content for the sessions. This will build on the previous NB sessions, by including how quality relates to the brand and price-setting pillars 2. Conduct a review of other quality programs to demonstrate the connection between quality, price and credibility eg Vintners Quality Association and the Nova Scotia Tidal Bay appellation that has just been developed to build greater credibility and demand for NS wine 3. Deliver the NS sessions to all LFAs in NS 4. Produce a debrief on the sessions and issues raised for use in fine-tuning the sessions for other provinces . This will provide a better understanding of the issues and objections that can represent industry barriers to supporting a quality-based structure.
<p>Also occurring within this period for consideration in quality development:</p> <ul style="list-style-type: none"> • Decisions on key factors for the pricing mechanism, and decision on basis for quality-based pricing • Examination of seasons and supply management • Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must 'buy-in' to the message. • Communications to industry via Internet and DVD • Quality audit

As industry participation and commitment is critical to the success of the plan, communication and education are vital steps in the process. The quality sessions offer a

face to face opportunity to present the quality, brand and price-setting tools to the industry and to collect direct input from the participants. This represents an early action that is already partly developed based on the NB sessions. Jean Lavalley of AVCLSC would be a strong member for this task group. These sessions would then be rolled out to the other provinces as well.

The sessions should include all industry operators- harvesters, dealers, processors and shippers to instill the concept of a 'whole industry' value chain instead of a supply chain where each sector focuses only on their own part of the chain

Message themes for the sessions to set the basis for change:

- All lobster are NOT equal (therefore shouldn't get an equal price)
- Lobsters should find their appropriate markets (and the associated price)
- Recoup the dollars that are falling off the table with better harvesting and handling practices (reduce 15% loss and retain 126 million dollars)
- Develop standards for grading and associated price scales so all parts of the chain know what to expect, including the market
- Manage quality at each step of product movement from water to market, to build price opportunity
- Communicate value-busting practices and value-building/maintaining practices
- Establish that the sole purpose of exchanging inconsistent current practices is to increase the percentage of quality lobsters available for sale at a better price

Message themes for what needs to happen to make quality the foundation anchor that price-setting and branding can be built on. Key linkages between action and outcome:

- Improved ability to create a brand position in export markets that sets the bar for the pricing that the industry wants, for the quality that the market wants (re-positioning the industry as a price-maker versus a price-taker)
- The use of quality grading to avoid quality mixing which brings lower prices to account for the poor quality/losses expected. This causes the entire lobster catch to be devalued by the absence of quality standards and streaming
- Improved handling /storage/shipping to maintain harvested quality and avoid lost value on low prices and dumping.
- Improved quality consistency delivered within quality grades creates the ability to build a credible and reliable Canadian lobster brand.

Table 10 Phase 1 Quality Tasks

Quality: July-December 2012: Quality and Value Baseline Audit
<p>Key Quality Development Factors :</p> <p>The determination of the degree of change required in the quality arena should start with a clear understanding by the whole industry of:</p> <ul style="list-style-type: none"> • the quality harvested in the current season regime, including timing and location (currently most harvesters believe their quality is top quality) • the degree to which the quality delivered to the market matches or departs from the harvested quality = the quality gap <ul style="list-style-type: none"> –the cost of the quality gap to the industry • the amount lobster dumped each year by fishermen, holders, distributors, buyers, producers and consumers <ul style="list-style-type: none"> –the immediate and long term cost of the product dumping to the industry <p>This information provides the baseline for measuring and demonstrating progress. This information can also be used to provide direction to provincial governments in the development of license policies for buyers/holders/distributors/producers.</p> <p>Months 1-4: Conduct a benchmark study to determine for each area, not particularly each LFA, the current quality of landed product. This includes determination of size, liveliness, missing limbs, % culls, blood proteins, etc. As part of this initiative, conduct a case study following tagged lots of lobster through the entire handling chain to determine mortalities and process results along the way. Clearly define the quality profile for each area and identify areas in the handling chain where mortalities occur. This will also include yield information for processing of full versus soft shell lobster.</p> <p>Months 1-4: Survey/interview a sample of individuals from each sector (LFA's, buyers, holders, etc.) to determine the 'range' of loss incurred during the best and worst years (the worst years being when blood proteins are poor or product is held for extensive periods hoping for price increases or product is mishandled as a result of frustration over prices offered).</p> <p>Months 5-6: Prepare quality baseline profile for inclusion in Industry Information video. This will include a status report on the lobster traceability project that is underway. Status will include the current regulatory requirements and possible future requirements contrasted to existing traceability systems and the system currently being trialed.</p>
<p>Action and outcome within this period :</p> <ol style="list-style-type: none"> 1. Identify the quality audit team of 5-6 people - the group tasked by the LCC with the authority to make inquiries and assess the current quality profile of the industry (quality assets) as well as the degree of losses (verification of the 15% quality liability) 2. Produce a quality audit report that explains to the industry the current status of the industry by region to provide quality baselines for clarity around current quality differences, and to quantify the degree of avoidable losses due to handling and other decisions such as seasons and supply
<p>Also occurring within this period for consideration in quality development:</p> <ul style="list-style-type: none"> • Decisions on key factors for the pricing mechanism, and decision on basis for quality –based pricing • Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must 'buy-in' to the message. • Examination of seasons and supply management • Quality sessions being conducted in Nova Scotia • Communications to industry via Internet and DVD

This audit is an important step prior to the development of the quality protocols and standards in the next 6 month period from January to June 2013. Peter Norsworthy of Pisces Consulting would be a strong member for this task group.

Fundamentally this step lays the groundwork for identifying what is working and what is not working to maximize quality for quality –based pricing. The industry is at different stages of development at the present time, with some individuals focused exclusively on acquiring, handling and delivering high quality product. However the whole industry is being negatively impacted by the lack of structure to support consistent delivery of quality product to market.

The Canadian industry has a generally good quality product that is not being managed well as an industry. This creates distrust within the industry, where quality efforts by some are being undermined by others. There is also distrust towards the industry from the market, when they don't receive the crate quality they expect to get.

In addition to clearly mapping the current quality status of the Canadian industry, this step enables:

- progress to be measured as various quality initiatives are implemented. This provides proof to the industry that coordinated effort can raise the bar – that a rising tide floats all boats.
- proof to the market that the industry is committed to reducing shrink for retailers and food service which is one of the main reasons that market prices are low. The other reason for low prices is that the market knows the Canadian industry is desperate to sell. Greater confidence among industry participants will enable desperation-based cheap –selling to stop.

Confidence-building requires a clear understanding of the reasons why current practices need to change, what practices need to change, commitment to change and coordination of quality-focused effort among the industry. This step in the plan provides the information to build industry understanding of the need for change and the nature of the change needed.

Table 11 – Phase 1 Quality Tasks

Quality: July-December 2012 Examine season adjustment and supply management
<p>Key Quality Development Factors and Connections between Factors: Season change and supply management are areas that have generated concern. The only reason to examine these is to determine how and if they can assist in raising demand and prices for Canadian lobster. These are tools and their pros and cons must be examined in detail to understand their potential contribution to building wealth in the industry. Season change and quality handling practices are actions for <u>increasing the percentage of quality lobster available to the market</u> (season change could improve quality via yield maximization, and prices in current low quality seasons, and better handling reduces losses due to poor handling and dumping) Supply management <u>decreases the volume available to the market, and needing to be handled within a specified period of time by industry</u>. This will increase demand and prices if branding builds demand for Canadian product. Demand is based on market awareness and desire for Canadian lobster. Quality initiatives ensure the market is not disappointed as disappointment leads to a drop in both demand and price.</p> <p>Months 1-5: Examine season change pros and cons using available data from AVCLSC, as well as case studies from other countries and species. This will be followed by consultation with DFO and the LFAs where change would occur, as well as the other LFAs who believe they would be influenced by a season change. The consultation process would focus on identifying issues and options for managing the change in supply schedule. Months 1-5: Examine supply management pros and cons using the same approach Month 6: Present the facts and a recommendation about the role that season change and supply management can play in building industry's quality profile and price/value profile. This would be included in the Industry Information video</p>
<p>Action and outcome within this period :</p> <ol style="list-style-type: none"> 1. Identify the core policy team of 5-6 people - the group tasked by the LCC with the authority to investigate the dual issues of season and supply management. This will include a learning specialist who will assist in presenting the information visually and/or verbally to enable broad comprehension within the industry 2. Use of existing data from AVCLSC and other countries /species will enable quantitative assessment of the impact of season change and supply management. Working Session participants asked for proof of the practicality and benefits of these options in sufficient clarity as to be understood by the industry. 3. If the examination identifies that season change and/or supply management will contribute to increased quality and increased price potential, a summary that explains to the industry the reasoning behind the recommended changes and the role of industry in the changes will be prepared. The summary will be used in the industry communications video
<p>Also occurring within this period for consideration in quality development:</p> <ul style="list-style-type: none"> • Decisions on key factors for the pricing mechanism, and decision on basis for quality –based pricing • Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must 'buy-in' to the message. • Quality audit • Quality sessions being conducted in Nova Scotia • Communications to industry via Internet and DVD

Observation from the Working Sessions: *Regardless of quality, McDonalds' or Subway won't be willing to pay the same price for lobster to make sandwiches as a high-end restaurant would pay for a lobster used as part of an expensive gourmet meal. If supply were very short, it would probably all go to the restaurants offering gourmet meals, because they would bid up the price to exclude McDonald's and Subway from the market. But the plentiful supply of the past few years has meant that the lower-value lobster sandwich niche has been needed to absorb the total catch.*

This comment captures the relationship between volume of supply and where the product ends up in the market and the related price point. High supply requires low price buyers to absorb the catch because there are more buyers that want to pay a low price for volume than a high price for quality. This means that high quality product is bought below its value and made into sandwiches. This creates a low value profile for Canadian lobster which in turn forces the Canadian industry to focus on volume instead of quality. The only way to break this cycle and increase price per pound is to focus on a lower supply of high value product.

However processors can't pay the price of live market product, so additional supply at lower prices must be maintained for the processor sector. This requires a balancing of supply and quality levels to meet live and processed sector needs, as well as recognition that lower prices from the processed sector are a necessity, given the yield factor. Balancing requires a detailed study of the options, for managing seasons, quality percentages and supply levels in relation to price. One option to consider might be an equalization payment program for harvesters of the lower priced product intended for the processing sector.

Season change and supply management are hot button, contentious issues. They have the potential to make a significant difference in building value for the industry, but represent a major change in the way the industry operates. For both of these reasons - these options for change require a dedicated focus to be able to identify their contribution and the nature of the accompanying changes for industry participants.

During the working group sessions it was made very clear that supply or volume management was a necessary condition for raising prices. This must be proven and presented to the industry in sufficient clarity that it is understood, firstly, by all participants who are in a decision-making capacity. Ideally, it is clear enough to be understood by all other participants as well. Given the range of education levels, ability to understand economic concepts and desire to understand change options - it is recommended that a learning specialist be included in the team to assist in the presentation of the material, if the examination is able to build sufficient proof points to recommend a season change and/or a change to the supply flow rate.

The process will require review of existing data as well as consultation with DFO and with industry on the proposed changes and options for managing the change on an industry-wide basis. Recognition that season changes are focused at two levels will be a goal:

1. improving the quality and price for LFAs where product is lower quality due to moult stage,
2. improving the quality profile of the whole industry in terms of percentage of the total catch that is a higher quality. Improving the quality percentage profile for the industry allows stronger brand claims to be made. Strong brand claims are necessary for building strong demand and prices.

This examination will make use of the underutilized data that has already been collected on the industry by the AVCLSC, as well as looking at other countries such as Australia and other species/products where supply management has built better pricing (eg champagne, maple syrup etc) . It will be important to examine 'luxury' products to understand the market dynamics for products that are not considered essentials.

Table 12 – Phase 1 Quality Tasks

Quality: July-December 2012: Decide on platform for quality-based pricing
<p>Key Quality Development Factors: Currently there is one shore price with no objective basis for setting the price. The lack of an objective basis for pricing generates instability for the industry and for the market. Instability causes uncertainty which generates low prices for the industry because the market sees no tangible basis for price and no quality indicators. This allows the market to respond with the lowest price possible, in the absence of a reason to pay more. This serves to devalue the product which provides no opportunity to establish a value story for Canadian lobster. This limits the power to develop a brand for Canadian lobster that will build demand and higher prices. Before developing a grading system, a decision on the foundation for quality-based pricing should be made.</p> <p>Examples of quality-based foundations for pricing include but are not limited to the following as a starting point:</p> <ul style="list-style-type: none"> • Single higher shore price for enhanced quality= season changes and improved handling practices create a higher quality catch percentage supported by branding and quality handling (this is the 'improve the quality of the product caught' quality approach) • Season pricing by lifecycle/moult (Fall/winter and Spring) based on retaining the present seasons in each LFA. Price accounts for the quality of the resulting catch as determined by grading standards (this is the 'use what you get' quality approach) • Sector Pricing/value streams: live and processed where processed will require a different price range to account for yield= 1 lb live is not equal to 1 lb meat. Quality grades can be established within the live and processed sectors, possibly based on distance to export markets for live and nature of the processed format for processed • By Yield- price changes with yield, as the key indicator of quality <p>Months 1-2: Examine pricing foundation options in relation to tools required and ability to implement - this should be conducted in conjunction with the decision of key factors for the pricing mechanism under the Pricing section of this plan. Combining the two Pricing initiatives: foundation for quality based pricing and pricing mechanisms ensures that the quality focus is part of the price-setting decision</p> <p>Months 3-4: Test in Nova Scotia quality sessions to examine industry response</p> <p>Months 5-6: Finalize price foundation recommendation for inclusion in Industry Information video</p>
<p>Action and outcome within this period :</p> <ol style="list-style-type: none"> 1. Identify the core quality/pricing decision team of 5-6 people - the group tasked by the LCC with the authority to make decisions to move quality – based price-setting forward 2. Examine pros and cons of quality-based foundations from a technical perspective. Conduct key opinion leader interviews for input on implementation issues 3. Select two approaches for presentation in quality sessions to generate discussion and feedback 4. Produce a recommendation that explains to the industry the reasoning behind the selection, the implementation process and their role in executing on the pricing selection. The summary will be used in the industry communications video. industry response and receptivity will be measured.
<p>Also occurring within this period for consideration in quality development:</p> <ul style="list-style-type: none"> • Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must 'buy-in' to the message. • Quality audit • Examination of seasons and supply management • Quality sessions being conducted in Nova Scotia • Communications to industry via Internet and DVD

The goal for deciding on a quality based platform for pricing is to put a system in place that takes the guesswork and the uncertainty out of pricing. There is a market for all qualities of lobster and price points to match. These need to be defined on a systematic basis. Differences in quality must be identified if the shore price is to increase and if the market is to pay more for certain quality levels. Distinctions in quality provide the reason to pay a different price.

A key reason for low shore pricing and the industry belief that the market doesn't pay for quality, is because the market, with some exceptions, is not educated about quality levels.

The general market assumption is that all lobster is the same, if claws and tail are intact. Visual inspection and survivability are key cues for retail and food service. These are also the main cues for many in the industry.

Overall, with a few exceptions, the industry is not adequately educated about quality indicators and market preferences. Pricing along the value chain reflects this lack of knowledge and recognition of quality. Most LFAs believe they provide high quality lobster but have no specific means of verification. This limits the ability to obtain a higher price when quality is mainly a subjective assessment.

Ultimately, buyers are concerned with two things

- the features of an individual product that affect its usefulness to the ultimate consumer of the product. This creates the value proposition and the resulting willingness to pay
- the predictability of getting the desired quality of product in repeated purchases, sets the bar for what they expect to pay.

The market will not consistently pay top prices if they don't consistently get the quality they are looking for at a given price. The only way the industry can deliver consistency is to have a basis for defining quality and value that provides guidelines to the industry and pricing expectations for the market .

Harvesters, buyers and shippers must work more closely to understand how to define and use quality as a price-setting tool and what markets they can target with different quality levels. This requires a broader understanding of what defines quality and how that relates to different price points. Providing a better understanding of quality-based price-setting is the task of this part of the plan.

Table 13 – Phase 2 Quality Tasks

Quality: January-June 2013 Develop quality measures, language, protocols, and standards throughout industry to move from supply chain to value chain
<p>Key Quality Development Factors: This is the development of the operating model for standard- setting in the Canadian lobster industry. This will form the basis for the Managed Quality production and marketing structure. The protocols and standards will enable credible brand claims to be made to build demand and better pricing based on a solid quality platform.</p> <p>This operating model includes 5 key components:</p> <ul style="list-style-type: none"> • Principles (Brand Canada values- food safety, integrated value chain, humane animal treatment , traceability and sustainability) • Quality Criteria- the key quality indicators that distinguish one quality level from another • Objectives/Protocols to provide quality management guidelines throughout the value chain- all sectors • Standards/Requirements and Decision Rules to qualify industry participants to use the quality seal of approval as a co-brand with their own branding • Verification – metrics and measures of value generated by the quality program <p>Month 1-2: Have each industry sector identify what they see as potential quality grading specifications as a starting point and to build engagement with the process of implementing quality standards. This includes market input in retail and food service channels.</p> <p>Month 1-2: Examine other quality models to provide input and learning. Canadian examples include Food Trust and VQA.</p> <p>Months 3- 5: Use sector input, technical/scientific expertise and learnings from other industries to establish operating standards at each level of the industry/value chain/ chain of custody. Develop grading language and identify grading tools and processes.</p> <p>Months 6: Finalize the operating model for presentation to the industry via a Lobster Academy for Industry conducted in the next 6 month period</p>
<p>Action and outcome within this period :</p> <ol style="list-style-type: none"> 1. Identify the core quality team of 5-6 people - the quality standards group tasked by the LCC with the authority to make decisions to move the quality focus forward 2. Obtain industry input at each level of the value chain to build engagement, review other industries to use their learnings to move the process faster e.g VQA, Canadian Produce Marketing Association, Food Trust and the new Tidal Bay wine appellation 3. Establish specifications that address specific market issues such as taste, value and shrink. Establish testing processes and resources required 4. Produce a plan that explains to the industry the standards, the tasks related to harvesting, handling , grading , sorting, storage and selling windows for various qualities to maximize price, the tools required and the benefits of participation. This plan will form the content of the Lobster Academy for Industry in the next 6 month period as well as the foundation for the operating structure that will support the brand
<p>Also occurring within this period for consideration in quality development:</p> <ul style="list-style-type: none"> • Development of brand icon and language • Development of business case for pricing models

Key people to help in this phase are Alan Miller, former CEO of Food Trust and Janice Ruddock of Taste of Nova Scotia who has been involved in the Tidal Bay wine appellation development process, where stringent production standards = assurance to consumers and customers. Wines are judged by an independent tasting panel to determine qualification . This gives credibility to the Nova Scotia wine industry. For both Tidal Bay and Food Trust, these names are co-branded with each producer or processor’s brand as a seal of quality and recognition for the consumer. It can also be a lead brand if desired.

Part of the development in this phase will be identifying what is working well now (e.g. processing standards already in place) and what needs to be implemented at each stage of the value chain. For example, on the boat: lobster could be sorted into 2 quality streams : Grade A/Gold live product 2-4 pound full meat for export or reserve storage and Grade B/Silver production (perhaps Silver 1 for higher level production, Silver 2...) for immediate sale/cash flow to processors, reducing dumping and lost revenue.

A key problem is inconsistency in matching the product to its best use- if the best lobster goes to McDonald's- economic value is lost to the industry and if low quality goes to live markets and disappoints end-users, the Canadian industry loses credibility.

There are two sources for defining quality that must be aligned:

- science based definitions that can assist the industry with grading and pricing product
- market based definitions of what quality means to the customer and what they are prepared to pay for quality

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. Customers (direct buyers) currently offer an adjusted price that takes into the consideration their belief that desired quality will not be consistently and reliably provided. ***The adjusted price factors low quality into the price point because of uncertainty about what is in the crate. Changing this requires that the industry prove their promised quality is what they say it is. The only way that the industry can do this is to know this themselves, through use of quality indicators as a basis for pricing. This is insurance for the industry as well as the market.***

It was noted during the Working Sessions that in the beef industry, A, AA and AAA grading standards set expectations for quality and the associated price points. Retailers must be knowledgeable about many products. Having a quality marker helps retailers to both buy and sell beef in the correct price categories. Grading is a selling tool for the beef industry as retailers need help with defining quality. Consumers have even less knowledge of quality and rely on the retailer. This means that quality grading is an important selling and pricing tool at both the customer (immediate buyer in retail and food service) and the consumer (end-user) levels of the market.

A quality grading system recognizes that different lobsters have different potential uses and, therefore, have different values. The system would allow lobster to be channeled to its highest and best use, to get the highest and best price point. The objective is to reduce the uncertainty that has characterized the industry and the market's response to the industry. This means combining knowledge of buyer and consumer **expectations** and knowledge of technical **measures** of quality into realistic product **specifications** and production **procedures** that ensure buyers and consumers consistently get products they expect and will pay for.

Consumers and customers don't all buy the same products, use products the same way, pay the same prices, or have the same expectations. Therefore there are a wide variety of market opportunities for lobster. Grading and consistency within grades enables these markets to be developed. Key quality grading points to communicate include:

- Quality grading enables labeling and traceability which ensures that those selling a higher quality product can be identified / paid accordingly
- Grading prevents argument by answering the questions:
 - what is in the crate (what quality)
 - how much it is worth (based on consistent and defined quality)
 - what market it is best suited for (where does it need to go to get the best price)

- Grading must be based on uniform grading guidelines to provide a dependable basis for price –setting. The whole industry must recognize the standards for quality grading. Whatever grading currently occurs is not consistent across the industry. Grading practices need to be based on a common definition of what quality belongs in what grades.
- Grading contributes to decreasing the shrinkage factor that is exerting a downward pressure on prices
- Grading provides the basis for educating customers and consumers to expect to pay more for better quality
- Grading provides the basis to build trust within the industry and between the industry and the market.
- Quality handling practices will contribute to reducing the 15% loss which recaptures a value estimated at \$126 million.
- Grading and quality handling help to address the issue of variability in a wild catch industry where:
 - variable raw material + variable grading + variable buying = lack of control over pricing
- Grading is estimated to benefit 80% of the industry. The vast majority of the industry is losing financially due to the tendency to average down the offered price because of unknown but expected low quality in the crates.

The industry must establish a quality language for grading – options to consider include:

- numerical (Oysters: 65 to 85 gram is Grade 3, 85 to 110 gr is Grade 2, 110 to 150 gr is Grade 1, 150 gr + is Grade 0)
- alphabetical (Beef: A, AA, AAA)
- ordinal (Olympics: Gold, Silver, Bronze)

Considerations include setting a baseline grade such as A and moving up to AA, and AAA, or Bronze and moving up to Gold. Alternatively Gold could be synonymous with Canadian lobster as the Gold Standard with levels ranging from Gold, Gold Plus and Gold Premium.

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Considerations include setting a baseline grade such as A and moving up to AA, and AAA, or Bronze and moving up to Gold. Alternatively Gold could be synonymous with Canadian lobster as the Gold Standard with levels ranging from Gold, Gold Plus and Gold Premium.

Table 14 – Phase 3 Quality Tasks

Quality: July-December 2013 Launch Managed Quality/ Food Trust seal of quality system
<p>This launch coincides with the Canadian quality brand launch. This joint focus parallels the Food Trust approach which focused on:</p> <ul style="list-style-type: none"> • developing a relationship with the consumer to build demand and a “pull” marketing strategy (the consumer asks for the product) • building partnerships within the supply chain to move towards an integrated value chain (the industry has a joint focus on quality management for better prices) • convincing industry in all sectors to participate (Food Trust proved that it could be done- offers a model for guidance) <p>Months 1-2: Orientation sessions and brand presentations, Recruitment of industry participants Month 3: Lobster Academy for Industry- quality protocols and training, brand standards, lobster “finance” training to build understanding of pricing and supply dynamics Months 3-4: Monitored test period to ensure quality standards and protocols are being followed by those industry people participating in the Seal of Quality program Month 5: Evaluation and modifications as needed</p>
<p>Action and outcomes within this period parallel the accomplishments of Food Trust :</p> <ul style="list-style-type: none"> • recruiting and bringing competitors around the table as partners (the Food Trust participants are still cooperating) • presenting new approaches to managing and marketing lobster via a Lobster Academy for Industry • implementing new approaches in a test period • negotiating agreements with retailers and food service channels once industry confidence and competence with new model is established (this may extend beyond the 6 month period)
<p>Also occurring within this period for consideration in brand development:</p> <ul style="list-style-type: none"> • Launch of Canadian Quality brand to industry and then to the market • Set up of quality based pricing system for live and processed sectors to build price stability

The quality sessions have been a good start but a more formal education process will be required at this later stage of the plan (July-December 2013). to teach industry participants about how to work within a managed quality structure.

The Lobster Academy is a vehicle that could be used at this stage to provide participants recruited into the managed quality program with the information and education they need to operate differently.

Barriers to improving quality have been the fragmentation of the industry, the lack of structure and the absence of a defined process for measuring and monitoring quality. The Managed Quality/Food Trust approach must be presented as providing the necessary structure to:

- Coordinate the effort of many people to achieve a common goal
- Establish that product quality management is a high-priority objective
- Eliminate inconsistencies in measuring quality
- Eliminate inconsistencies in quality requirements for the same products

- Coordinate widely varying practices for collecting and using data
- Connect quality problems to underlying causes
- Provide a clear definition of responsibilities among people in different roles
- Provide defined/consistent guidelines for making production decisions on the basis of quality data
- Develop usable reporting of quality data to provide input to decision making
- Provide the basis for conflict resolution

Building education and working trial components into the launch of the Managed Quality structures ensures that participants in the program understand what is expected of them, what benefits they can expect, and what tools they need to be familiar with. Tools include both quality measurement as well as finance and marketing knowledge to understand the new marketing approach.

PRICE-SETTING INTRODUCTION

Current Situation

The Canadian lobster industry continues to under-perform on the goal of building value for all players. Oversupply, poor handling, lack of quality grading, lack of quality-based pricing and being out of step with market demand continues to yield low prices. The following 2 diagrams summarize the past year in the lobster fishery.

Figure 10



The top diagram uses quality and quantity (supply), price and demand to describe the October/December fishery, and the bottom diagram uses the realities facing the various ‘players’ in the industry from the water to the market, to describe the Spring fishery.

Regardless of how the fishery is examined - it's not working.

Figure 11

The First Step is To Recognize These Truths

<h3 style="color: red;">Fundamental Truths</h3> <ul style="list-style-type: none">• The industry depends on the market for a payday but the market has many other options for proteins • Lobster is a specialty product for the consumer - they don't NEED to buy it. • The industry needs the market, more than the market needs the industry.	<h3 style="color: red;">Inconvenient Truths</h3> <ul style="list-style-type: none">• There is no silver bullet• There is no quick fix• Things will not improve if nothing changes• It's okay to be afraid to change and want proof of concept, as long as people realize they can't have a guaranteed return• The industry needs to work together – your future is limited without one another
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While harvesters indicate that they need at least \$3.80 /lb to cover their costs, it is important to understand that **the market is only concerned with what the market needs.** The reality is that lobster is an infrequent specialty product for the consumer - they don't need to buy it, retailers don't need to sell it and restaurants don't need to offer it on the menu. In fact, consumer research indicates that people are trading down to lower priced proteins (chicken, ground meat etc) in the grocery store and at restaurants. Even Red Lobster is adding lower priced, non-lobster items to its menus.

Within certain proteins such as beef - different grades and cuts provide the retailer, the restaurateur and the consumer with the information that allows them to expect consistent quality for a range of prices. Without this grading information and the perception that lobster is expensive, lobster is in a weaker competitive position. **Without grading information, the market has no reason to pay more.**

In response, the industry offers low prices to make a sale, and the market decides that low prices are the new "normal" for lobster. This approach will not enable the lobster industry to make a sustainable living. Further, this approach does not provide the processing sector of the industry with enough margin for innovation and development of new products that will add additional value to the industry. The processors have the greatest potential to build interest and demand in lobster by making lobster more convenient and easy to use. **The processors are an important link to the market.**

Structure Supports Price-Setting

The desired goal in the lobster industry has been to build a better price-setting mechanism. To make this happen, the immediate requirement is to create the structure that will support effective price-setting, greater value for the industry as a whole AND a focus on the market.

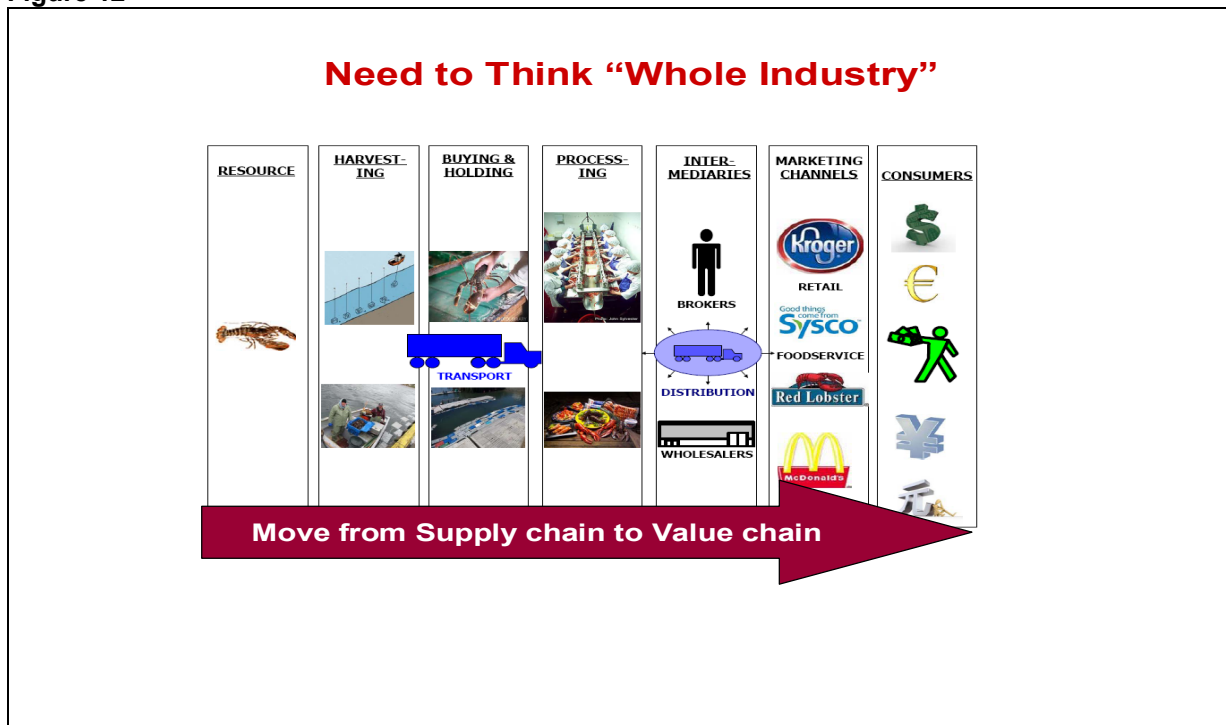
This means that improved price-setting should not be just about higher prices, but also about better margins. Better margins result from higher prices, but also from cost containment as well. The ability to manage prices, margins and costs requires a coordinated approach to the business of lobster. Structure provides that coordinated approach. The current level of structure in the industry is regulatory for resource sustainability. While this is important to ensure the future of the resource, there is presently no structure which leads to revenue and fiscal sustainability for the industry. This means that while the Canadian lobster industry has something worthwhile to sell, the selling effort is not coordinated into a consistent delivery system that adds value for the market and a future for the industry.

The first challenge in building a value based structure is to realign the industry to build on its resource supply and processing strengths, and improve on its key weakness. The key weakness is fragmentation - the disconnects between the parts of the supply chain that prevent the industry from adding value and that causes industry revenues to fall between the cracks. This realignment must address the following challenges:

- dealing with deeply ingrained habits and ways of operating that do not contribute to high performance, productivity and value for the industry
- convincing the whole industry that collective change is needed and cooperation is the way to make that happen
- educating the industry about the effects of supply on demand and price
- making the industry aware that a focus on the market is needed at all levels of the industry .

The realignment can be explained using the value chain concept as a replacement for the current fragmented supply chain way of doing business.

Figure 12



A value chain is where each link in the chain is responsible for adding value. Value managed at each level generates the total value for the product and for the industry. Each level of the chain must identify how it can contribute to building total value for the Canadian lobster industry.

Examples of how each sector can add value:

- **Harvesters** can commit to supplying lobster at a rate that live and processed sectors can effectively work with. This means **avoiding gluts** so that processors have the time to add value and shippers are able to maintain the live quality they receive. This also means that harvesters who **separate their lobster** into consistent grades for immediate or later sale, can expect better prices for better quality.
- **Live shippers** build value by **maintaining lobster quality** with seasoning, tanking and transportation to ensure the market has a consistently good eating EXPERIENCE via taste, texture, smell, the shell, survivability and meat fill
- **Processors** are capable of **adding the most value** with various formats that create CONVENIENCE for the consumer based on ease of use and expanded use. Expanded use of lobster is important as consumers tend to think of lobster predominantly as the once a year 'feed' that is fun but a lot of work. These perceptions create barriers to purchase.

With each sector adding a portion of the total value for the industry, all sectors need to work together to **coordinate and consolidate** their market power against other lobster – producing countries and against other specialty proteins. These are the real competitors - not other sectors within the Canadian lobster industry.

The reality is that every one who touches the lobster from the sea to the market either **adds value, maintains the existing value or reduces the value** of the lobster. These are called care points or touch points. Touch points include harvesting, handling storing, processing, shipping and the actual act of selling. All of these touch point activities are signals to the market about how much they should expect to pay. Currently there are low price signals coming from the Canadian lobster industry, with some exceptions. The exceptions are those who are focused on selling quality lobster to those in the market who will pay more because they know they are consistently getting quality that is worth more.

Getting the touch points right is necessary to build better price points. **Touch points drive price points.** Getting the touch points right on a consistent and reliable basis, requires coordination. Coordination happens in a structured environment.

The FFAW and the Magdalen Islands have legislated price-setting as that is believed to be the only way to create the needed structure. However this legislated structure is not built around quality, and operates on a regional basis only. This does not contribute to positioning Canada as a lobster superpower. A Canadian lobster structure that is built on quality with a market focus, is needed in order to build price-setting power for the Canadian lobster industry.

A quality-based, market focused, value chain provides the structure and the credibility for defining a Canadian lobster brand. This enables the Canadian brand to declare that Canadian lobster offers reliable quality for a full range of price points and uses. This is the foundation necessary for building better prices and a market for all qualities.

Price –Setting

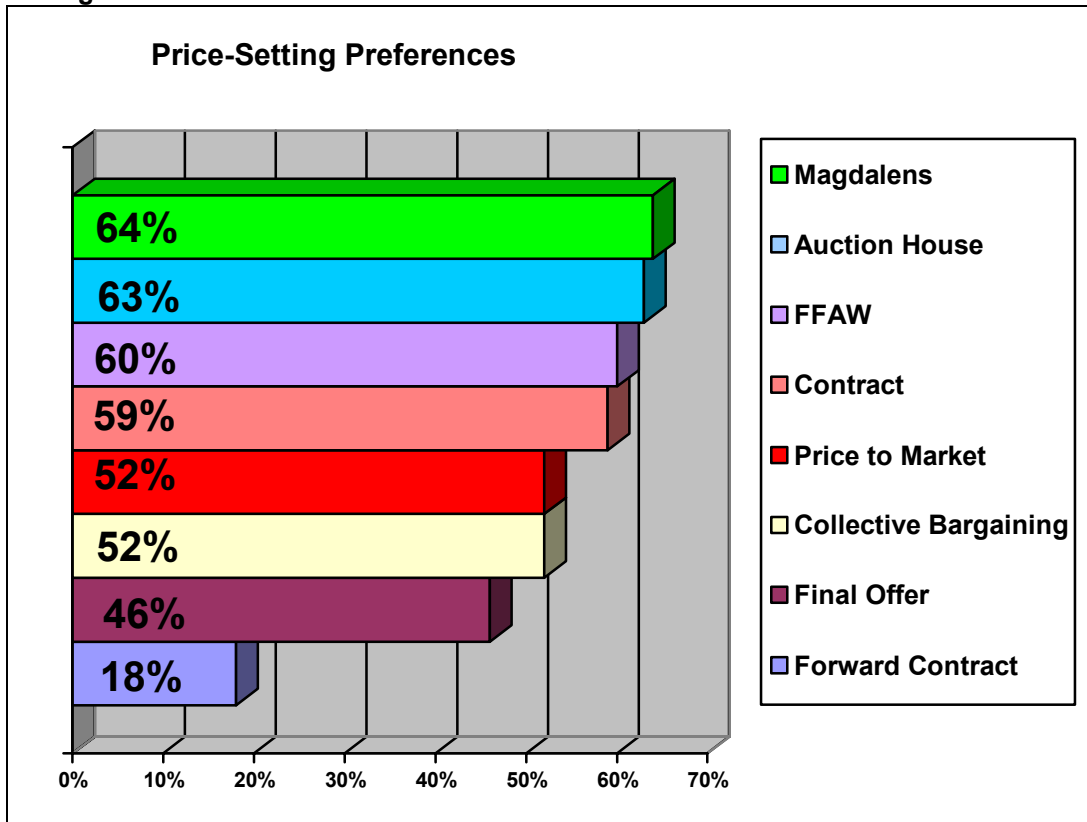
Industry Objective for Price-Setting: maximize sustainable wealth for the Canadian lobster industry and the ability to plan for the industry and for the market

Ideally, a price-setting mechanism should be selected in relation to how many of the triggers of industry instability can be addressed. Instability triggers include:

- unknown quality standards
- unknown quantities/availabilities
- ineffective handling practices causing waste and loss of value
- current pricing methods that don't recognize quality
- buying/selling practices that have no structure to support dependability
- exchange rate impact on value adds to the variability the industry must deal with
- lack of trust within and between sectors in the industry
- ineffective competition that leaves money on the table and undermines market development efforts
- lack of market knowledge and awareness of how important the market is to the lobster industry
- the desire to work independently vs collaboratively means there is no critical mass to provide structure or power for the industry. This leads to fragmentation and dollars that slip through the cracks in the industry.

The chart in Figure 13 shows the relative preferences for the different price-setting mechanisms discussed in the price-setting working group in April 2012.

Figure 13



The Magdalens and FFAW options were in the top 3 rankings but only if the legislated element could be removed. The Auction was also in the top 3 due to clarity and acceptability, although there was uncertainty about whether it could accommodate the processing sector. These rankings indicate that a voluntary price-setting mechanism is desirable over legislation, contracts, collective bargaining or arbitration.

Table 15

Rating Criteria for the Top Three:	Magdalens	Auction House	FFAW
Acceptable to industry	56%	60%	53%
Can be implemented in a timely period	51%	51%	53%
Can be monitored effectively	76%	73%	67%
Benefits are clear	56%	73%	49%
Benefits outweigh the costs	60%	60%	56%
Manages counterproductive competition	64%	64%	58%
Stronger competitive position for Canada	58%	64%	51%
Transparent enough to build trust	78%	69%	67%
Provides ability to plan	64%	58%	71%
Helps to stabilize price	76%	60%	76%
OVERALL SCORE	64%	63%	60%

Shading identifies the dominant ratings for each of the top three:

- The Magdalens model dominates on effective monitoring and transparency
- Auction House dominates on industry acceptability, clear benefits and stronger competitive position for Canada
- FFAW dominates on ability to plan

Table 16

Price-Setting Methods Reflect Different Types of Decision Processes

Current situation	Individual negotiation
Cooperation, Contract, Price to Market	Group negotiation
Collective Bargaining, Final Offer, FFAW, Magdalens,	Legislated process
Auction House	Merit -based/informed process

Table 15 shows the criteria for ranking the price mechanisms and Table 16 groups the price mechanisms into categories, beginning with the current situation where individual negotiation is the norm.

Individual negotiation in the current situation tends not to be tied to any of the factors that influence price - the volumes being landed, market demand or market conditions which means that prices are being formed in a knowledge vacuum. This generates pressure throughout the industry as the live and processed sectors are caught in the shore price and market price crunch. This generates the “every man for himself” behavior that characterizes the industry and which leads to the current instability and uncertainty. Instability and uncertainty makes the industry vulnerable and powerless.

Group negotiation helps to counteract the knowledge vacuum by including more points of view and more knowledge into the pricing process. However the group needs to be able to make a decision on behalf of others in the industry, which requires that the industry trust the

group and that the decision process is transparent. The **legislated process** assumes that the group will not be successful at making a decision and takes the process out of their hands. While this may be effective for moving the decision faster once legislation is in place, legislation and conditions differ in all provinces. The presence of multiple legislated price formation methods will generate a new level of price disparity unless there is a common basis for the legislation across provinces.

A **merit based, informed process** provides the industry with common ground for building an industry-wide price formation process. Given the generally high quality of the Canadian lobster resource, quality grading and market separation is a reasonable basis for common ground pricing. Seasons, volume decisions and handling practices all affect the initial quality or the delivered quality of lobster. Building a coordinated focus around quality enables a market to be found for all qualities and different prices to be paid for different qualities and markets. The auction house pricing method offers a clear process for multiple pricing, and can lay the foundation for contract and collaboration pricing as well. The key is having information, transparency and a central focus for the industry to rally support around.

Price-Setting Plans

The following pages identify the implementation tasks to support effective price formation.

Table 17 – Happening Now

Price – Current Activity			
Magdalens Price-setting	FFAW Price-setting	‘This Fish’ quality/price pilots	Maine Price Example
<p>Has been in place for 20 years (proven) Requires government legislation There is no specific quality component</p> <p><u>Pros:</u> transparent, negotiated based on top 3 prices – not cheap sellers, builds trust, requires popular support to create and disband, forces processors and buyers to reach an agreement. Minimum base prices +bonus, very little switching =greater stability Working together on landings quality, marketing and traceability= proof of collaborative benefit, scalable to other markets – eg canners</p> <p><u>Cons:</u> takes time to entrench, buyers dislike having to open books , live market only - no mechanism for processed market . Cost to administer = .04/lb collected from harvesters and buyers</p>	<p>Has been in place for 1 year (piloted). Requires government legislation. There is no specific quality component. Still being examined as a process.</p> <p><u>Pros:</u> transparent, uses a reference price (Urner Barry), provides information on prices being paid in other areas, negotiated with processors- binding on all others 3 person price-setting panel with a 3 year term to build up knowledge, parties can reach agreement outside of this if mutually agreed 67% of Urner Barry price went back to harvesters in NF</p> <p><u>Cons:</u> not enough competition, buyer uncertainty, process perceived to be chaotic, doesn't reward quality</p>	<p>Pilot projects in Nova Scotia where tagging lobster with the “This Fish” traceability tags have led to higher prices for harvesters. Live shippers are working with harvester groups who want to take the time to identify their highest quality lobster for tagging and a higher price for this quality of their catch.</p> <p>This Fish connects quality and 2-way traceability using numbered tags that let the harvesters know where their lobster ends up and lets the consumer/customer know where the lobster originated from.</p> <p>The key takeaway is that quality grading works to build higher prices for harvesters.</p> <p>The only wrinkle is that certain quality buyers are not able to provide services related to fuel and bait that dealers can provide. This is an area to develop.</p>	<p>Maine’s lobster industry is facing historically high supply and historically low prices. This is a clear example of the effects of supply on price.</p> <p>This is basic economics. Too many lobsters have created a glut on the market which has driven down the price that wholesalers are willing to pay.</p> <p>To help bring demand for their product back, lobstermen have stopped bringing new product to market. This is a timing issue as well as a supply issue.</p> <p>The Maine harvesters are in damage control and are being reactive.</p> <p>The proactive approach would have been to stop or reduce fishing as soon as they realized an early moult had occurred. This would have provided time for shells to harden and would have built demand levels.</p> <p>This is a strong example of the need to use information to manage supply rate and timing in order to manage quality, demand and prices.</p>

There have been several price-setting improvement initiatives over the years, with the Magdalen Islands price-formation being the oldest of the examples here. This has proven to be a successful approach within the circumstances of that fishery.

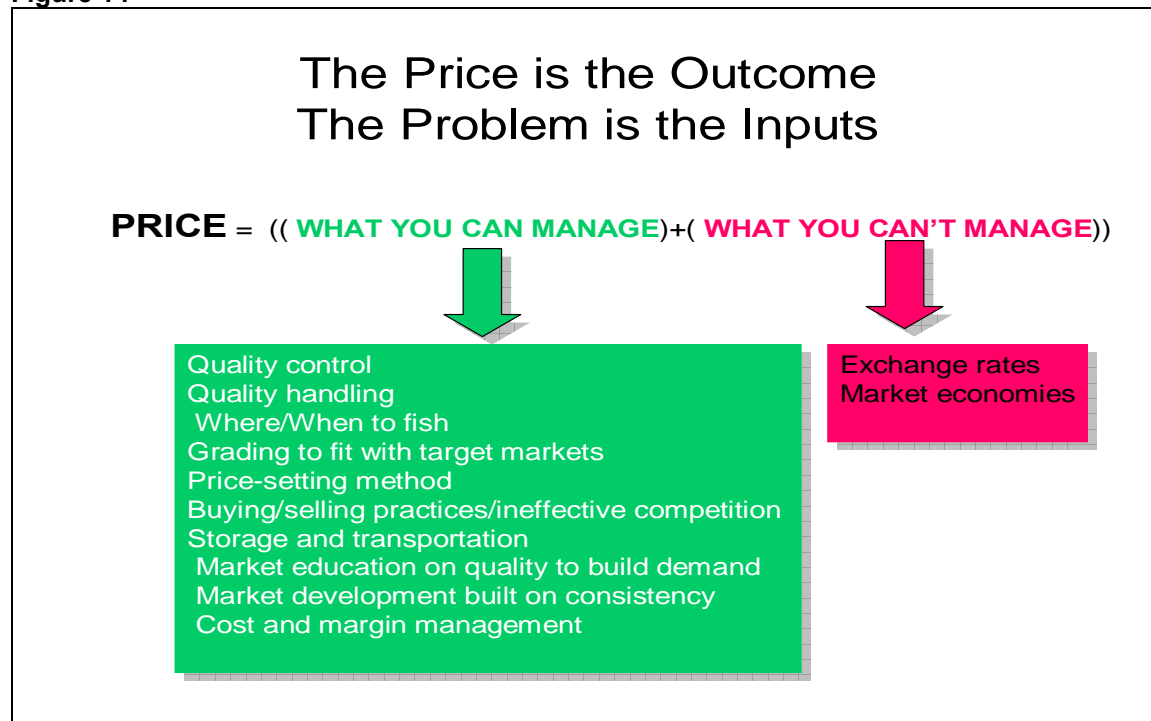
In the past year, the FFAW has also instigated a price-setting process, which is undergoing a few growing pains. While neither the Magdalens nor the FFAW are using quality as a defining force behind price, these two approaches provide valuable input to the price formation process. The ThisFish pilots have focused on using quality as a price driver, and have generated good pricing based on quality grading.

The next step is to capture the learning from these initiatives into a broader price formation strategy to build better prices.

The current Maine situation is included in Table 17 'Happening Now' to demonstrate the importance of understanding basic economics - the connection between supply and demand, and price.

A Seafood Source article reports that harvester Scott Jordan posted this message recently on the Maine Lobstermen's Association Facebook page: *"Instead of shoving our product down the throat of consumers, we need an effective trap limit that will decrease supply, increase price, decrease demand for the bait resource, increase trap yield and consequently productivity, conserve both the lobster and bait resource"*. **This shows a clear understanding that controlling the market's access to the product will help the industry control demand and pricing, as well as costs.**

Figure 14



The takeaway: Identify what needs to be in place to build higher prices. The industry must be coordinated and committed to taking control of the factors that will generate higher prices.

This requires identifying what can and can't be managed and controlled. Betting the industry's future on factors the industry can't control and manage is a high risk strategy. Depending on a favorable exchange rate and on wealthy US and EU markets is an example of a high risk strategy that failed as soon as the dollar rose and the recession started. The Canadian lobster industry needs a new strategy which offers a much greater level of control. This will require a systematic process for defining and developing a price formation method that is feasible and viable.

Table 18 – Phase 1 Price-Setting Tasks

Price-Setting : July-December 2012: Communicate with Industry to Build Understanding of the Core Issues Related to Effective Price-Setting
<p>CommuniEducation : The importance of communication for education of the whole industry</p> <p>To build commitment to change in an industry that is adverse to change, the industry must be aware of what is being done to improve and secure the future of the industry. Industry participants from all sectors (harvesters, dealers, processors, shippers) must also understand what is contributing to the current situation, what is necessary to change the situation and what their role is in change. This requires a combination of communication and education, delivered steadily and clearly, in bite- sized chunks, throughout this implementation plan.</p> <p>Key Messages include:</p> <ol style="list-style-type: none"> 1. the exchange rate was the only reason the industry made money before - exchange rates are not within the control of the industry, and a high dollar leads to the current situation - the industry needs to focus on what they can control to build good, stable prices 2. better prices are the result of creating an effective structure and managing supply. Prices will not change without structure and supply management 3. quality grades provide the reason for the market to pay more - they know what they are getting 4. consistent delivery of quality requires a structure to provide guidance and assistance 5. too high a catch means low prices - Maine is a clear example 6. all the price- setting options have pros and cons - there is no perfect solution but there are substantially better options than what's happening now 7. the price- setting methods must be voluntary but participation is central to getting better pricing 8. the market is where the price comes from so the industry needs to better understand the market 9. the industry has choices and there are consequences to each choice <p>Months 1-2: Liaise with pricing team, enlist educational specialist to assist with key point message development to an industry audience that has a wide range of ability to understand the key concepts</p> <p>Months 3-4: Develop messaging and measurement tools for evaluating response. Begin to deliver messaging to industry</p> <p>Months 5-6: Continue to deliver messaging to industry. Measure and evaluate industry response to identify lack of clarity in communicating the core points</p> <p>Action and outcome within this period :</p> <ol style="list-style-type: none"> 1. Use the communications team identified in the Brand section of this implementation plan (table 4) 2. Using videos, website, the provincial education sessions and DVDs to reach those without computer access - develop and distribute simple content for each of these core messages. Each message will focus on one specific concept <p>Also occurring within this period for consideration in price-setting development:</p> <ul style="list-style-type: none"> • Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must 'buy-in' to the message. • Decision on the critical structural factors required to support pricing • Decision on price formation methods • Quality audit • Examination of seasons and supply management • Quality sessions being conducted in Nova Scotia

This communication/education task is critical to building engagement and understanding in the industry.

- The **initial goal** will be to raise the overall level of awareness of what needs to happen to create sustainable livelihoods in the Canadian lobster industry.
- The **ultimate goal** is to raise a critical mass of commitment to action within a value chain structure.

These goals represent a substantial challenge, given:

- the range of receptivity to change,
- the ability to understand key concepts driving change,
- the degree of literacy including computer literacy

This will require each message:

- to be focused on one subject
- to be short but effective in delivering the subject idea (the Twitter approach to brevity – a specified number of written characters or a specified length of video time)
- to be summarized at the beginning and end of each message by one sentence or phrase such as:
 - coordinate to consolidate (market power)
 - touch points drive price points (what you do affects price)
 - supply up - costs up - prices down (take control- make better decisions)
 - the industry needs the market more than the market needs the industry (focus on the market)

Mass communication/education must start early in this process and continue throughout to inform the industry and build commitment. Better pricing is the result of what the industry does. Price formation mechanisms will assist in the process of price-setting, but market-oriented industry behavior lays the foundation for better pricing and credible brand claims that sends a much stronger value signal to the market.

The Key Point messages to convey:

Higher Prices = Structure + Supply Management

Better prices depend on being seen to **be different or better** than the competition, in ways that are important to the market.

1. The market needs a reason to pay a better price. Building a better price is about more than just a **quality lobster** product- it is also about the **quality services** that build the **value proposition** around Canadian lobster.
 - Services include harvesting, handling, separating, grading, processing, storing, seasoning and transporting according to stated standards for each activity that are communicated to the market as the reason to buy Canadian.
2. **Price-setting is the result**, the outcome of two key action steps:
 - **creating a structure** to coordinate and guide industry effort (disciplined cooperation and smart competition)
 - this allows credible brand claims to be made
 - **managing supply** to build demand based on quality separation (taking control using market information for guidance)

Relying on the exchange rate is a high risk strategy due to lack of control

- the industry has **no control** over the exchange rate
- the ineffectiveness of the business model used by the industry was **masked by the low dollar**
- the **high dollar unmasked** the traditional business model and made it clear that it doesn't work
- **a new business model** which supports a strong brand that is tied to something tangible and measurable, that is important to the market, is the only way to take control

Choice ladder - the industry has a choice and there is a consequence to every choice

1. **no change made**= situation stays the same and eventually stops. Harvesters have no buyers for their licenses – young people go out West
2. **'someone else's job to make changes'**= situation stays the same and eventually stops
3. **some people attempt change**= works for them for awhile but industry is still vulnerable and success is not sustainable. Their efforts are eventually undermined and the industry goes back to old, ineffective habits
4. **everyone participates in change** = repositioning the industry for a sustainable future that provides a good living and gives young people a reason to buy out licenses and stay in Atlantic Canada

Lobster is a luxury so the market must be courted

- consumers don't need it
- there are **many food alternatives** for celebration or for nutrition.
- the industry needs the market more than the market needs the industry

Think like a value chain instead of like a supply chain - call to action message

- **the value chain is about adding value at each lobster touch point**
- **touch points drive price points**
- **each person must think about what they can do to add value at the touch points**
 - **how can harvested quality be improved**
 - **how can harvested quality be maintained longer**
 - **how can supply be managed better to avoid gluts and build demand**
 - **how can front-end loading be avoided**
 - **how can costs be reduced**
 - **how can market needs be met better**
 - **what services can the industry provide to the market that can generate higher prices for the industry**
 - **how can the industry work together better and build greater market power (coordinate to consolidate)**

Table 19 – Phase 1 Price-Setting Tasks

Price-Setting : July-December 2012: Decide on Key Components for the Pricing Mechanism

Key Price Formation Mechanism Factors: The domino effect of First Prices

Currently the shore price is generated through individual negotiation. This negotiation does not reference any of the factors that influence price - supply, demand or quality. Shore price is the first point of sale (the First Price) and sets the stage for price formation along the value chain. The First Price also sets price attitude and behavior along the value chain. If the price is too high for market conditions at the first point of sale - the rest of the industry will make no money and be determined to 'low ball' prices in the next season. This generates distrust and lack of cooperation. The market will also respond negatively by not buying and substituting other proteins at retail or food service. The First Price starts a domino effect in motion that stops at the market's refusal to pay well or buy at all. This boomerangs back to the shore in the next season. The shore responds by harvesting more product to make up for low price which ensures that buyers will offer low prices, as they know the shore needs to sell. Starting with the wrong price may provide a short term win for the shore, but chips away the long term opportunity for good prices.

The first price formation task is to identify the core components that need to be included in the selected price formation mechanism(s). **Examples include but are not limited to the following as a starting point:**

- Reference price and adjustment terms / frequency and source of adjustment information/ intra-season adjustment terms
- Minimum First Price for stability and to enable planning by all parts of the value chain
- Minimum or maximum volume contracts to manage prices
- Consideration of equalization methods for lower quality LFAs if season changes can't be made
- Transparency to build trust with traceability of price along the value chain
- Trustworthy administration of price mechanism(s) to build confidence in the system
- Arbitration and dispute resolution tools
- Scalability to accommodate conditions in each region and different 'products' (e.g canners)
- Voluntary vs legislated participation
- Payment by market value vs by the pound= market orientation and market information
- Quality-stream sales timing = immediate cash flow sales of weaks to maximize price and minimize dumping loss, later sales of stronger lobster to maximize price
- Market –stream value sharing= minimum First Prices are topped up later based on market streaming to maximize prices
- Options to discourage cheap selling

Months 1-2: Examine Pricing Working Group results to ensure inclusion and consideration of this group's input. Examine other fishery pricing models in depth to how specific components are working. This should be conducted in conjunction with the decisions being made on the basis for quality-based pricing under the Quality section of this plan. Combining the two Pricing initiatives: (1) foundation for quality based pricing and (2) core components of the pricing mechanisms, ensures that the quality focus is part of the price-setting decision

Months 3-4: Test in Nova Scotia quality sessions to examine industry response to the core components of a revised price formation method

Months 5-6: Finalize core component recommendations for inclusion in Industry Information video. Engage industry by asking for their prioritization of components, to build consensus and identify expectations.

Action and outcome within this period :

- Identify the core price formation team of 5-6 people - the group tasked by the LCC with the authority to examine the selected options in greater depth and to develop pilots and business plans for the selected option(s)
- Examine the contribution of each component to the development of effective price formation and select the set of core components that will form the foundation of the price –formation method(s)
- Produce a summary debrief that explains to the industry the key components that will define the price formation mechanism and the benefits for the industry to lay the groundwork for the implementation of improved price formation. The summary will be used in the industry communications video.

Also occurring within this period for consideration in price-setting development:

- **Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must 'buy-in' to the message.**
- **Decision on the critical structural and quality factors required to support improved pricing**
- **Quality audit**
- **Examination of seasons and supply management**
- **Quality sessions being conducted in Nova Scotia**
- **Communications to industry via Internet and DVD**

A new pricing mechanism will help the Canadian industry:

- build better prices in a more organized and timely fashion,
- position Canada more strongly versus other lobster producing countries that have an effective or reasonably effective mechanism
- position the Canadian industry far ahead of countries such as the USA, who don't have an effective system

The starting point is to understand what the core components of a new price formation mechanism should be to differentiate it effectively from the current Canadian model of pricing that is occurring in an informational and organizational vacuum.

The listed core components in Table 19 reflect the more desirable aspects of the pricing mechanisms examined during the Pricing working group in April 2012.

The Pricing working group did not have the time to examine, in depth, the contributions that various components of the price formation model would have. This is the key focus of this task - to establish the foundation on which the pricing mechanism will be built. This has implications for the structure required to operationalize the pricing mechanism(s).

Team participants to consider are Roger Simon of the Magdalen Islands, Keith Sullivan of FFAW (they bring first hand experience with pricing mechanisms) and Peter Norseworthy who provided useful insight in his pre-session analysis of issues to be addressed. These insights included:

- considerations around moving product through the value chain faster to maximize cash flow and price, and to minimize the opportunity cost of mortality
- maximizing value by separating product into value streams targeted to different markets .

These people can provide valuable thinking and leadership to this process.

Table 20 – Phase 1 Price-Setting Tasks

Price-Setting : July-December 2012: Detailed Investigation of Price Formation Options

Improved Price Formation Requires a Departure from Individual Negotiation and the Current Lack of Structure and Market Focus

Price formation methods within and outside the Canadian lobster industry have been identified. The challenge is to select a price formation method that is flexible to accommodate the different geo-political regions within the Canadian lobster industry, as well as the live and processed sectors. Two options have emerged from the Pricing working group for further consideration - the auction house and collaborative contracts. Both of these require structure and incorporate both group focus and market focus.

This price investigation task is to examine in-depth the usability of these price formation models for the Canadian lobster industry:

- **Auction house** for the live and possibly the processed sector
 - identify how it needs to work, identify a champion, identify the potential for critical mass, examine the potential for investment, examine what other collateral uses exist for the auction house, identify the best areas and sector(s) for the auction house
- **Collaborative contract** - an alternative for the processed sector or for the whole industry
 - identify how it needs to work, identify a champion, identify the potential for critical mass, examine the potential for collaborative linkages and trust building/transparency, identify the best areas and sector(s) for collaborative contracts, identify range of contract opportunities

Months 1-2: Examine examples in practice of these two options for applicability and implementation in the Canadian lobster industry. Formulate a proposal that compares and contrasts the two options for presentation and discussion with industry. In addition to these 2 options, a third option may be developed that is a hybrid of the auction and collaborative contract options, or a different approach altogether.

Months 3-4: Use video presentation, on-line consultation with inbound chat and outbound questions using choice analysis research, and town hall discussion to examine response to the options. This stage is necessary for engaging the broader industry in this decision, once the pros and cons have been clearly identified

Months 5-6: Analyse the industry response to these options, identify the go-forward option(s) and develop a plan for pilot testing the resulting option(s) in the next 6 month period.

Action and outcome within this period :

1. This team should be the same as the team in Table 19 for continuity - the group tasked by the LCC with the authority to examine the selected options in greater depth and to develop pilots and business plans for the selected option(s)
2. Technical research on the options to build the arguments for presentation to industry and acceptability research with the industry to build engagement, identify any new input, measure receptivity
3. Prepare for pilot testing to provide 'real time' proof of concept. Updates on what is being done on pricing will be presented in the industry communications videos.

Also occurring within this period for consideration in price-setting development:

- Decide on the core components of the pricing mechanism and the basis for quality –based pricing
- Decision on the critical structural factors required to support pricing
- Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must 'buy-in' to the message.
- Quality audit
- Examination of seasons and supply management
- Quality sessions being conducted in Nova Scotia
- Communications to industry via Internet and DVD

The objective is to identify a market price sharing formula to link the harvesters, dealers and processors/shippers in an efficient and transparent process for creating industry – wide value. The Pricing working group reviewed a set of price formation options and identified these two options for further analysis, beyond what could be accomplished in a one day format. **See Price in the separate Plan Appendix for an overview of the**

Pros and Cons of the Auction and Contract options, as identified in the Pricing working groups.

The pricing team will be charged with examining price formation issues according to their knowledge of the industry and what is feasible for the industry. This section provides additional considerations as ‘food for thought’ to assist the team in looking ‘outside the box’ for opportunities to address industry issues.

The value of alternative, ‘outside the box’ thinking is not necessarily the adoption of the ideas as presented, but the new ideas that emerge. Frequently the discussion is, “we can’t do it that way, but we could take this part and work with it.”

Auction

How Would An Auction Work?

The shore price is determined through an open bidding process where both quantity and quality (ie, blood protein, yield) form the basis of the bid. The quality specifications are being developed under the Quality task section of this implementation plan.

Auctions are already conducted in display or electronic formats in major ports around the world. In the format presented to the Pricing working group, the auction would be electronic versus physical display to accommodate the geographic range of this industry. In this version participants can have equity in the auction house or participate in a non – equity capacity. Buyers analyze the quality data for each lot, place a silent bid and the highest bid wins. Sellers can set reserve or minimum prices to ensure receiving at least the minimum price. Transparency and objectivity are generated through anonymous simultaneous bidding to avoid collusion or sequential bidding.

The auction requirements for accurate, standardized product descriptions sets the basis for price differences which in turn motivate a focus on quality differences and quality handling . The key is to ensure that quality grading is based on what is important to the buyer to provide a reason for paying higher prices. In addition, standardized product descriptions reduce the time and need for visual inspection and increase the confidence in the integrity of the crate lot. This addresses a current problem where retailers and food service buyers assume the crates contain mixed qualities, which causes buyers to average down their prices.

The auction also serves as a feedback loop where information about market valuations is generated daily as prices vary according to quality available, as well as supply available, and how the Canadian product compares in quality and quantity to other lobster product availability and to economic conditions in the market. This provides updated information that enables the value chain to put pricing into competitive context and to understand the roles of quality, supply and competitive products. Currently that understanding is absent and generates unrealistic expectations for pricing that drive the individual negotiations that are the present pricing process.

Research indicates that auctions return higher prices than direct sales and certain types of auctions return higher prices than other auction types.

There are 2 basic types of auctions:

- Dutch auction is a declining price auction where the bidder bids as low as they dare to win the lot. These run faster than the English auctions as buyers have less time to think = this puts pressure on the buyers resulting in higher prices
- English auction is an increasing price auction where the highest bid takes the lot

It appears that the Dutch auction of declining bids returns the best prices. The relative advantages of Dutch and English auctions will be part of the examination of the auction option.

Choice bids are part of some auctions where the successful bidder can choose the number of lots (of the same specification) they want to buy at the winning price. Remaining lots are then sold for the bid price to other bidders or they go back on the auction for a lower price.

Examples that offer information and learning include the Pan European network of Fish Auctions (PEFA)¹. This was created to link fish auctions across Europe. Pefa.com was the first Internet-based market exchange for the remote trading of fresh fish in real time. PEFA's strategy was primarily based on matching northern European supplies of fresh fish with the large demand for fish in southern Europe. In addition, with access to fish supplies, both large and small, in the most remote parts of northern, western, and southern Europe, buyers throughout the region would have a much broader pallet of fish products from which to choose. The major challenge in implementation lay not in the refinement of the PEFA business model but in making it work. The liquidity and viability of the exchange depends not only on providing the opportunity of trading online but also on implementing those supply chain management processes essential to ensure the quality and the on-time, in-full delivery of the fish purchased. This underlines the importance of coordinating the value chain.

What else can the auction be used for to increase its usability?

Additional considerations for the auction analysis include identifying other uses for the auction that expand the usefulness of the auction infrastructure. These might include other species, as well as fuel and bait auctions where dealers are the sellers and groups of harvesters are the buyers.

Another option for expanding the use of the auction is seasonal quota auctions (SQAs), which might be an effective tool for supply management. **SQAs are presented here as a consideration not a recommendation.**

The current Maine experience clearly demonstrates the downward effect on prices of oversupply and poor quality. The Canadian industry has also experienced the effects of oversupply as well as quality issues at certain times. Supply management is needed to maximize market values by fitting product supply to demand (market driven sales) instead of hoping that demand will fit the catch volumes (catch driven sales).

The current approach in Maine and Canada is to catch as much product as quickly as possible which floods the market and causes prices to drop. However no one wants to

¹ Pan-European Fish Auctions- Implementing A Virtual Marketplace, Collins and Bechler

stop fishing in the fear that others will continue to fish and they will lose out. This occurs in a situation where there are no supply-oriented controls other than trap limits. There has been talk in the industry that quotas might help manage the oversupply that dampens prices. Currently ITQs are the expected form of quota system but this is not a popular option for harvesters. If there were an opportunity to find a better alternative to traditional quota systems, this means that the industry would have more control of the quota process. SQAs or Seasonal Quota Auctions might be a better alternative ².

Seasonal quota units (SQUs) are assets that can be traded through a seasonal quota auction (SQA). Such quota units may be for a limited time period and subject to catch considerations according to supply management objectives. To avoid concentration of quota units in the hands of larger, wealthier operators, the quota purchases can be made with a down payment at the time of auction and then credit provided for payment of the SQUs until after the lobster is caught. This ensures that smaller harvesters have the same chances at achieving the quota levels they want. It is important for the future of the industry that younger harvesters can participate.

Seasonal Quota Auctions differ from ITQs (Individual Transferable Quotas) because permanent quota ownership is not transferred, but harvesters have the right to lease a natural resource on a temporary basis. SQAs offer a management solution to improve market orientation and cost efficiency without first privatizing the lobster resources in a few hands as in the ITQ system. Quota auctions can be combined with lobster auctions where the harvester is both a buyer (of quota) and a seller (of lobster) . This provides the buy/sell experience for harvesters, that processors and live shippers already have. Processors and shippers are both buyers (of lobster from harvesters) and sellers (of lobster to the market). The experience of buying and selling all along the value chain expands the focus of all sectors to using market information to improve transactional value.

Despite industry sensitivity to this subject, SQAs are mentioned here for consideration as a possible option for supply management, since no option should be rejected without first understanding the pros and cons,. Further examination as to its value in the Canadian lobster industry could be undertaken if it is deemed of interest.

Can the auction work for processors?

There was a concern during the working groups that the auction could not work for processors due to volumes and the resulting need for speed of processing activity. This concern is based on the current situation of front end loaded oversupply. If oversupply can be addressed (it is being examined under the Quality tasks for this implementation plan), the auction may be a viable option for processors as well. The auction is based on quality grades and processors are looking for a range of qualities depending on the formats they are processing.

One consideration may be that processors and live shippers will each use different forms of the auction- english (increasing price) or dutch (declining price) . This can be examined for applicability to both sectors.

² Fisheries Management and Market Oriented Value Adding, Trondsen

Contract /Collaboration

In this option, groups of harvesters contract to supply all lobster at an agreed opening price, with the shore price of any lobster held for subsequent sale subject to adjustment based on shifts in market prices.

This option was ranked the highest after the voluntary auction house and the legislated Magdalens and FFAW models. Contract/collaboration is a strategic cooperative agreement between sectors, to establish a stable price and a stable supply.

This could be used for both live and processed lobster, but may be specifically of interest to processors if it is determined that the auction won't work for processors.

How Could Contract/Collaboration Work?

The FFAW and Magdalens models identify a weekly minimum price based on an external reference price such as Urner Barry or previous actual prices in the region (average of the top 3 best prices of the week before) with supplemental pricing based on a percentage of the incremental price achieved at market.

While the key concern with these models is the legislated aspect, the analytical benefit of the FFAW and Magdalen models is the opportunity to examine what works and identify ways to improve on what doesn't work.

A voluntary model was identified as preferential to a legislated model, but harvesters were not interested in the burden of negotiating contracts, and the issues of trust and transparency were also identified. This might be addressed by building a Trust bridge between harvesters and shippers/processors. The processors and shippers would pay a pre-determined lump-sum amount to the harvesters at the start of the season 'in trust', in return for secure supply and an agreed minimum shore price plus a predetermined percentage or price/pound of the final market price that will be returned to the harvesters to supplement their minimum price. However if the market is poor, a take-back option may also be necessary if fishing continues when demand is low. This provision ensures that all sectors in the value chain are acting on market information, as they make their daily decisions. This is being market driven versus supply/catch driven. Recent events in Canada and Maine have shown the dangers of being supply oriented /catch driven.

Once the processors/shippers have sold their product to the market, the 'give-back or take back' amount is determined to enable all to share in the market price or market loss. The original Trust dollars are deducted from the 'give back' to the harvesters in a good market price situation or added to the processors/shippers 'take back', if they have a loss due to poor demand. This will occur if the industry is not acting on market information.

The give-back/take-back amount is determined through independent audit of the shippers/processors (as they have stated they do not want to open their "books" to the industry, which is reasonable for any business). Independent audit and verification enables total give-back or take-back to be calculated per processor/shipper without identifying private financial information.

For processors, the audit must address yield and source. For example, live lobster purchased at \$5.00 a pound with 25% yield is a \$ 20.00 cost per pound of meat to the processor whereas at a 33% yield, is \$15.00 per pound. Thus if a pound of meat is sold by the processor for \$22.00 per pound, the margin (ignoring other costs for the moment) is \$2.00 for the 25% yield lobster and \$7.00 for the 33% yield lobster. Thus the audit must confirm the yield and the source of the lobster to enable specific give-back allocations.

This is a shared value collaboration model that could be considered for processors, or processors and shippers, where the key components are:

- **pre-season:** good will trust payments paid upfront as a forward payment by processors /shippers
- **season:** the forward payment guarantees a minimum price agreement and assured supply by harvesters during the season
 - a quality focus has been a dominant requirement for a price setting formula to enable tiered pricing based on quality grading. This would contribute to setting the minimum prices and/or the give-back amounts
- **post-sale or post-season:** a sharing formula based on market price that links both harvesters and processors to market price realities

Table 21 – Phase 1 Price-Setting Tasks

Price-Setting : July-December 2012: Decide on Critical Structural Factors to Support Pricing

Q. Why does structure matter? A. To support a bigger value pool.

Building structure to address the fragmentation in the industry requires an alignment of the sectors in the Canadian industry to make the shift from supply chain thinking to value chain thinking. Value chain thinking is about adding value across the whole industry instead of trading off or subtracting value between one sector and another sector. Trading off value is a win/lose approach that is subtractive and makes the value pool smaller over time. The win/win approach is additive and works to make the value pool larger so that everyone wins. The goal is a quality-based, market focused, value chain structure that provides the credibility for defining a Canadian lobster brand. This enables the Canadian brand to say that Canadian lobster offers reliable quality for a full range of price points and usages. It is the foundation necessary for building better prices and a market for all qualities. It is the foundation for building a bigger value pool, where all sectors focus on how they can add value in order to support stronger market prices.

Q. What does structure look like? A. Structure can be clusters of teams composed of different sectors that are collaborating together against external competition from other proteins and other lobster –producing countries.

Building a cluster structure requires the following tasks:

- establishing the competition that the clusters will target = provision of an external focus for the clusters
 1. current value leak audit = identify where dollars are leaking out at each point in the value chain to establish revenue lost and costs that could be managed differently. This enables regional differences to be accounted for
 2. care points and touch points audit that identify the opportunities to build value with current or different actions = identifies where dollars are being made or could be made
- use these two analyses to identify the specific contributions to value that can be made at each point in the value chain
- examine the cluster program training offered in Linz, Austria (Cluster Academy) for specific focus on use in the lobster industry

Months 1-2: The focus is on building the facts to demonstrate the value gap between current practices and the potential for building greater value by working collectively. This is to ensure that the industry understands (1) where value is lost/subtracted, (2) where/how value can be built/added, (3) their role in building/adding value

Months 3-4: Examine the industry cluster concept identified by Michael Porter and the training available in this area.

Months 5-6: Finalize the value chain cluster recommendation for inclusion in Industry Information videos. Engage industry by asking for their comments on how they see value being built/added at various points in the industry.

Action and outcome within this period :

1. Identify the core structure team of 3-4 people - the group tasked by the LCC with the authority to examine structural design and development for managing the transition to a value chain within the industry
2. Examine the value profile of each sector to build the argument for change by sector to achieve the transition from a fragmented supply chain to a clustered, coordinated value chain
3. Produce a structural development roadmap that explains to the industry the key changes required in how the industry currently operates and how this contributes to building the value pool for the industry. This will include the benefits of change for the industry. The summary will be used in the industry communications videos.

Also occurring within this period for consideration in price-setting development:

- Decide on the core components of the pricing mechanism and the basis for quality –based pricing
- Decisions on the basis for the branding message that will capture what the Canadian lobster industry stands for and how this is relevant to the market who must ‘buy-in’ to the message.
- Quality audit
- Examination of seasons and supply management
- Quality sessions being conducted in Nova Scotia
- Communications to industry via Internet and DVD

The **core structure team** could be the same team as the price formation team, but given the workload, would ideally be a separate team with crossover representation on the price formation team. This team will require open-minded and informed representation from each of the sectors as well as a team –building specialist. A cluster specialist could also be considered. The cluster academy in Austria has emerged as a training centre based on their experience as a competence centre for cooperation among business networks. Upper Austria has been working with cluster structures since the last 1990s. Cluster structures have been built in eight Austrian industries including food production.

This structural task has 3 key parts aimed at moving industry from low marketability to high marketability :

1. **identifying the competitive target** as the ground zero starting point, to focus the industry on the real competition (smart competition)
2. **explaining the value chain** to demonstrate and build the argument for changing how the lobster business should work (market- focused, value -adds that return value to the industry)
3. **presenting the cluster concept** to redefine the playing field by providing a roadmap for industry structure to overcome the current fragmentation that makes the industry weak (disciplined cooperation)

The **competitive target plan** is to highlight an external target for the value chain clusters to focus on. Competition currently occurs within the industry. This delivers cheap selling, distrust and lack cooperation within and between sectors. This competitive focus must be reframed and redirected to external competition which includes other lobster producing countries and other proteins within and outside the seafood industry. This is the **ground zero starting gate** for transitioning the industry's thinking.

The **value chain** has been discussed in the introduction to the price-setting section. This is a key part of structural change. This set of tasks is focused on examining the supply chain-value chain gaps in depth to **build the argument for changing how business works** in the current industry environment. The key is to be able to provide industry sectors with a very clear picture of what they need to do differently and how they should organize to do it.

Harvesters could contribute with:

1. glut reduction to remove front –ended loading and pressure from processors.
This means that processors have the time to process a better quality of product for a better price
 - a. glut reduction is about supply rate management by harvesters, which reduces supply, increases demand, increases prices and enables quality handling to occur throughout the value chain
2. improved, uniform handling practices ensure that harvested quality is maintained and value is not lost via damage or dumping
3. product separation for immediate and later sales generates cash flow from weaker lobster that can be processed immediately as well as higher prices generated by uniform quality on live sales that may be sold later
4. split compensation means a minimum price at the shore and a market shared price once the sale has been made by streaming the right product to the right market. Harvesters will make less on some product and more on other product

Processors and live shippers could contribute with:

1. quality handling commitments (these are already in place for most processors ,although those that are not third party certified are likely able to improve quality handling)
2. holding and transportation for live shippers must be uniform to support the quality grades they buy, so that Canadian quality grading is not compromised by different shipping and storing standards
3. processors and live shippers agree to pay different prices for different qualities
4. if processors and/or live shippers pay the harvesters a minimum price for product on the understanding that market gains will be shared with the harvesters, the live shippers and processors will need to be independently rated as to their transparency and reliability in sharing at the agreed upon rate. This independent rating would not identify specific financial information per company. The rating would only reference their compliance with the market price sharing formula. For example, an A rating = the company fully complied, a B rating= partial compliance and a C rating = non-compliance. This provides incentive to processors and shippers to treat harvesters as promised and provides information to harvesters as to what processor and shipper companies they can rely on.

The cluster concept is the structural format that *redefines the playing field*

Cluster structures are used to build a common vision, improve productivity, and serve as an organizational format for economic development based on building effective linkages between industry operators.³ Clusters include the following characteristics:

- Shared understanding of competitiveness and the role of clusters in building competitive advantage
- Focus on removing obstacles and easing constraints to cluster development
- Structure embraces all clusters in a province, region or industry
- Defines appropriate cluster boundaries
- Wide participation of cluster participants and associated institutions
- Private sector leadership
- Close attention to personal relationships
- Bias toward action
- Institutionalization= formalizing how business is done with common standards and operating protocols

A cluster structure provides three important tools to improve marketability:

- Analytical tool⁴
 - to better understand the economy, economic dynamics of supply and demand, and use resources strategically
- Organizational tool
 - to engage industry leaders in a regional strategy and to build communication, networking and improvement among the companies within clusters and across clusters

³ Michael Porter

⁴ The Power of Industry Clusters , based on Michael Porter's framework

- to build effective linkages among private, public and any non-profit stakeholders for long-term sustainable development
- Service delivery tool
 - to organize value chain efforts
 - to coordinate export trade development

Functional benefits of clusters include but are not limited to:

- cost savings via joint buying of items such as fuel, bait etc
- joint transportation/logistics/storage
- efficiency enhancements via shared solutions for maintenance, cleaning , technology= shared information to raise the efficiency and competency bar
- greater market power
- greater transparency within and between sectors
- shared value across the value chain

Clusters, Convergence and Economic Performance- Michael Porter

“There is significant evidence for cluster-driven agglomeration. Industries participating in a strong cluster register higher employment growth as well as higher growth of wages, number of establishments, and patenting. Industry and cluster level growth also increases with the strength of related clusters in the region and with the strength of similar clusters in adjacent regions. Importantly, we find evidence that new industries emerge where there is a strong cluster environment. Our analysis also suggests that the presence of strong clusters in a region enhances growth opportunities in other industries and clusters. Overall, these findings highlight the important role of cluster-based agglomeration in regional economic performance.”

“A nation can be prosperous and productive in virtually any field. What matters is how a nation competes, not what industry it competes in...we must stop thinking that traditional industries are bad and that the nation must move into high tech”.(Harvard Professor Michael Porter)

<http://www.republicofmining.com/2011/02/14/michael-porter-and-industrial-clusters/>

Table 22 – Phase 2 Price-Setting Tasks

Price-Setting : January- June 2013: Pilot Tests for Proof of Concept and Development of Business Case for Industry Response
<p>The specifics of this phase depend on the outcomes of the investigation in Table 20. Following this, a pilot test should be developed, to support a business case, which will then form the basis of a business plan for the chosen method(s)- auction, contract/collaboration or a third method.</p> <p>Key Tasks include:</p> <ul style="list-style-type: none"> • identifying areas and individuals that will participate in a pilot test for a specified period of time (one season) and according to a designated set of conditions • identifying the resources required for the pilot tests (i.e budget, software, personnel, time and skills) • organizing and monitoring the pilot(s) • summarizing the results into a business case for presentation to industry as proof of concept • developing a business plan for launching the price formation mechanism(s) <p>Months 1-4: Conduct pilot(s), monitor and develop business case to identify strengths, issues, tweaks and recommendations for business plan.</p> <p>Month 5: Post business case for industry information and feedback to gauge receptivity</p> <p>Month 6: Using the business case and industry feedback, develop a business plan for launch that includes a target level of critical mass required for the test launch of one year. The test launch provides further opportunity for tweaking under a testing environment that buys time to make adjustments as part of the development process.</p>
<p>Action and outcome within this period:</p> <ul style="list-style-type: none"> • The price formation team will continue their work in this phase to (1) build proof of concept, (2) to present proof of concept to the industry and (3) develop the business plan for launching an industry price formation method
<p>Also occurring within this period for consideration in price-setting development:</p> <ul style="list-style-type: none"> • Develop quality protocols and standards throughout the value chain to form the basis for making brand claims and the basis for price differentiation • Develop brand icon and language to represent the Canadian brand

This set of tasks brings the analysis of the first 6 month phase together for use in the set-up of a pricing pilot test . It may be that the phase 1 analysis stage takes longer than 6 months, but the focus is preparation for this phase 2 period:

- to build the background necessary to present information to the industry as to why a specific pricing direction has been chosen
- to communicate and engage the industry throughout the process so they are informed and expecting incremental updates versus only hearing what has been decided at the end of the phase 1 period.
- to demonstrate how the pricing option could work with a controlled pilot test
 - the pilot could be considered like a LAN- local area network of harvesters, processors and shippers working together in a cluster
 - the WAN- wide area network would take place in Phase 3 to test further on a broader scale and for a longer period

This Phase 2 period is about taking action and testing for proof to build a case for the industry to move forward with a larger scale test. Price –setting is a sensitive area and while better prices will be built because of quality standards ,separation and streaming, the actual price formation process will need to clearly demonstrate its superiority over the present price-setting process of individual negotiation and lack of market focus.

Table 23 – Phase 3 Price-Setting Tasks

Price-Setting : July- December 2013: Launch Price Formation Mechanism(s)
<p>This launch coincides with the Canadian quality brand launch and the Managed Quality/ Food Trust seal of quality launch , as all 3 initiatives (price-setting, quality and brand) support and reinforce one another. As with the quality system launch, the price formation launch requires:</p> <ul style="list-style-type: none"> • building partnership/clusters within the supply chain to move towards an integrated value chain • convincing industry in all sectors to participate- active recruitment to participate in a full year annual trial <p>Months 1-2: Orientation sessions and price formation presentations, Recruitment of industry participants Month 3: Lobster Academy for Industry: price- formation as well as quality protocols and training, brand standards, lobster “finance” training to build understanding of pricing and supply dynamics, the concept of value addition using a value chain structure, how clusters work Months 4+: Monitored one year test period to ensure price- formation protocols are being followed by those industry people voluntarily participating in the new price formation process. Evaluation and modifications as needed</p>
<p>Action and outcome within this period :</p> <ul style="list-style-type: none"> • recruiting and bringing competitors around the table as partners • presenting new approaches to managing supply and price via a Lobster Academy for Industry • implementing new approaches in a test period
<p>Also occurring within this period for consideration in price-setting development:</p> <ul style="list-style-type: none"> • set up of Managed Quality/Food Trust /seal of quality system • launch Canadian lobster quality brand

While the Quality, Brand and Price pillars all have separate tasks related to analysis in Phase 1, and action and development –related tasks in Phase 2, Phase 3 is where all 3 pillars converge to work together. The reasoning and results identified through analysis and testing will provide the background as to why specific changes are being recommended and allow industry to have input at numerous points along the way to build engagement and commitment. The final phase moves beyond industry communication to focused education, recruitment and industry participation over at least a one year period.

The industry will need to see how it all fits together and the Lobster Academy for Industry will be an important tool for this. The Lobster Academy can include a range of educational delivery tools including fixed classroom, traveling classroom, on-line/distance education or DVD, and print.

Identifying the right changes and convincing the industry to adopt them is a complex challenge, that requires finding and delivering the answers to counter many objections to change. In the past few years there have been attempts by different groups to improve the industry’s fortunes. This demonstrates that there is interest in change but little has changed due to lack of coordination of the various efforts. That is why this plan is broken down into smaller tasks within the Brand, Quality and Price-setting areas to define:

- what is known and what is unknown
- what is working and what is not working, what is working elsewhere
- what degree of change is needed
- what change looks like
- how change can be implemented
- who needs to do what

How To Begin the Process of Executing on the Plan

The First Step is To Recognize These Truths

Fundamental Truths

- The industry depends on the market for a payday but the market has many other options for proteins
- Lobster is a specialty product for the consumer - **they don't NEED to buy it.**
- **The industry needs the market, more than the market needs the industry.**

Inconvenient Truths

- There is **no silver bullet**
- There is **no quick fix**
- **Things will not improve if nothing changes**
- It's **okay to be afraid to change** and want proof of concept, as long as people realize they **can't have a guaranteed return**
- The industry **needs to work together** – your future is limited without one another

1. Decide on the level of effort

The steering committee for the Plan must decide on the level of effort they want to champion. The truths above underline the complexity of the challenge before the Canadian lobster industry. The level of effort ranges from:

- **low:** making no significant industry reforms, much like a 'band-aid on a broken leg' (branding claims without a consistent delivery mechanism and quality claims without quality standards, price-setting efforts without a supporting structure)
- **high:** building the foundation for a consistent and credible position in the global lobster market and a sustainable living for the Canadian lobster industry.

This plan is on the high side of the effort scale with a focus on consistency, credibility and sustainability for the long term. A big challenge requires a big effort.

However, a **midpoint effort** would be the selection of a core task from each of the 3 pillars (brand, quality and price-setting). It is important to work with all three pillars as focusing on one without the others will undermine the long term stability, consistency and sustainability that the three pillars can provide when they are operating 'in synch' with one another.

2. Set up task teams for each Price, Brand, Quality task section

- Choose group participants for their skills in the required areas
- Give them the authority to make decisions
- LCC to monitor group activity via monthly progress reports and provide support as needed
- Evaluate progress at the end of each phase to 'graduate' to the next phase or to extend the time required for completion of the tasks

It is recommended that 3 core teams be struck (Brand, Price-setting, Quality) and divided into the task groups identified in the Plan or decided upon as a reduced level of effort. Certain tasks will overlap and can use the same personnel. Other tasks will require the addition of special advice accessed as needed.

Detailed guidance for each task team is available in the Plan (page numbers shown in the Plan summary) and in supporting documents generated by the Working Group Sessions (Plan Appendix, a separate document).

3. Communicate regularly with the lobster sector to build awareness, engagement, cooperation and buy-in. The Plan will not be successful without industry participation

This communication/education task is critical to building engagement and understanding in the industry.

- The **initial goal** will be to raise the overall level of awareness of what needs to happen to create sustainable livelihoods in the Canadian lobster industry.
- The **ultimate goal** is to raise a critical mass of commitment to action within a value chain structure. Better pricing is the result of what the industry actually *does*. Price formation mechanisms will help the process, but market-oriented industry behavior will lay the foundation for better pricing and credible brand claims to send a much stronger value signal to the market.
- Use a conversational discussion style for placing on YouTube, LCC website
 - Communication to industry on existing actions to demonstrate momentum
 - Communication should be frequent and each one focused on one key message. **Key messages for industry are identified in the Plan**
 - Present the task plans to show the direction of effort
 - Report to industry during task plan periods to highlight progress
- Provide industry with website-based chat options to encourage comments and to provide access to FAQs
 - Analyse response to gauge industry receptivity and issues
- Use print or DVDs to provide communications summaries to those who don't use computers

Use footage from existing materials as permitted (e.g. Stewards of the Sea, Canadian Council of Fish Harvesters)