

How to Calculate Profit in a Fishing Business

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Profit is one of the best measures of financial success in a fishing business. By calculating profit annually, or more frequently, you will know whether or not changes are needed in your operation. Furthermore, careful profit analysis will tell you what changes should be made.

Since the term "profit" means different things to different people, we will use the more definitive terms *return to labor*, *return to investment*, and *return to management*.

Return to labor is the amount left over after deducting from gross returns (total receipts from fish sold) all expenses, including a fair return to total investment in the business and the estimated value of the owner's and/or captain's effort in managing the business.

Return to investment is the amount left over after deducting from gross returns all expenses, including the value of otherwise unpaid labor and management (contributed time).

Return to management is the amount left over after deducting from gross returns all expenses, including the value of contributed time and a fair return to total investment in the business.

You must have the following annual information to accurately calculate the returns to labor, investment, and management:

1. Gross return.
2. *Net* crewshare (crewshare after deducting food, etc.).
3. Actual costs for repair, maintenance, fuel, gear, food, ice, bait, etc.
4. Actual costs for insurance, moorage, book-keeping, license, etc.
5. Amount of annual depreciation based upon market value.

In addition to the above, you should estimate as accurately as possible the following:

6. The value of your own time in fishing and working on the vessel. What would you have to pay another equally competent man for the work you perform, or what would you be paid for similar work on another vessel?
7. The value of your management in your fishing business. What could you earn by telling someone else whom to hire, where and when to fish, what to buy, how much to borrow, etc.?
8. A fair return to total investment in your fishing business. What is the minimum interest you would take on your total investment if you were to sell to an equally competent fisherman and hold the mortgage?



Commercial fishermen learn how to calculate profit at an informal workshop sponsored by the Extension Marine Advisory Program.

9. The value of any other unpaid labor. What would you normally have to pay for the gear repair, vessel repair, bookkeeping, etc.?

Items 6 through 9 above are *opportunity costs*.

The calculation of return to investment and return to labor and management is illustrated below for a 50-foot shrimp and crab combination vessel:

Gross return	\$70,000
Less: Gear & vessel repair	\$ 9,000
Fuel & bait	2,500
Net crewshare	18,000
Insurance	3,400
Depreciation	3,000
Licenses, moorage	220
Miscellaneous	2,000
Value of unpaid labor	200
	<u>\$38,320</u>

Return to *Labor, Management & Investment* \$31,680

To find the actual return to investment, subtract the estimated value of your labor and management from the return to labor, management, and investment:

Return to Labor, Management & Investment	\$31,680
Less: Estimated value of your labor	
(item 6, above)	20,000
Estimated value of management	
(item 7, above)	6,000
Actual Return to <i>Investment</i>	<u>\$ 5,680</u>

To find the actual return to labor and management, subtract the estimated fair return to investment



These commercial fishermen are working out some profit-calculating problems at an informal MAP workshop.



A marine economist (right) works with a commercial fisherman as he tackles profit analysis for his vessel.

from the return to labor, management, and investment:

Return to Labor, Management & Investment	\$31,680
Less: Estimated fair return to investment	
(item 8, above)	4,800
Actual Return to <i>Labor & Management</i>	<u>\$26,880</u>

In analyzing this business, note that the actual return to investment (\$5,680) is greater than the estimated fair return to investment (\$4,800). Also, note that the actual return to labor and management (\$26,880) is greater than the estimated value of labor and management (\$26,000).

This example of a fishing business is profitable by any measure or definition. The analysis for other businesses may show quite different results. What is your return to labor, management, and investment?

Calculating return to labor, management, and investment is a first step in fishing business management; *Fishing Business Management and Economic Information* (by F. J. Smith; Oregon State University Extension Service, Sea Grant Marine Advisory Program Publication SG 6, Corvallis, revised 1973) provides additional suggestions for a complete business management program.

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