

## **FROM PRODUCERS SALES ORGANISATIONS TO GLOBAL MARKETING CONGLOMERATES; HOW THE ICELANDIC SEAFOOD EXPORTING COMPANIES CHANGED**

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### **ABSTRACT**

For decades, three producers-organisations, Icelandic Freezing Plants, Iceland Seafood and Union of Fish Producers (SIF) took care of export and marketing activities of ground fish products from Iceland. These organisations had a virtual monopoly through export licences in exporting frozen and salted seafood product till late 1980' and early 1990'. The monopoly, granted by the authorities was upheld. In the wake of the widespread deregulation, marketisation of companies (especially in the fishing sector) and privatisation in the 1990' where changed to be limited liability companies. Through M&A the outcome resulted in two powerful production and marketing companies who where subsequently floated on the Icelandic Stock Market (through IPO) in the late 1990'. The objective of this paper is to analyse, document and describe the changes in these organisations from being non-profit producers-organisations to being publicly listed global corporations competing on the domestic and foreign markets. Analysing these changes it will be the purpose of this paper and to find out what have been the driving forces behind the strategic, structural and organisational changes since 1985: 1) Analysing the business environment and changes therein, using well proven analytical tools like the PESTEL analysis. 2) Horizontal impacts on other seafood suppliers and impacts on competition and sourcing are considered 3) The value adding through product development, global sourcing and marketing 4) Strategic shifting of activities towards the upper end of the value chain 5) Forces of change in global, international, domestic and company specific context. 6) The strategy mix will be analysed. The conclusion includes an assessment of the outcome of the changes and how the two food-processing and marketing companies have performed in recent years.

**Keywords:** Icelandic fish industry, Seafood, Strategy, Globalisation and Organisational structure

### **ALFECA GROUP**

The history of Alfesca group can be traced back to 1932 when the Union of Icelandic Fish Producers (SIF) was established after the merger of three of the five salt fish merchants in Iceland. The merger was implemented after much pressure from the commercial banks and government. In addition to this, producers and ship owners in Iceland supported the establishment of SIF. The main objectives were to improve the development and performance of the export of salted fish from Iceland and minimise internal competition in the market.

#### **1932 – 1957 Establishment and Entrepreneurship**

SIF was established as a non-profit, co-operative company whose main aim was to sell its members' products for as high a price as possible and to increase quality of production (Valdimarsson & Bjarnason, 1997). This meant that SIF was supposed to make profit but to return it to members after operational and other costs and investments had been paid for. The aim of the company was thus not to build up assets but to retain sufficient commission. Then, at the end of each year, the amount left after the operational cost had been paid was given back the members in proportion to their export through SIF.

#### **1957 – 1990 Monopoly**

The period 1957 - 59 was in many ways an important turning point in the history of SIF due to increasing dissatisfaction of the members with its operation. There were mainly three issues, which dissatisfied the members. Firstly, the sales organisation in many ways appeared to have stagnated; secondly, the members found that SIF did not pay as much attention to matters of its members' common interest as it should have done; thirdly, the members were of the opinion that they had very little to say in the governance of SIF as they found the board too remote from the members and their needs. During the period 1957 - 1990, the operation of SIF increased very fast mainly due to increased service to members as well as the broadening of its role to satisfy there members and fulfil there needs better.

### **1990 – 1993 Increased competition**

During the period before 1990, SIF almost had a monopoly on the export of salted fish from Iceland due to limits in the number of export licences granted by the Ministry of Fishery and later the Foreign Ministry. However, this time, other companies got a limited licence to export salted fish from Iceland, but usually in very little quantity or by rather strict conditions.

In 1990, SIF clearly changed its strategy when it bought a French company, Nord Morue, that operated a secondary processing and selling of fish products. The main emphasis of this company was on producing consumer packed products of salted and smoked fish. With this SIF was aiming to avoid high import taxes on fish products in the EU, get a broader knowledge of the production of different fish products, gain important business connections and be more flexible in order to respond more quickly to the increasingly fast rate of change of the food market. In many ways this can be seen as a continuity of its experiment with the packing centre in Reykjavík, but there was a clear change in strategy because SIF had not been involved in direct processing before. The involvement of SIF in secondary processing in France meant that SIF was going deeper into the supply chain by increasingly selling products to supermarkets instead of rather traditional salt fish markets in Mediterranean countries. Hence, the market for SIF was changing from small shops and distribution companies for salted fish to direct selling to supermarkets where reliability and long-term relationship is often one of the main issues (Cook,1999;Fearne and Dedman,2000;Wysocky,2000). Following the operation of the Nord Morue, SIF's strategy in sales organisations started to change. Before 1990 almost all of SIF's sales were commission sale of its members' products, but after 1990 SIF increasingly bought the fish from producers instead for further sale for commission.

Before 1990, SIF depended completely on the Icelandic producers for fish to sell, and the producers also depended on SIF for selling their products. With the acquisition of the company in France, SIF started to become more independent from its members because the secondary plant bought raw material from more than just Icelandic producers. Another aspect of the strategy changes during 1990 was that members started serious discussions about changing the form of the organisation, realising that the organisation was not very fit for free market competition, mainly due to its legal frame and duties with its members. These duties concerned information sharing, equality of members of SIF, having to act as an interest group and other services with the members that were not compatible with a free market competition.

On a members' meeting on 26th of January 1993 agreed that it was necessary to change the ownership of SIF into a limited liability form, to increase the flexibility of SIF as a company. In order to achieve this, SIF was abolished and a new company, SIF Ltd., was established in February 1993. The allocation of shares in the company was in proportion of the members' ownership in the reserved fund, and present or former producers owned almost all of the shares.

### **1993 – 1998 Limited liability company**

SIF Ltd. took over equity and operation of SIF in October 1993 when the accounts of the old SIF had been settled. After the establishment of SIF Ltd. around 700 shareholders owned the new company, most of who were present or former fish producers. The biggest owner had a 4.71% share so the ownership was well distributed and no one had obvious power to dominate the company. In March 1997, SIF was registered at the Icelandic Stock Exchange (ISEX) market, meaning that its shares were on the free open market, and that SIF had to give information on a regular basis concerning its operation and profitability according to the rules of ICEX (SIF, 1998). Although this change did not formally change the day to day operation of SIF, it is evident that when SIF was changed into a limited liability form and having a new general manager, the strategy of the company changed dramatically. The main changes that followed were that SIF had much more independence from the producers in Iceland and did not only act as a sales organisation for the Icelandic processing companies. Instead SIF started, for example, to buy and sell salt fish from foreign producers, beginning in Norway. This move led to the establishment of a subsidiary in Norway, SIF Union a.s., in 1995, which was later changed into Mar-Nor a.s., to take care of selling products from Norwegian companies. SIF also started to buy the fish from the producers instead of selling it for a commission, which meant that producers got paid earlier, but at the same time meant that there was often the opportunity for SIF to buy fish when the price was low and keep it until the price went up before selling it again (Morgunblaðið,1995). The expansion of SIF boomed in 1997, starting in March when SIF bought the Hvítanes, a cargo ship which previously had taken care of about 80% of the transport for SIF from Iceland and Norway to France and Mediterranean countries (Morgunblaðið,1997a). In May, SIF bought a 50% share in a Norwegian processing company to strengthen its position on the Norwegian market. Then in September 1997, SIF bought two Canadian companies in Nova Scotia: Sana Souci Seafood Ltd., which operated fish processing, secondary processing, distribution and marketing of salt fish mainly in North and South-America; and Tara Nova Ltd., which is primary a processing company (Morgunblaðið,1997b). This meant that SIF bought access to the fish market in (mostly North)

America, where it had not been strong before. The final move of SIF in this foreign investment was in November 1997 when along with its Norwegian partners, it bought another primary processing company in Norway. After these changes, it is estimated that SIF and subsidiaries controlled around 16% of the total salt fish sale in the world, making SIF the biggest single seller of salted fish in the world (Morgunblaðið,1997b).

### **1999 – 2004 M&A and expansion**

In 1999 came another boom in the external growth of SIF. In the beginning of the year (or from 1<sup>st</sup> of December, 1998) Íslandssíld hf., formally Icelandic Herring Board, merged with SIF (Morgunblaðið,1998). Then in the autumn 1999, Icelandic Seafood and SIF merged under the name of SIF (Morgunblaðið,1999). In this way, SIF defined its role as an “*international marketing and production company in chilled fish production*” (SIF,2005). After the merge with Icelandic Seafood, SIF handles frozen fish products as well, so theoretically speaking it covers almost all forms of fish product exported from Iceland. Íslandssíld hf. was mainly in the business of marketing salted herring, which is not very different from SIF’s business. Additionally, most of the biggest producers of salted herring are also big producers of salted cod and were already in business with SIF. Hence the merger with Íslandssíld hf. did not signify a strategic change in SIF’s operation. On the other hand the merger with Icelandic Seafood was different because their producers were in many cases larger and the value adding in their products more than in salt fish production. This was sure to create pressure on SIF’s strategy and on its relationship with producers. Before the merger with Icelandic Seafood, in June 1999, SIF changed its structure to improve efficiency. SIF Iceland was then established to take over the operation in Iceland and connection with producers in the same way as the old SIF had done. The SIF Mother Company was established to head all its subsidiaries in Iceland and abroad.

In late 1990s SIF bought France seafood producers (Delpierre s.a.) which specialised in value added seafood products. A major breakthrough was in 2003 when SIF acquired Lyons Seafood in the UK, a leading company in value-added shellfish. A real turning point was then a year later with the acquisition of Labeyrie SAS in France with associated companies like Blini SAS and Farne Salmon and Trout Ltd. in the UK.

### **2004-2006 Transformation and re-structuring**

The acquisition of Lyon Seafood in UK and Labeyrie in France is clear strategic step towards more focus on food production in Europe where more emphasis was put on to moving the company towards quality value-added, branded upmarket food products. Further more to move the operations away from frozen and salted primary processed seafood products and accordingly as a first step to separate its manufacturing from trading activities. This was finalised by divestment of the trading operations of fish products from Iceland in early 2005. The trading part of the company, Iceland Seafood International (ISI) was then sold in 2005 to a group of managers of that part of SIF. Another strategic step was taken in 2004 when Iceland Seafood Corporation in USA which is specialised in breaded and battered frozen fish products was sold to Sjøvik (this company later merged with Icelandic Group in 2005). The announced strategy focus is to strengthen the value added production business and to become a leading force in premium chilled seafood and festive food products. More closely the announced focus is on:

- Value added food products in Europe (UK, France and Spain), in markets that offers strong growth prospects
- To create operating synergies across the entities of the Group and across the Groups products
- To build up profitable business and strong management
- To focus on existing strong brand names
- Resisting the power of retailers’ own brands
- Only to sell under private labels where that is necessary or preferable as in the UK market
- Increase the potential for seizing market share from weaker competitors
- Value uplift through premium brands, to move up the value chain to higher prices and better operating margins
- To use the potential for higher margin in value added products and ready made meals
- Revitalising unprofitable entities of the Group through operating cost synergies, turnaround strategy and market synergy using/creating already strong brands
- Further internal and external growth

With the strategically important M&A and divestments since 2003 the organisation has been transformed from being a seafood trader with limited range and capacity in production and relatively low degree of value adding to be a high value added producer, both in high quality seafood but increasingly in upmarket festive food products. Another feature of this transformation process has been to move the focus on acquiring strong brand names. Previously, the

main marketing activities of the Group had been to sell products under private labels or sell relatively un-significant brands. But not only to acquire these already strong consumers brands but also to nurture these brand names and use them as a potential for further brand extension through the whole portfolio of the Group's products. The market channels have also been transformed as the focus is now on mass retail through the major H&SM retailers in Western Europe. This enables the Group to capture a significant volume share of the market while building a strong brand image across individual markets. Former channels of distribution were partly traders, processors and distributors on the main markets in the US, in UK and on Continental Europe and partly, but to a much lesser extent, retailers.

After the transformation Alfesca Group holds market leading position across the main retail markets in Europe, driven by strong brand names but also by a determined focus on production value added chilled seafood and festive food. In the UK market Alfesca holds the number one market position in prawns and shell fish (Lyons Seafood) and is second in smoked salmon (Farne Salmon&Trout). On Continental Europe, the Group is the market leader in smoked salmon (Labeyrie, Skandia, Farne) in most important markets. In festive food such as foie gras and other regional products, the Group also holds the market leading position. Another major change has also taken place in the last five years as the Group has moved its main operation base (or home base) from Iceland to the two main markets in Western Europe, France and the UK. Instead of sourcing the major part of its products in Iceland, only a negligible part of raw material and product sourcing is coming from the home country.

After these steps of transformation, reconstruction and evolution, SIF Group was renamed Alfesca Group in late 2005. This was thought to be necessary final step in the new strategy, to change both the name and re-brand the company in transforming the company. The new mission- and vision statement of Alfesca (Alfesa, 2006) :

*"The role of Alfesca is to create value for its shareholders by operating a market for European food, marketing and manufacturing company of ready-to-eat products that bring convenience and festivity to its consumers".*

*"The vision of Alfesca is to be a leading food-processing and marketing company measured by return on equity and market share in the markets and categories it competes in".*

## **ICELANDIC GROUP**

Icelandic Group, can trace its background to the establishment of Icelandic Freezing Plant Corporation (here after called Icelandic), in 1942. The ownership form of Icelandic in the beginning was a co-operative among the producers of frozen seafood.

### **1942 - 1962 Establishment and Entrepreneurship**

Iceland opened its first sales office abroad in the US in 1945. In 1947, it then changed the form of the sales office into a subsidiary, Coldwater Seafood Corp., a US company fully owned by Icelandic. In 1954, Coldwater established a secondary processing plant in Maryland US to produce coated fish sticks made from raw material from Iceland. This was the first secondary processing plant owned by Icelandic. With the establishment of the subsidiary in the US, Icelandic set the strategy that was followed, for the most part, since. The main aim of this strategy was to get as close to the customers as possible by establishing subsidiaries in local markets, and to use its own brand name to build up customers' loyalties to the brand.

### **1963 -1980 Growth and expansion**

The strategy of Icelandic and its owners during this time was clearly that all activities that would benefit the members companies would be done within Icelandic or other companies connected to Icelandic. These companies included: Jöklar hf., which was a sea transportation company; Umbúðamiðstöðin hf., which produced boxes for fish fillets as well as other boxes that were used by the members of Icelandic; and Tryggingarmiðstöðin hf., an insurance company that took care of insurance for the members of Icelandic. Umbúðamiðstöðin and Jöklar were in joint ownership by Icelandic and their members' companies but Tryggingarmiðstöðin was in a majority ownership by the members' companies of Icelandic. Another aspect of Icelandic's operation during this period is the role of Icelandic as an active interest group for its members. This role focused mainly on taking care of its members' interests against the government in a highly regulated environment. Due to difficulties in the operation of the fish industry in 1966-68 and again in 1972-76, this role took a lot of the Icelandic's managers attention.

### **1980 - 1985 Strategy- and generation changes**

The turning point for Icelandic's operation was around 1980 when the market in the US declined and increased emphasis was put on markets in Western Europe by the establishment of marketing subsidiaries in Germany and plans for building secondary processing plant in the UK. Other markets grew stronger during this time such as

Japan. It is clear that Icelandic was changing its strategy during this time by starting to expand to other markets much more systematically than it had done before. Changes in the strategy can partly be traced to the result of the so called “European committee” that worked inside Icelandic in 1979, as well as the increased problems in the US market.

Implementation of this new strategy started in 1980 when the board of Icelandic agreed to start the preparation for building a secondary processing plant in Grimsby (UK). In 1981, Icelandic established a marketing subsidiary in Hamburg (Germany). Other changes during this time included for example, when Icelandic, in the autumn 1984, was allowed by its members to export and sell products from non-members.

The period of 1980 to 1985 was characterised by increased emphasis on globalisation by expanding the market operation to new markets as well as the decision to build a secondary processing plant in UK. This expansion of Icelandic was both forward and backward in the value chain: Forward to new markets and backwards to get more producers (that is, non-members) to sell their products through Icelandic. At the annual meeting of Icelandic in 1984, new chairman of the board of Icelandic was elected. This was the starting point of a new generation of managers and board members of Icelandic.

### **1986 –1997 Globalisation and Structural Changes**

As a result of the changes on the board and management team of Icelandic, discussion started in 1986 of how Icelandic could change their operation in accordance with the changes of the business environment during this time. These changes included, for example, the increased deregulation in the Icelandic economy, a foreseeable abolition of the duopoly of Icelandic and IS (Icelandic Seafood) on the sale of frozen fish products to the US, and declining fish stocks in the Icelandic waters.

In the 1987, the duopoly on the US markets was abolished. It is interesting to see the efforts of president of Icelandic, to maintain the restrictions on competition in the marketing of fish from Iceland. At the annual meeting in 1990 he claimed that the old saying “*together we stand but divided we fall*” was still valid in the export of fish products from Iceland. He also claimed it was clear that the primary marketing companies were the only hope for the private enterprises in the fish industry. The primary processing companies were too small to be able to implement “*go - it alone*” strategies in marketing of their products. If they would do that they would need to depend on foreign companies, which both now and in the future would be in a dominant position against the small Icelandic producers. Hence, it was only through companies’ network or big companies that producers could maintain their independence against these foreign buyers (Icelandic,1991).

The constellation strategy of Icelandic participating in all activities beneficial for its members inside Icelandic, started to change after 1990. The strategy that was implemented was to “*do well what we do best and let other take care of the rest*” (Hannibalsson & Einarsson,1997). This was a practical indication that Icelandic was focusing on the international marketing of fish products. This is in accordance with trends in business operation during this time, to stick to the core business and let others do what is their core business (Hamel & Prahalad,1994).

In the period before 1995, Icelandic had limited its vertical integration into production activities to foreign companies. In 1995, Icelandic Seafood h.f. (IS), the main competitor of Icelandic, bought around 30% share in one of the biggest Icelandic producers, Vinnslustöðin hf., then a member in Icelandic. This meant that the marketing of its products would move from Icelandic to IS. A similar situation arose concerning the biggest producers of Icelandic, Útgerðafélag Akureyrar hf. (ÚA). A part of the strategy of Icelandic was not to be vertically integrated into its members. In many ways, this competition with IS reflected one of the main criticisms/weakness of the Icelandic during this time: that is, it was too slow to react quickly to such a situation. It also demonstrates that the Icelandic’s ownership form a co-operative and relationship with its members limited in many ways its ability to react quickly to changes (Morgunblaðið, 1996). On the other hand, IS a Limited Liability Company, was considered to be quicker to respond to changes.

### **1997 – 1999 Independence**

The ownership change of Icelandic was followed with a new definition of the role of Icelandic, was as follows: (Icelandic, 2005)

- Icelandic is a global sales and marketing company for frozen fish products.
- Icelandic’s main task is to provide services for production, sales, marketing, development and quality control of seafood products. This service is provided to producers in Iceland and overseas.
- Another objective is to operate subsidiaries outside Iceland, both for marketing products from suppliers and processing them further by operating fish processing plants

This role is defined in the mission of Icelandic (Icelandic, 2005) as “*Icelandic operates subsidiaries overseas to ensure marketing of products, and to process seafood products. In order to ensure its market position and growth,*

*Icelandic makes production and sale agreements with Icelandic as well as overseas parties and invests in production and marketing companies. The company shall yield a normal return on the capital invested in it at any time.* " For the first time in over fifty years' history, Icelandic's aim was to make profit for its owners and not to pay it back in lower commission. Icelandic had also changed its strategy and allowed the option of vertical integration by buying shares in producers in both Iceland and abroad.

After the ownership change, former members companies in Icelandic were no longer bound to hand over all their frozen products to the company. Instead, individual companies made a sales contract (service agreement) for part, or all, of their products, which was terminable from each side with a six-month notice (Kaupþing, 1998).

One of the obvious changes in Icelandic's strategy is the vertical integration into the production sector. In late 1997 Icelandic owned share in eight primary processing companies in Iceland. In none of the companies Icelandic or its subsidiaries were in dominant positions.

### **1999 – 2004 Organisational Changes and Expansion**

A new turning point for Icelandic came during the annual meeting in March 1999 for the year 1998. Then, Róbert Guðfinnsson, the biggest shareholder in Icelandic, was elected as chairman of the Icelandic board after competition with the sitting chairman. Róbert claimed that his candidature as chairman was due to an increased dissatisfaction with Icelandic's operation (Frjáls verslun, 1999). Soon after the annual meeting, Friðrik Pálsson, president of Icelandic, resigned as president and a new president was hired. The main criticism of Icelandic was that the centralisation of its operation was not adding value for producers or for Icelandic. From interviews in the media with the new board and president, the main changes seem to have been the following.

- Increase the formal authority of president of Icelandic by making him chairman of board of all Icelandic's subsidiaries.
- Abolish the big producer's board over each subsidiary.
- Make each subsidiary more independent to make contracts and buy direct from producers.
- Move activities to producers and subsidiaries from Icelandic Mother Company to decrease centralisation in the process. This was done for example by abolishing the R&D department of Icelandic Mother Company.
- Move Icelandic's sale system closer to the consumer.

The aim of these changes is to decrease centralisation to make the network more effective. Hence, this will mean that producers would no longer make contracts with Icelandic rather, producers will make contracts with each subsidiary. These changes are meant to bring more freedom to the network and ensure that producers could choose how and through whom they sell. It is clear as well that the Icelandic sales network will be evaluated on a much more competitive basis against its competitors. One aspect of these changes is that for the first time Icelandic defines its role or vision to be an "*international marketing company for fish products*" and not a service company for producers (Icelandic, 2000). Despite this Icelandic still focuses on good cooperation with producers on a business basis, but not as only a service company for them.

From 2002 the period of strategic diversification with large M&A set in with the acquisition of a chilled seafood plant in Redditch, UK. In 2003 Icelandic bought a specialised company in shellfish, Ocean to Ocean (USA) and Barogel in France.

### **2004 – 2006 Reconstruction**

A major breakthrough was in 2004 with the acquisition of Seachill in Grimsby and other companies in chilled products in the UK. This policy of building up external growth was continued in 2005 with the merger of Sjovik (Blue Ice Group) which was operating processing and marketing companies in US and Asia and Pickenpack Seafood GmbH in Germany. Pickenpack-Hussman&Hahn GmbH has a large processing capability in frozen, breaded fish and seafood products with an annual production capacity of over 70.000 tonnes. Pickenpack is the European leader in breaded products. The products are sold to the main retailer chains in Germany and Central Europe under private labels. As the Coldwater UK plant is the key player in frozen seafood production in the UK, now Icelandic Group has a very large part of the frozen seafood production in Europe. Hence, there are evidently good opportunities for synergies, generating economy of scale and scope<sup>1</sup> (G. Johnson, K. Scoles, R. Whittington, 2005) in consolidation and streamlining the activities of these production companies in the UK and in Germany.

With these steps of horizontal diversification, Icelandic Group has now put new pillars under the company's operations. Before, the main emphasis was on trading of primary processed seafood products and producing of

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<sup>1</sup> Economy of scope is defines efficiency gain from applying the company's existing resources or capabilities to new markets, products or services. There are economies to be gained by extending the scope of the company's activities.

traditional breaded and battered products with relatively low value added. After the acquisitions of a number of processing facilities, producing chilled seafood products the production focus has changed dramatically.

The year 2005 was a difficult year for the Icelandic Group. The financial performance was dismal and share prices falling, albeit very little trading and in general the company was struggling. There was also deep going disagreement among the main owners of the company with crystallised in three CEOs in one year. After the merge with Pickenpack Seafood GmbH in 2006 Icelandic has been taking steps into a more in-dept vertical integration that is backwards by expanding the operation and activities of the Faroese affiliate company, Maru. This company is mainly in the harvesting and primary production (April 2006), securing raw material and primary processed products. Another primary processor in Denmark (Saltur A/S) was also bought this year, specialised in salted fish products. The newest acquisition of this kind was announced in May 2006 when the Icelandic Asia bought a majority stake in a tilapia farming and processing facility in China. In these acquisitions vertical integration seems to be at the present, the strategic objective of the Group, connecting activities from harvesting and primary production of frozen and salted products into value-added production and marketing activities.

Due to the difficulties in operation 2005 it is interesting to study the company's management reactions to this and try to shed some light on the present strategy focus. According to the Executive Chairman of Icelandic Group (Icelandic, 2006), the main strategic and management issues have been in 2005 and will be in 2006 this:

- Restructuring and new management teams in all companies of the Group
- New organisational structure of the Group in order to sharpening the management team's vision and to speed up crucial measures towards added rationalisation
- Stricter control on the subsidiaries
- To utilise opportunities for internal growth
- Opportunities for external growth through M&A will be considered as long as such opportunities are deemed profitable

The company is aiming at considerable synergies following the recent mergers in the US, in Germany and in the UK especially in the manufacturing operations. Synergies and increased profitability through integration and rationalisation is expected to materialise but seemingly takes more time and effort than originally was planned in 2005. Such consolidation of operations will call on reduction in the number of employees and re-arrangement of production lines (turnaround strategy).

In marketing activities the company will use its strong sales network, doing business with restaurants, caterers and retail chains. The Group will be focusing on product development and innovation to widening its product range in order to fulfil customers' needs. Heavy emphasis will be put on supplying fresh and chilled seafood as the demand for these products is rapidly increasing. Quality and reliability have been among the core competences of Icelandic Group for a long time. Increasing demand is coming from the market to supply fish and seafood that is coming from sustainable resources where sound fishery management rules are applied. Demand for traceability is also gaining ground. Icelandic Group has a good and efficient infrastructure on international markets in raising capital, in sourcing raw material and primary processed products on a global scale, in good management practises and in use of ITC technology. Primary processing in Asia is already an important source for further processing for the European markets. Attention must be given to more efficient logistics and services to increase cost-efficiency. More emphasis will be put on these capabilities with the objective to increase profitability of the Group.

On the marketing side the strategy is to build on the competences and strengths in the markets where Icelandic has been operating for many years. These markets can be divided into the UK market, the US market, the Asia market and continental Europe. In terms of sales volume the UK market is by far the largest with the US market coming second. It is thought to be important to operate in markets where the company has the best knowledge of the business environment. The international seafood markets, although at the first glance, seem to be global, are in fact highly heterogeneous with varying consumer tastes, consumption patterns and in structure. Therefore, operating on a global scale, the production and marketing strategy must be custom made for each individual market. Regional and local specifications and customers wishes must have a fundamental impact on the strategy implementation.

Icelandic is using its unique resources and network of production and marketing to provide services and building relationships that their competitors find hard to follow. The unique resources are the strong brand name, quality products, and reliability in supplying. But the company must have the necessary competences alongside the resources to build its strategic capability (G. Johnson, K. Scoles, R. Whittington, 2005)<sup>2</sup>.

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<sup>2</sup> *Strategic capability is the adequacy and sustainability of the resources and competences of an organisation for it to prosper and survive.*

The competitive edge is in the global character of the network of production and marketing units working within Icelandic Group. The company operates in 13 countries around the globe. Other main competitors, such as Young's Bluecrest in the UK and FPI Ltd., Trident Seafood Corporation, American Seafood Group Llc in the US are all nationally based companies not heavily vertically or horizontally diversified. The competition position of Icelandic Group is generally strong in all of the major markets. Its competitive advantages lay in the global network of production and sourcing and in the marketing approach. Icelandic has for a long time achieved so called threshold capabilities, i.e. capabilities and resources that are essential for the company to compete in the seafood market. These capabilities are necessary for taking important steps into a competitive market but not sufficient for the creation of competitive advantages.

Icelandic Group has a clear policy in environmental issues as a leader by putting great importance on sourcing only marine products from sustainable fish stocks. This includes also responsible fisheries under scientific management, healthiness of products, traceability and quality management. This is seen an important part of the marketing addressing the growing concern of the market to environmental and ecological issues.

## MACRO-ENVIRONMENT ANALYSIS

In recent years, the general trend has been the increasing market power of the big retailers and supermarket chains. A distinctive development has been towards rising consolidation and concentration within the retailer sector. The large retailer chains have been getting larger through M&A and organic growth in the last five to ten years. The market share of the largest retailers has grown accordingly. On most markets the most important customers of the food processors are the retail chains and large restaurant distributors. This development has tilted the bargaining power from the producers and suppliers to the retailers. The sourcing policy has also changed. Now, the large retailers and supermarket chains have streamlined their sourcing policy by limiting the number of suppliers. Their policy is to buy from few and large suppliers. This calls for large and diversified producers and supplier companies, who can offer broad and varied selection of products in each product line. Increasing retailer consolidation has meant that the seafood supply base must become bigger and with fewer players. The large retailer chains are also demanding a higher degree of service i.e. in logistics, in ITC, in transport techniques and in packing and handling. The suppliers are also required to have an active innovation and product development policy in cooperation with the big customers. Effective and permanent customer and business relations are called for. The only feasible way for suppliers of fish and seafood products (as well as for other large suppliers) is to become larger, more diversified and better suppliers. It has been pointed out that the increased power of the supermarkets and increased competition between supply chains (value chains) creates more pressure on supermarkets to improve the relationships within the supply chain to make it more competitive and effective. Fearne and Dedman (2000) phrase this as the "Paradox of Power" where with the increased power of the supermarkets, emphasising on own-label products, they are getting increasingly dependent on fewer and larger suppliers. Hence, supermarkets must concentrate more on cooperation with suppliers for long-term partnerships in mind (Cook,1999;Fearne and Dedman,2000;Wysocky,2000). In the same way it has been pointed out that it is getting more difficult for "go-it-alone" strategy and small companies to be competitive in the market (Wysocky,2000). It is clear that developments on the food markets, e.g. increased concentration, already has and will in the future affect the structure of the fish industry in Iceland. This depends on how deep into the markets producers are selling. This also indicates a stronger need to join a competitive supply chain rather than pursue a "go-it-alone" strategy.

There is a highly touted trend on most markets towards rising fish and sea food consumption. This is explained by increasing health consciousness and changes in tastes and in live styles. There is also an ongoing trend towards natural and certified safe products. Demand is also raising for quality fish products from sustainable resources. Sustainable seafood principles must be part of the seafood business vernacular and practice. Part of this issue is traceability of products which seems to be having growing importance on most markets.

A clear trend is for high quality products but at a reasonable price. This is especially evident at the UK market and on the France market. High quality is not sufficient but delivery and marketing must be reliable. Good customer relations are also asked for. But at the same time as the demand for high quality fish products is increasing the supply is lagging behind. Supply of most of the white fish species from North Atlantic sources is shrinking due to cuts in TAC.

Price of fish is rising faster than price of other protein sources. This puts a strain on the processors especially they who are not vertically integrated to fishery activities. Higher price of fish would be a competition problem if the

demand and market for fish products would not be growing as rapidly as it has been the case. But, this will challenge seafood producers to seek new possibilities and increase efficiency. The fish and seafood market has become to be a typical sellers market. This opens the opportunity for large sea food producers to set the market trend to increase their market share in the retailers and restaurants markets.

Simultaneously, there is a growing appetite for fully prepared value added seafood which is driven by changing live styles in the cash-rich but time-poor society. This is part of the trend towards convenience, meaning that food items have undergone some degree of processing to minimise the effort of the end user. This lowers the customers' barriers to consume fish and seafood. There is a broad scope in value adding, it might be as simple as filleting and pre-pack the fish to more complicated processing as to pre-cooked seafood dishes with added exotic sauces and other ingredients. It is though different between countries how far this development has come. Fresh pre-packet fish and sea food products have also made real inroad on the European markets and in the US. Hence, the demand for traditional frozen fish and seafood products (breaded and battered) is either stagnant or falling on most markets. Frozen products have a strong stand in restaurant and catering sector and the frozen market still strong in the US and Germany. Hence, there is strong market trend is towards chilled seafood products. Chilled convenience food items are the high growth field of the seafood market. Chilled seafood products have gained a leading share on the UK market in France and in Spain but to much lesser extend in Germany.

Access to scarce resources of quality whitefish has become a major challenge for fish and seafood processors. This has to do with falling stocks of most white fish species and accordingly cuts in TAC of the most valuable species. The processors have to chase increasingly scarce resources of fish. In Iceland, the full effect of the ITQ system has changed the pattern of fishing. Ownership of quota is the key to the access of fish, when the fish is caught, how and with which gear the fish caught and for whom. All this has a fundamental impact on the ability of fish processors to source fish for their processing. This has led to increased vertical integration from harvesting to the primary processors then to the marketing organisations and secondary processors in the market countries.

Consolidation among Europe's largest seafood firms is becoming more evident. This consolidation is driven by the growth and consolidation of the international retailers and subsequently the need to provide services to mach growing demand they place on producers and processors. The Top Ten seafood companies in Europe had a yearly turnover of € 8.3 billion in 2004-05; thereof the largest 10 companies had a share of nearly 2/3 (IntraFish, 2005). Icelandic fisheries and processor companies have been leaders in this wave of consolidation through M&A, first at home but in recent years through massive acquisitions in other countries.

Providing outstanding service is probably the most important single factor in effective marketing of seafood. This is coming more evident when demand is exceeding supply of good quality fish products. When the market has all the characteristics of a sellers market, the price is no longer the most important factor but service and quality. Service in this context means reliability of supply, traceability, consistency, logistics, customer relations and effective ITC.

## CONCLUSION

As have been illustrated, the two companies have undertaken fundamental, even radical changes in policy and strategy in the last five to seven years. Why did the companies undertake these changes and which are the main driving forces for these changes? In the context of this paper, it must be tried to find the answer to this question.

The main driving forces of strategic change are found to have been these:

### 1. Macro-environmental changes

- The increasing power of the big retailer and supermarket chains (Tesco, Sainsbury, ASDA, Carrefour etc.) who are the main customers of Icelandic and Alfesca. A distinctive consolidation and concentration has been ongoing in the retail markets. Their policy has been to buy from few and large suppliers. This calls for larger and diversified suppliers and producers.
- There has been a general trend towards consolidation of the larger seafood producers in Europe in recent years
- The demand for chilled, convenience seafood and fresh pre-packed seafood has grown rapidly in the last 10 years. This is an opportunity for the seafood producers to strengthen their position in the chilled and fresh market, where the profit margin in generally higher. Only large, dedicated and diversified producers are able to make use of this opportunity
- The demand for traditional frozen fish products (breaded and battered) is either stagnant or falling in most markets

- Retailers own labels have been gaining the upper hand in the competition between producers own brands and retailers brands.
  - Access to resources of quality whitefish is becoming increasingly important
2. Financial performance of Icelandic Group and Alfesca (SIF Group until 2005) has been in recent years insufficient. Some of the cores operating units have been struggling with underperformance or even loss in some years. Other operational problems have also been evident such as shortcomings in logistics, difficulties to roll-over higher and rising prices of raw material to the buyers and loss of key customers. Shareholders value has been falling and the share price of the two companies have either been falling or not kept pace with the general trend in share prices in Iceland. In peer comparison with other large food manufactures, both companies are underperforming in EBITDA margin and profit margin.
  3. Growing competition from primary processing companies in the Far East and from E-Europe. Production costs are lower as the labour cost is only a fraction of the labour cost in W-Europe. The regulatory framework is different and much less demanding in these countries
  4. Lack of clear and continuous vision can be seen in some periods in the last 10 years and in some cases, it even seems possible to detect periods of strategic drift in certain periods. This applies to both companies but it is not possible to say that strategic drift and lack of vision has been an ongoing problem.

SIF Group and Alfesca after the name change in 2005 have gone through a deep strategic change in recent years. Firstly, huge external growth through acquisitions of large processor companies like Lyons Seafood in the UK and Labeyrie in France seem to be temporarily over. Then a period of consolidation and integration of the group took place. According to the CEO of the company, this has been a period of massive realignment or transformation (IntraFish 2006a). The strategic change has been manifested in shifting the company from being a seafood trader and primary processor of fish to be a gourmet food processor. This process of strategic and organisational change has taken the major part of last 4-5 years. It is evident that the structure, strategy and processes have radically changed in this period. But what type of change process was called for and what type of strategic change was required?

The main features in the strategy of SIF Group and later Alfesca has been basically transformational and evolutionary in character. In general this is thought to be beneficial approach as this does not require a great deal of upheaval in the organisation. Incremental changes are defined as changes build on well proven paradigm, on skills and routines within the organisation. More radical approach or a “big bang” is only called for when the organisation is in dear crisis (G. Johnson, K. Scoles, R. Whittington, 2005).

The transformation in the last 3-4 years has been in two directions. Firstly, a huge external growth has been gained through acquisitions by buying two large market leading companies, Labeyrie in France and Lyons Seafood in the UK. These acquisitions where announced by the company to be the first move in the company’s shift from being a seafood trader to be a food gourmet producer. Secondly by spinning off the Icelandic based fish trading affiliates, Iceland Seafood International (frozen and salted fish products and shellfish), Tros (fresh fish producer and trader) and selling off the American based value added seafood processor to Sjovik/Blue Ice Group (which later merged with Icelandic Group). The following step was the re-branding of the company, from SIF Group plc. to Alfesca plc. These changes have consequently led to that nearly all the activities of the company have moved from Iceland to Europe. The main activities are now in the UK and in France and to a much lesser extend, in Spain. This transformation has called for great effort of integration and streamlining of the group. Finally, this process of transformation has been followed up by adding new executives to the company who are thought to bring in valuable expertise and knowledge in the food industry and consumer goods market.

Alfesca has announced that the time of realignment and transformation is over and external growth could be again on the agenda through further acquisitions (IntraFish, 2006a). But further change in strategy and in management processes must still be on the agenda, possibly in the form of ongoing turnaround strategy (G. Johnson, K. Scoles, R. Whittington, 2005)<sup>3</sup>. The key task now are controlling costs, increasing prices and leading growth. Otherwise the demise of falling share price and disappointing financial performance will continue. Lyons Seafood seems to have taken incremental strategic steps into this direction according to the company’s managing director recently (IntraFish, 2006b). The company plans to stay on top of the UK market with continued promotional partnership with the retailers and with new product development. Efficiency of delivery is thought to be the key driver of both volume and value. The portfolio of products will be improved with value adding and new product segments and the market will be strengthened with new operations and commercial appointments (IntraFish, 2006b).

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<sup>3</sup> Turnaround strategy is defined as emphasis on speed of change and rapid cost reduction and/or revenue generation.

The strategic changes at Icelandic Group have been in the nature of incremental realignment changes as the core business is still processing and marketing of groundfish products as before. In the last 6-7 years, Icelandic has emerged from being a marketing organization supplying primary and semi-processed seafood products, most of it sourced in Iceland, into an internationalized (sea) food processing company. The major components in the strategic changes have been product diversification through acquisitions of two large producing plants in chilled and fresh seafood in the UK. This horizontal diversification was continued with the merger of Pickenpack H&H in Germany and of the Blue Ice processing plant in the US. Both of these facilities are in traditional frozen fish products and not adding very much to diversification of activities and products, neither of those mergers is going to increase the value-added scope of products. But, these steps in horizontal diversification have shifted the focus from trading in primary processed seafood and relatively low value added products to chilled and fresh products. This has strengthened the company's position within the fresh and chilled seafood segment of the market and the scope of products has been increased considerably. The new product lines in chilled and fresh products are now the main source of profit margin but the frozen products units are struggling with low or even negative margin. Icelandic changed in 2006, at least temporarily, the strategy from horizontal diversification to vertical diversification (integration) by acquiring a fishery and primary processing company in Faeroe Islands and a tilapia farming/processing plant in China. The only rationale for this shift in strategy must be to strengthen the sourcing base of raw material and semi processed products. This could be seen as a clever step as sourcing of quality whitefish is becoming increasingly critical for large seafood processors. On the other hand, one might argue that such a change in strategy direction is highly arguable and could even be reflecting a clear lack or losing focus. First by undertaking horizontal diversification and then move over to vertical integration, the strategy seems to be to operate over the whole span of the value chain, from harvesting and sourcing to processing and marketing. The objective seems to be to generate the highest average profit margin possible out of the combined activities of the Group. Unsatisfactory financial performance calls for implementing turnaround strategy of rationalization, cutting costs and increasing revenues. Streamlining the Group through changing the organizational structure, generating synergies throughout the company and increased effort in product development would further strengthen the company, increasing shareholders value and putting the company again on the profitable path.

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