

INVESTIGATING A NEW BUSINESS MODEL FOR PACIFIC NORTHWEST SEAFOOD MICRO-CANNERS

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EXECUTIVE SUMMARY

Coastal communities in the Pacific Northwest are looking for ways to increase the diversity of their economies in order to reduce the negative impacts of cyclic economic swings. The economic base of many coastal communities is directly tied to healthy, dynamic working waterfronts through fishing, recreation, tourism, ports, and allied businesses – such as seafood processing. Seafood processing is an example of a water-dependent, value-added industry that creates local living-wage jobs and generates real income for coastal economies.

Seafood processors, especially small firms, face many business challenges. They require adequate infrastructure such as accessible and well-maintained ports, efficient transportation networks, and cold storage. Seafood processors must also find ways to compete in a global seafood market. Business issues they must contend with include:

- Unpredictable fish supplies and fishery regulations.
- Increased competition from new product forms and international suppliers.
- Increased marketing complexity. This includes justifying higher product prices by developing a specialty product niche, adapting to changing consumer preferences and market drivers, and managing food safety and environmental certification issues.
- Industry consolidation and the need to work cooperatively in order to achieve the economies of scale necessary to access short supply chains.

Micro-canners (small seafood canners and distributors) at the 2006 Micro-canners Conference in Astoria, Oregon suggested a project to study the feasibility of a cooperation-based business model that could help their industry expand and achieve greater success. The Community Seafood Initiative (CSI) of Astoria received grant funding for a study with the following goals:

1. Determine if a significant number of Pacific Northwest micro-canners believe that a cooperation-based program would help them achieve greater market share, lower business costs, increase profitability, and support business growth.

2. If a cooperative program is viewed favorably by micro-canners, assist them in developing and implementing the program.

A cross section of the 45+ micro-canners in Oregon, Washington, and northern California were interviewed in 2007. Highlights from the survey include:

- A majority of the micro-canners interviewed indicated they would join a cooperation-based business model and contribute 1-2% of sales towards its maintenance.
- The primary business challenge is product supply – getting enough fish to process – with salmon being the largest problem due to restricted fishing seasons. Marketing programs are also a business problem, especially for micro-canners who focus on wholesale distribution.
- The most desired area for market expansion is wholesale sales to health and gourmet-oriented grocery outlets.
- Marketing is the primary service a shared business model could provide to members.
- Micro-canners use diverse business strategies (processing, distribution, direct retail sales, internet sales) and multiple simultaneous strategies are the rule.
- A majority of micro-canners have a retail storefront. The retail outlet provides the major source of canning-related revenue for many of them, indicating a close tie to the level of coastal tourism.
- Most micro-canners are already cooperating with other micro-canners in some way.
- Not all micro-canners want to grow their business. They are unlikely to join a cooperation-based organization.
- Few micro-canners would support a classic cooperative due to fears of losing their company's uniqueness and individuality. Suspicions of the motives of others in the industry were also evident during the survey.

Based on the survey feedback, two possible business models were presented to the project's volunteer Advisory Committee: a CSI-driven association (an association but with elements of a cooperative) and a CSI-assisted association. The Advisory Committee preferred the CSI-driven association despite its cooperative-like aspects because they felt it had the best chance of achieving the goal of expansion into health/gourmet grocery outlets. The Advisory Committee felt that a trade association, which by necessity would focus on

generic issues common to all micro-canners, would not achieve market growth results significant enough to sustain membership levels.

The next phase of the Micro-canners Project is for the Community Seafood Initiative's Board of Directors to review the Advisory Committee's recommendation and decide on future project funding and support.

Establishing a cooperation-based business model for Pacific Northwest micro-canners will not be without risk yet holds the potential for large rewards. West coast state governments recognize that many coastal, water-dependent industries are inter-related. If the micro-canning industry can work together to increase the market for their specialty seafood products, not only will they improve their own financial circumstances, they will also indirectly stabilize the business of the fishermen that supply them with product. Increasing the stability of one coastal-dependent business sector can improve the stability of related sectors. An investment in a cooperation-based business model for coastal micro-canners that allows them to increase their economies of scale, access more supply chains, diversify their product portfolio, and expand their specialty market niche could have significant positive coastal economic impacts – much broader impacts than the micro-canners themselves.

CHAPTER 1: INTRODUCTION

SUSTAINING COASTAL ECONOMIC DIVERSITY

The economic base of Pacific Northwest coastal communities is directly related to the health and sustainability of the coast and ocean, through fishing, recreation, tourism, transportation, ports, and allied businesses that leverage these activities. (1) Many coastal communities are struggling because the timber and commercial fishing industries have declined in economic importance in the last 25 years (combining for only 14% of the 2003 coastal economy in Oregon). (2) Recreation, tourism, transfer income (social security and other forms of government assistance), and investment-based retirement income have increased. These changes have shifted the economic base and demographic pattern of coastal communities in ways that make them vulnerable to cyclic economic swings. The best way to insulate coastal communities from such cyclic swings is to expand the diversity of their economic base. (1,2) In a diverse economy, some business sectors will be growing even if others are contracting, providing stability to the area's economy as a whole and creating more living-wage¹ jobs. Creating more higher-paying jobs is a crucial issue for coastal counties. In Oregon, household incomes are lower in coastal counties than other parts of the state with more people working in lower wage brackets. (2) Five of Oregon's seven coastal counties have average worker pay levels below the state's living wage. (3)

Coastal communities are looking for ways to increase the vitality, diversity, and stability of their economies. One way to increase local economic activity is by preserving or enhancing local working waterfronts. Economic studies have shown a primary connection between the degree of working waterfront and local economic vitality. (4)

Working Waterfronts – A Link Between Land and Sea

California, Oregon, and Washington share the common goal of expanding the economic diversity of coastal communities to make them more resilient to economic downturns while at

¹ Living wage: wage that enables a worker to meet their basic needs for food, housing, and transportation. The Oregon Dept. of Labor considers the living wage in Oregon to be 150% of the U.S. federal poverty threshold for a family of four, or approximately \$31,000 (2007 dollars).

the same time preserving the traditional character, quality of life, scenic beauty, and environmental richness that makes Pacific coastal areas so attractive to visitors and residents. Priority 7 of the 2008 West Coast Governors' Agreement on Ocean Health is to "foster sustainable economic development in coastal communities." (1) One of the actions under Priority 7 is to preserve and, where necessary, restore working waterfronts. The Governors' report states: "Working waterfronts provide a link between land and sea that is critical to sustaining a varied and thriving coastal economy."

Vital waterfront economies include seafood harvesters, seafood processors, freight and fuel companies, marinas, boat works, recreational outfitters, fish markets, and many other water-dependent businesses. Preserving vital waterfronts requires land-use planning efforts as well as the creation of value-added businesses that provide living-wage jobs. An example of a value-added business would be one that sells albacore products. Most albacore landed at Pacific Northwest ports is exported overseas with minimal or no processing. (5,6) A business that processes albacore locally generates real income for the coast instead of sending it overseas.

Dynamic working waterfronts require good infrastructure, such as properly maintained ports and efficient transportation networks. Small coastal communities are often challenged to support or improve existing infrastructure and require state or federal assistance. (1,2)

Improving Coastal Infrastructure

Harbors and Ports

Efficient port and harbor facilities are an obvious form of infrastructure that directly impacts water-dependent businesses and coastal economies. For example, when fishing or charter boats cannot easily access local ports due to silted channels, damaged jetties, or ill-maintained docks, they are forced to take their business elsewhere and the jobs from supporting businesses are lost. There has been a trend along the west coast toward consolidation and concentration of port and fishing industries, to the detriment of small coastal ports and their local economies. (1) The West Coast Governors have pledged state and federal assistance with port access and maintenance issues in order to help sustain the economic vitality of communities that are dependent on their ports.

Transportation Networks

The 2005 report of the Oregon Economic Revitalization Team identifies limited transportation options and lack of direct access to major markets as one of the issues affecting economic development of coastal communities. (7) This message is reinforced by a 2007 transportation report funded by the Oregon Business Council and Portland Business Alliance. (8) This report lists the following transportation challenges to businesses in Oregon coastal counties:

- *Infrastructure limitations cause longer distance truck routing.* Coastal counties have limited options for shipping goods east and west. Some east-west highways to coastal communities are very narrow and standard 53-foot semi-trucks are not permitted. This forces trucks to take longer-distance routes. Some businesses must truck products 200 miles north or south before connecting to a major east-west highway. This additional distance adds considerable cost to companies, making them less competitive.
- *Increased costs due to deadheading to/from rural locations.* Businesses who do not own their own truck fleets must use common carriers. Rural companies located away from direct shipping routes pay a premium for trucks to make deliveries and pick up product because these carriers must travel empty either to or from these businesses (called deadheading in the transportation industry). During times of high demand, remote businesses may be unable to secure trucks.

Cold Storage

Seafood processing is an example of a value-added coastal business that creates living-wage jobs. Many large seafood processors had left the Pacific Northwest by the end of the 1970s for more economical locations. Industry and community leaders have since argued that the lack of coastal cold storage has constrained the seafood industry. Most cold storage exists along the Interstate-5 corridor, close to agricultural processing centers and major transportation infrastructure. (9) Seafood processors who do not have adequate cold storage as part of their facilities are forced to transport fish back and forth between the coast and a remote cold storage facility. It is not unusual in Oregon for a small seafood processor to store fish in cold storage in Eugene or Salem. By the time the fish finally gets processed and delivered to central distribution points along Interstate-5, it may have traveled to/from the coast three times. This situation increases the business risk of coastal seafood processors by increasing their product costs due to transportation expenses.

CHANGING GLOBAL SEAFOOD MARKET

By emphasizing actions to support and preserve working waterfronts, the West Coast Governors recognize that many coastal industries are inter-related. One area of special focus in the West Coast Governors' Agreement is to provide opportunities and infrastructure for seafood production, processing, and distribution. (1) Increasing the economic stability of seafood processors has multiple benefits. A vital seafood processing industry not only provides important living-wage jobs but can also indirectly stabilize the financial well being of those who supply the processors – local commercial fishermen – and therefore strengthen multiple sectors of local coastal economies. (10)

Infrastructure such as port facilities, transportation networks, and cold storage facilities are necessary for the successful operation of the seafood processing industry. If one or more of these central services is weak or absent, a processor's cost of doing business increases and the risk grows that the business will not be sustainable long-term. Seafood processors face additional risks besides inadequate or failing infrastructure; they face the business risks associated with a changing global seafood market.

Product Supply Increasingly Unpredictable and Difficult to Forecast

Unreliable product supply restricts business investment and marketing efforts that attempt to expand demand. This business principle is one of the contributing factors in the rapid growth of aquaculture as an increasing percentage of the worldwide trade in fishery products. (11) Aquaculture provides consistent product supply, unlike capture fisheries, which are generally seasonal and notoriously unpredictable. (9) Some fisheries experts warn that volatility and unpredictability of ocean stocks is getting worse despite regulatory and sustainability efforts. (12)

The effect of climate on fish stocks is part of the daily business of fishing. For example, albacore do not appear off the coast of the Pacific Northwest until sea surface temperatures reach 59-67° F which is the level physiologically preferred by this species. (13) In the case of albacore, sea surface temperature directly determines the presence of fish in Pacific Northwest waters and the length of the albacore season and has a direct impact on albacore prices. The extent of the effects of climate change (in the form of changes in sea surface

temperature patterns, increasing ocean acidity, and erratic climatic events) on fish stocks and fisheries-based economics is largely unknown and increases the uncertainty in an already unpredictable business. (12,14)

Lack of predictable levels of product supply makes business planning very difficult. (15) If product supply runs out before the next fishing season, not only are immediate sales lost but disappointed customers might turn to substitute products with more consistent supply. Marketing programs are impossible to maintain if product supply is not available to satisfy demand. Financial backers are reluctant to support business expansion if product supply cannot be predictably forecast. The business risk from unpredictable supply is greater for value-added processed products (canned fish, fish paste (surimi), frozen fillet blocks, etc.) than unprocessed products or raw materials because of the greater investment in equipment. Small companies are especially vulnerable to unpredictable product supplies because of their lower economic resources. (16)

Increased Unpredictability of Fishery Regulations

According to the United Nations Food and Agriculture Organization (FAO), the number of fully exploited, overexploited, depleted, and recovering fish stocks has increased from 50% of all assessed fish stocks in the mid-1970s to 75% in 2005. (14) Fisheries regulatory bodies worldwide are instituting increased levels of regulation to maintain sustainable, predictable harvest levels and rebuild reduced stocks. The increased focus on maintaining healthy stocks is good for the long-term viability of the seafood business but in the short-term adds business uncertainty. Regulations that affect a fishery can be changed quickly. Seasons can be shortened or eliminated. Fishing grounds can be shifted. Participation in the fishery can be restricted or catch quotas changed. Unexpected regulatory changes add another layer of unpredictability to all fisheries-related businesses.

The west coast albacore fishery provides a good example of the unpredictability of fishery regulations. Albacore tuna are a highly migratory species (HMS) that range widely over the oceans. The Pacific Fishery Management Council (PFMC) manages the western U.S. HMS fisheries (of which albacore is only one species) inside the Exclusive Economic Zone (EEZ) although only a small fraction of the total albacore harvest is taken within U.S. waters. The

HMS fishery is among the few remaining open access fisheries on the west coast. Some members of the fishing industry are concerned that problems in other fisheries (such as groundfish) will push more fishing effort into the HMS fishery and increasing albacore fishing pressure through a cascading effect. (17) For example, if the whiting fishing season is prematurely curtailed because the bycatch quota of yelloweye rockfish is met sooner than anticipated, whiting fishermen might retarget their vessels for albacore in order to make up lost revenue. Additional fishing pressure on albacore is a concern as there are some indications that albacore stocks may be over-exploited. (18) Albacore experts do not agree on the albacore stock status because there are many data gaps, however a precautionary attitude prevails. (19) Stock status concerns and cascading effects from other west coast fisheries could push the PFMC to implement a limited entry program in the HMS fishery to control excess fishing capacity. A proposed limited entry program has already been crafted: any fisherman not already taking part in the HMS fishery as of March 9, 2000 would not be allowed a permit. The current HMS fishery plan does not include a limited entry program but the stage is set for possibly implementing one in the future. (17) Unpredictability in albacore fishing regulations makes it a risky business decision to put any significant investment into infrastructure or equipment for albacore processing.

Increased Competition

Fresh and Frozen Options

Pacific Northwest seafood processors who produce value-added products face continually increasing competition. Yearly per capita consumption of fresh and frozen seafood is rising in the U.S. while consumption of canned seafood is decreasing. (20) As Americans are increasingly reminded of the positive health benefits of fish in their diet, many take advantage of the fresh and frozen fish available at their local supermarkets. Thanks to improved transportation, consumers frequently have access to fresh products from all over the world. (21,22)

More Canned Options

Competition is also increasing in the canned food aisle. There is little differentiation between mass-produced canned seafood brands; they are the same product and consumers buy primarily on price. (23) In order to grow revenues, high-volume canned seafood producers

have introduced an array of new products in different flavors and forms, such as tuna or salmon in pouches and plastic cups instead of metal cans, pre-mixed tuna salad in various flavors, and pre-cooked single-serving tuna or salmon fillets. (24) As the number of products increases, the competition for available grocery shelf space intensifies.

The lowering of trade barriers allows international products the chance to gain shelf space beside U.S.-produced canned seafood. Markets catering to gourmet tastes offer imported Italian and Spanish products packed in olive oil. On the low end of the market, high-volume consumer outlets now offer canned tongol tuna² imported from Asia and canned farmed salmon from South America.

Increased Marketing Complexity

Developing a Specialty Market Niche

Small seafood processors with limited capacity cannot compete on price and remain in business; they must establish the value of their products at a higher price point. Specialty seafood products usually sell for twice or three times the price of mass-produced commodity brands. The marketing challenge is to justify the higher product cost to consumers. One approach is to emphasize high product quality coupled with credible environmental benefits and develop marketing and distribution methods that target consumers who value these product qualities. In other words, producers must develop a specialty market niche. This approach is widely recommended for all types of products that cannot successfully compete in high-volume commodity markets. (25) This general approach has been suggested as one way that wild capture fisheries – plagued by natural seasonality, increased stock volatility, and higher costs – can compete with aquacultured alternatives. (11,12)

Changing Consumer Preferences

One factor that should never be overlooked is that consumer preferences can change. What is popular today might not be popular tomorrow and, of course, the opposite case also occurs. There have been many examples of preference change in the fisheries business. Albacore tuna was originally considered a trash fish but consumers developed a taste for it

² Tongol tuna (*Thunnus tonggol*) is also known as longtail tuna. Tongol tuna is considered a “light” tuna along with skipjack, yellowtail, and bigeye tunas.

in the early 1900s. In colonial times, lobster was considered “poverty food” and fed to prisoners and indentured servants and even used as field fertilizer. (26) By the 1840s, better transportation allowed lobsters to be shipped from the northeast to inland cities and southern coastal cities where lobsters were rare and prized. Soon lobsters were no longer known as “the cockroach of the sea” but were considered a delicacy. Recently, Alaskan seafood suppliers have started marketing chum salmon (*Oncorhynchus keta*) – commonly known as dog salmon in the Pacific Northwest because it was considered so inferior to other salmon species that it was only fit to feed the dogs – as keta salmon in an attempt to change consumer attitudes and establish a more profitable market for this plentiful species. A similar change in consumer attitude has already been accomplished for sockeye and pink salmon, which were also once considered inferior species. These examples illustrate that companies who sell to consumers need to be continually alert to changing consumer preferences and also to market drivers that enable change so that the drivers can be exploited. (21)

Food Safety

Food safety is a large issue in the U.S. and has a strong effect on seafood markets. (12,27) Food safety is a popular topic in the media and there are negative demand consequences for any seafood linked to heavy metals or toxins. (11) The association of methylmercury with tuna has been a persistent negative factor for the tuna industry since 2001 when the U.S. Food and Drug Administration issued its first advisory regarding potentially dangerous levels of methylmercury in certain fish species. (28) Impressions once made in the consumer’s mind can be difficult to change even in the light of new and more accurate data. (29) While food safety issues are a negative for certain fisheries, a positive for all fisheries is that per capita seafood consumption is rising worldwide, and studies have shown that consumer preferences are changing in response to mounting medical evidence that seafood promotes health and nutrition. (30) Effectively managing the tension between risk (food safety) and benefit (health benefits) increases business complexity for seafood processors.

Eco-Labels

Consumers are frequently urged by environmental groups to modify their purchase decisions based on preferred environmental practices. Firms have responded by placing eco-labels on their products that highlight the item’s environmental or social benefits. A wide variety of eco-labels have been created, causing consumer confusion. The original purpose of eco-

labels was to reduce negative environmental impacts through a market instrument – the consumer’s buying power – instead of traditional command-and-control methods or trade restrictions. However, repeated studies have shown that consumers’ pro-environmental attitudes frequently do not translate into changes in purchasing actions. (31-33) What consumers say they would do, and what they actually do when making a purchase, are two different things; consumers’ actions do not match their professed environmental attitudes. The disconnect between attitude and action means that eco-labels are frequently ineffective for increasing sales at the consumer level.

Eco-labels may not be a significant competitive advantage for products at the consumer level but they are changing the structure of the fisheries supply chain. (11,12,34) Large retail chains, especially in the European Union, are using environmental certification as a competitive differentiator and insisting that suppliers provide sustainability certification. (11,12) This trend creates problems for fishers and seafood processors, especially smaller businesses. There are many eco-labeling standards and no single standard will be dominant in all markets. Certification is expensive to obtain and frequently requires yearly licensing fees and detailed record keeping, which adds extra expense to the process of producing, marketing, and distributing a product. Despite these difficulties, eco-labels may allow specialty niche products to differentiate themselves and access markets that they might not otherwise be able to penetrate.

Industry Consolidation

The FAO considers the shift of power in the fisheries supply chain to large retail chains (Wal-Mart, Kroger, Tesco, Costco, Darden Restaurants, etc.) to be a matter for concern because the requirements demanded by large chains make it difficult for small-scale producers to enter markets. (11) Demands by large chains frequently force the fisheries industry to bypass intermediate links in the supply chain to increase efficiency and deliver the product at the required price while still retaining a workable profit margin. (22) Many large companies consider the efficiency of their supply chain to be a competitive advantage and a way to improve overall financial performance; adding a new supplier is considered a business risk. (35) Such pressures force the supply chain to contract. In turn, consolidation of the supply chain forces small-scale producers to organize themselves into larger units in order to

achieve greater economies of scale and compete in a global economy. (11) Dr. Michael Morrissey summarizes the trend succinctly in a recent article: (36)

“The need for working cooperatively for both resource utilization and marketing is becoming more critical for small and mid-size enterprises to survive and prosper in a global economy.”

CHAPTER 2: BACKGROUND

EVOLUTION OF THE MICRO-CANNERS PROJECT

Project Inception and Goals

Micro-canners are small seafood processors (many family owned) that produce or distribute locally harvested, private-labeled canned seafood such as albacore tuna, salmon, crab, oysters, shrimp, and sturgeon. Micro-canners are further defined as businesses with less than 20 Full-Time Equivalent (FTEs) employed in relation to their canned seafood business.³ There are approximately 45 micro-canners in Oregon, northern California, and Washington. Figure 1 shows a representative collection of the many brands and products offered by northwest micro-canners.

The inception of the Micro-canners Project was driven by a request from a group of micro-canners attending the January 2006 Micro-Canners Conference in Astoria, Oregon, sponsored by the Community Seafood Initiative. The group wanted to investigate the possibility of developing a cooperation-based business model to secure greater market



Figure 1. Assorted brands and products offered by Pacific Northwest micro-canners.

³ The number of FTEs was chosen as the metric for company size, rather than yearly revenues or cases of product produced, because FTE information tends not to be as proprietary as revenue-related metrics.

share for their products through marketing programs and lower operational costs by way of shared resources. They drew inspiration from the tremendous business growth enjoyed by the craft beer industry in the Pacific Northwest, which like micro-canned seafood, is often priced at more than 200% of mass-produced brands and marketed on quality attributes such as naturalness and hand-crafting. Cooperation via national and regional trade associations is an accepted and highly successful practice for craft brewers. The micro-canners wondered if some type of cooperation-based program could also help their industry expand. At the urging of this group of like-minded micro-canners, the Community Seafood Initiative applied for and received grant funding in mid-2006 from the U.S. Department of Agriculture's Rural Business Opportunity Grant program and initiated planning for a feasibility study.

The goals of the Micro-canners Project are:

1. To determine if a significant number of Pacific Northwest micro-canners believe that some type of cooperation-based program would help them achieve greater market share, lower business costs, increase profitability, and support business growth; and
2. If such a business program is viewed favorably by micro-canners, assist them in developing and implementing the program.

Project Management Structure

The Micro-canners Project is coordinated and managed by the Director of the Community Seafood Initiative (CSI) in Astoria, Oregon (<http://www.heads-up.net/csi/index.cfm>). ShoreBank Enterprise Pacific, Oregon State University, the Coastal Oregon Marine Experiment Station, and other coastal entities founded CSI in 2002 in order to develop new management practices, value-added opportunities, and market approaches for coastal seafood companies. A six-member voluntary Advisory Committee of local micro-canners provided guidance throughout the Micro-canners Project. The Marine Resource Management program at Oregon State University provided assistance to the project by way of micro-canner interviews, data compilation, and production of this project summary report.

The Micro-canners Project consists of four phases:

- Phase 1: Review business models for similar groups that provide shared services to their memberships, such as the Brewers Association and NORPAC Foods, Inc. (a Willamette Valley farmer's cooperative) to determine feasible business model options.
- Phase 2: Interview local micro-canners as to their needs, opinions, and preferences regarding a coordinated business program.
- Phase 3: Present the survey results to the project's volunteer Advisory Committee of local micro-canners. The Advisory Committee may select one of the business approaches as most preferred, or recommend that the project be modified, discontinued, or postponed.
- Phase 4: If the Advisory Committee selects a preferred program, develop a written strategic business plan that includes management goals, marketing strategy, and financial projections.

To date, the project has progressed through phase 3. Phase 4 requires approval by the Community Seafood Initiative's Board of Directors plus additional funding.

The remainder of this report is organized as follows:

- The remaining portion of Chapter 2 provides general background on the micro-canners as a group, overviews of the primary fisheries supplying the micro-canners, and overviews of the possible business models.
- Chapter 3 describes the micro-canner interview process and results.
- Chapter 4 summarizes key findings.

OVERVIEW OF PACIFIC NORTHWEST MICRO-CANNERS

Business Forms

There are approximately 45 seafood micro-canners in Oregon, Washington, and Northern California⁴. Micro-canners are businesses that produce or distribute their own private brand of canned seafood and who employ less than 20 FTEs in relation to their canned food business. There are multiple sectors in the micro-canning industry; see Table 1 for definitions. Frequently one business serves multiple roles. For example, a processor can also be a distributor. The common denominator for all micro-canners is that they sell (either directly or via a distributor) their own private label of canned seafood.

Sector	Definition
Processors	Businesses with retort processing ⁵ capability. Processors may produce only their own private brand or they may also provide canning services for distributors, retail outlets, or fishermen who sell their own private labels but who do not perform the canning process themselves. There are approximately 20 micro-canner processors in the Pacific Northwest. Frequently processors have a retail outlet attached to their canning facilities where they sell their own brand of canned seafood and fresh fish.
Distributors	Businesses that buy fish from fishermen, have it canned by a processor under their own private label, and distribute the product wholesale to retail locations and/or sell directly to consumers via the Internet.
Fishermen	Fishermen who have their catch canned by a processor under their own private label and either sell the canned product wholesale to a distributor who re-sells it, act as their own distributor, or sell directly to consumers via the Internet.
Retail outlets	Retail businesses that buy canned product from a processor but have the product labeled as their own private brand.

Table 1: Sectors in the Pacific Northwest Seafood Micro-canner Industry

The number of fishermen who have their catch canned under their own label varies year-to-year depending on the size of the catch, ex-vessel prices for fresh and frozen fish, and

⁴ For this project, Northern California is defined as the three northern-most coastal counties: Del Norte, Humboldt, and Mendocino.

⁵ Retort processing: Heating foods prone to microbial spoilage in hermetically sealed containers such as cans, jars, or heat-stable pouches.

general market demand. Most fishermen prefer to sell their catch directly to seafood buyers or to processing facilities – whichever path yields the greatest profit. If demand (and therefore price) for their catch is unsatisfactory, fishermen might opt to have their catch canned in order to convert it into a shelf-stable form that doesn't require the expense of cold storage. Some fishermen are actively working to vertically integrate their businesses and expand to also include marketing and distribution. Those who have chosen this strategy are considered micro-canners in this project.

Merchandising Methods

Distributors and most processors focus on wholesale merchandizing to grocery chains (especially those that focus on artisanal and health foods) and specialty stores such as gift shops. A few processors focus on providing canning services to other micro-canners and place little emphasis on their own private labels.

It is common for processors to have a retail storefront open to the general public in connection with their processing facility. Of the 45+ northwest micro-canners, approximately 50% have a retail outlet where they sell their own label of canned seafood. Figure 2 shows a micro-cannery/retail business in Florence, Oregon.

Internet sales channels are common. Over 75% of micro-canners maintain an Internet web site where the public can purchase their products.

Some micro-canners sell their products at farmers markets. They tend to be fishermen or small-scale distributors who do not have enough product volume to justify the effort and expense of establishing broader, larger distribution channels.



Figure 2. Micro-cannery with retail storefront.

OVERVIEW OF PRIMARY FISHERIES

The two most common products offered by Pacific Northwest micro-canners are canned albacore tuna (*Thunnus alalunga*) and canned Chinook salmon (*Oncorhynchus tshawytscha*). Of the two, the highest volume product is albacore tuna. Tuna has been the dominant canned product in both production and revenue for micro-canners since the early 2000s because of the unpredictable availability of salmon. The value of canned albacore tuna and Chinook salmon (all sources) for the entire United States in 2007 was \$393 million. Of this value, over 99% is from canned albacore. (20)

Canned tuna (all species) enjoyed the highest U.S. per capita consumption of all seafood for years but was surpassed by shrimp in 2001. In general, yearly per capita consumption of fresh and frozen seafood is rising while consumption of canned seafood is decreasing. U.S. per capita consumption of canned tuna has dropped from 3.4 pounds in 2000 to 2.7 pounds in 2007. Yearly U.S. per capita consumption of canned salmon (all species) is steady at 0.3 pounds. (20)

Albacore Tuna

The canned tuna industry has been active in the Pacific Northwest for over 100 years. Tuna was first canned in California in 1903 when the sardine catch dwindled and albacore, then considered a nuisance fish of no commercial value, was used in desperation to fill the empty sardine cans. Albacore's mild tasting, white flesh appealed to consumers and the canned tuna industry was born. By 1913, nine processing plants were in operation on the west coast. (37)

The canned albacore market in the U.S. is dominated by large canneries in American Samoa (Starkist and Chicken of the Sea brands, #1 and #2 respectively in U.S. canned tuna market share) and Puerto Rico (Bumble Bee brand, #3 in U.S. market share). These three companies account for over 90% of the U.S. canned tuna market. (24)

Season and Gear

Juvenile North Pacific albacore (2-5 year olds) conduct an expansive annual migration starting in the western Pacific off the coast of Japan in early spring and continuing across the Pacific to inshore waters off the Pacific coast where they work their way north along the coast, feeding along upwelling fronts. In late fall/early winter they migrate back across the Pacific. The vast majority of albacore are caught in waters with sea-surface temperatures between 59-67° F. When off the U.S. west coast, albacore range from 20 to 100+ miles off the coastline. This close proximity to Pacific Northwest ports allows fishing vessels to harvest albacore during summer months. (36,38) A typical albacore-fishing season runs from July through October with landings peaking in fall months. Figure 3 shows the geographic area of highest albacore catch in 2006 and illustrates the near coastal proximity of the seasonal albacore fishery. (39)

The albacore fishery off the Pacific Northwest is primarily a hook-and line troll fishery. Trolling for albacore consists of towing 10-20 artificial lures with barbless hooks behind a fishing vessel at a speed of about 6 knots (Figure 4). Trolling is an inherently “clean” fishing method that catches one fish at a time and almost exclusively

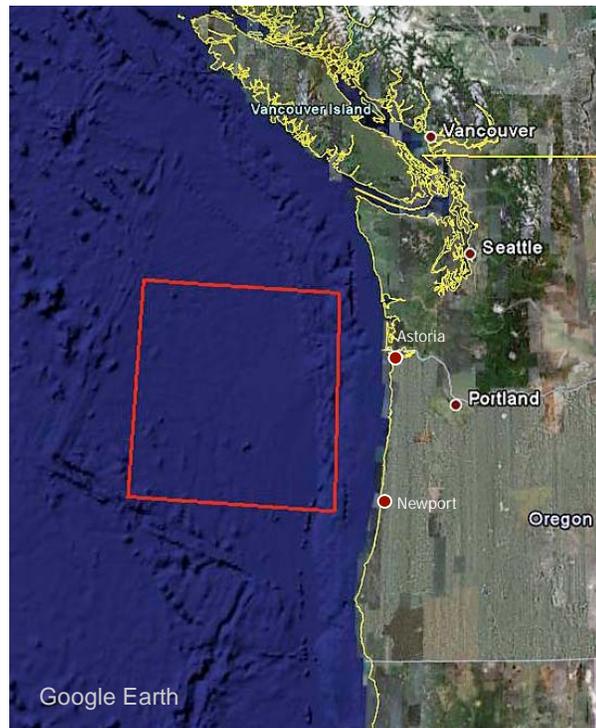


Figure 3. Area of largest 2006 albacore catch: 44°-47° N between 125°-129° W.

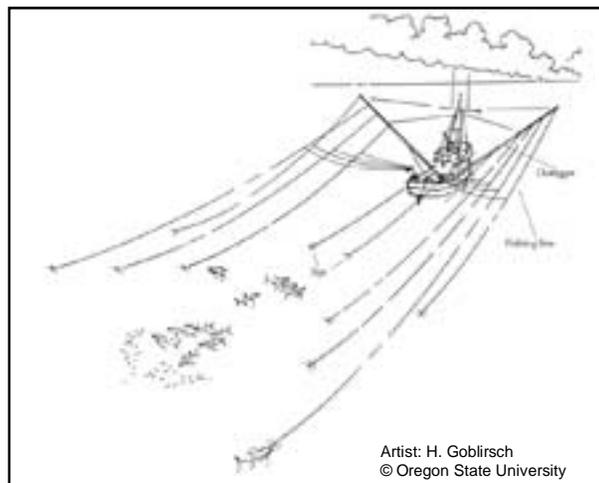


Figure 4. Trolling for albacore.

targets albacore; bycatch of non-target species is rare. Dolphins are rarely caught so the fishery, by its very nature, is “dolphin-safe.”

Albacore Stock Status

Tuna fishing effort substantially increased in the 1990s and all primary market species, including North Pacific albacore, are fully to over-exploited. (18,40) Management of the highly migratory albacore stock is the responsibility of multiple international organizations. For Pacific Ocean stocks these organizations are the Western and Central Pacific Fisheries Commission (WCPFC) and the Inter-American Tropical Tuna Commission (IATTC). Member nations (including the U.S.) are responsible for implementing commission resolutions in their own countries and also for promptly reporting their catches to assist tracking and stock assessments. In 2005, concern over the potentially over-exploited state of North Pacific albacore motivated the IATTC to pass Resolution C-05-02 which resolved that the total fishing effort for North Pacific albacore in the Eastern Pacific Ocean not be increased above current levels. Limited catch data and no specific definition for “current level of effort” has made implementing this resolution difficult. (41) The result has been to maintain the status quo and to focus on gathering more complete and timely albacore catch data.

In August 2007, The American Albacore Fishing Association (AAFA) received Marine Stewardship Council (MSC) sustainability certification for the Northern and Southern Pacific albacore troll fisheries conducted by members of the association. (42) This certification does not extend to the entire albacore fishery (all fleets, all gear types) but only to fish harvested by trolling or pole-and-line gear by AAFA-member vessels. The purpose of obtaining certification was to differentiate the fishery from competitors and increase the demand and ex-vessel prices for albacore landed by AAFA members. Processors and distributors of AAFA-caught albacore could elect to undergo chain of custody certification and be approved to display the MSC eco-label on their products. To date, only one Pacific Northwest micro-canner has been certified to display the MSC eco-label.

The MSC certification report lists the strength of the albacore fishery in relation to the MSC sustainability standard as the intrinsically low-impact nature of the fishing gear (no bottom impact, very little bycatch, no dolphin mortality). The MSC certification found the potentially over-fished status of albacore stocks to be an area of concern; this concern must be resolved in order for the AAFA to retain certification. (42) In contrast to this opinion, the

Pacific Fishery Management Council (PFMC), which has regulatory jurisdiction over highly migratory species in the Pacific Northwest, does not consider northern albacore to be overfished, however the PFMC is unable to clearly differentiate albacore from salmon fishing effort in Oregon and Washington due to data collection problems. (43)

Technical experts from all WCPFC member nations are working together to produce an updated albacore stock assessment. If a revised stock assessment confirms that Northern Pacific albacore is over-exploited, the PFMC could possibly make sudden changes to their Highly Migratory Species Fishery Management Plan, which in turn, could have significant negative impacts on product availability for micro-canners. Confirmation that northern albacore stocks are over-exploited would also substantially change the basis of the AAFA's MSC certification as a sustainable fishery and perhaps cause the certification to be revoked.

Albacore stocks are supposedly under international management, but lack of a stock assessment with consensus agreement effectively means there is no coordinated international management at the present time. If real international management does materialize, there are great uncertainties in the stock allocations for each country. Pacific Northwest states harvest about 14,000 metric tons of albacore a year (36) – a minor percentage of the 200,000 metric ton average world-wide yearly albacore harvest (40) and only 17% of the total north Pacific albacore catch. (44) If national stock allocations are implemented, what will be the U.S. share considering the small amount of albacore currently harvested by Pacific Northwest states and how will PFMC manage that share? These uncertainties in future product supply constitute a significant business risk for Pacific Northwest micro-canners.

Albacore and Food Safety

Albacore fetches the highest price for canning because of their white meat. (40) Fish are immediately killed and bled after capture to maintain their desirable white flesh color and either flash frozen or quickly chilled in ice or refrigerated brine to prevent formation of histamines which cause dangerous allergic reactions in some people. Fish are handled in ways that prevent bruising to their flesh (foam-padded decks, special bleeding racks) since bruising increases the speed of histamine formation and damages the flesh. (45) The U.S. Food and Drug Administration (FDA) has a food quality control program – HACCP (Hazard Analysis and Critical Control Point) – with a section focused on reducing the risk of

histamines in albacore. Fishermen and processors must keep good records to satisfy HACCP standards.

Few consumers are aware of the risk of histamine in canned tuna but many consumers are aware of the risk of methylmercury in tuna. When the FDA issued its first advisory regarding potentially dangerous levels of mercury in certain fish species in 2001 (28), the worldwide canned tuna market contracted by 10%. (24) The FDA has since moderated its message significantly (46), due partly to better data and also partly to lobbying by health-care and fisheries organizations. Some industry experts, however, do not feel that tuna's "image" with consumers is likely to recover. (23,47) Some large canned tuna producers plan to increase marketing emphasis on their canned salmon product lines because "it has all the healthful benefits of tuna but none of the baggage." (48)

Albacore tuna captured in the Pacific Northwest troll fishery are younger and smaller fish (12-17 pounds average) and their levels of mercury are well below the FDA guidelines. (49) A 2003 study of albacore caught in Pacific Northwest waters showed an average total mercury value of 0.14 ppm – significantly lower than the FDA standard of 1.0 ppm.⁶ (50) The issue of mercury, however, remains a negative influence on canned tuna sales, including the sales of local micro-canned albacore. Micro-canners emphasize the high levels of beneficial omega-3 fatty acids found in albacore as a counter to consumers' negative perceptions of tuna in relation to mercury.

Local Albacore Trends

Figure 5 shows that the total revenue received by fishermen for albacore landed in Pacific Northwest ports, when expressed in 2007 dollars, has decreased significantly in the last ten years although the landed catch has remained fairly constant. (41,51-53) The ex-vessel price for albacore has not kept pace with inflation. Total revenue received by all fishermen landing albacore in Pacific Northwest ports in 2008 was \$20 million. This is approximately 8.5% of the total revenue received by northwest fishermen for all species of landed fish in 2008. (6)

⁶ Also lower than the Canadian mercury standard for seafood of 0.5 ppm

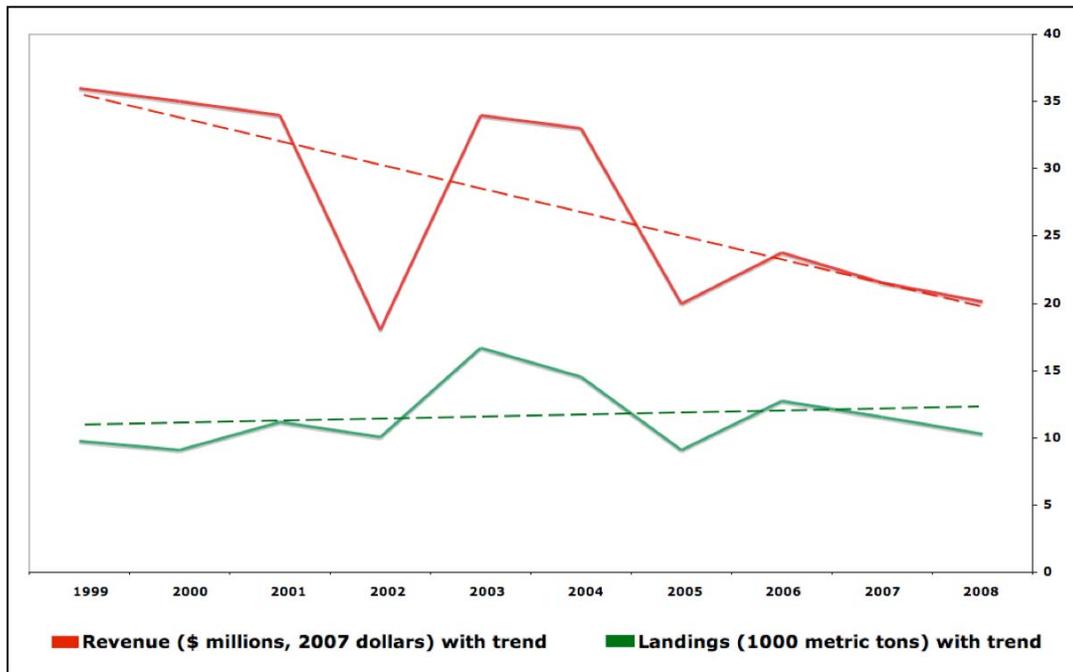


Figure 5. Total revenue to fishermen (in 2007 dollars) for albacore tuna landed in Pacific Northwest ports, plus total landed catch, 1999-2008.

Salmon

Season and Gear

The fishing season for Chinook salmon generally extends from May to mid-September however the season may be suspended early if the allowable catch quota for Chinook is reached earlier than the season end date. In recent years, the commercial season has been significantly shortened. Commercial fishers along the Pacific Northwest coast usually troll for salmon using gear similar to that used in trolling for albacore. Gillnets are also used in the Columbia River and certain Washington coastal bays and sounds.

Salmon Stock Status

The condition of Pacific Northwest salmon stocks is a frequent topic of regional newspaper headlines and editorial comment. The listing of multiple salmon stocks as either Endangered or Threatened under the Endangered Species Act directly affects the lives of many people in

the Pacific Northwest in a wide range of professions. A severe decline in wild salmon stocks from pre-settlement levels is universal across all Pacific Northwest rivers and an estimated 100-200 salmon stocks are identified as extinct, although this number may actually be conservative. (54) The total salmon run in the Columbia River had decreased to 20% of its pre-settlement level before the first dam on the main-stem Columbia was finished in 1933 (55) and has decreased further since then. Reasons for salmon declines vary by geography and include overfishing, dam construction, diversion of water for agriculture, habitat destruction caused by timber harvest, and weakening of native stocks by competition and interbreeding with hatchery-bred fish. In contrast, Alaskan salmon runs are generally in good condition though recent statistics might possibly signal a downward trend. (56) While individual genetic stocks of salmon might be threatened, no species of Pacific salmon is near extinction. Salmon are readily available to consumers and commercial seafood buyers and are generally inexpensive (with the exception of wild-caught Chinook salmon).

Salmon hatcheries have been used to maintain declining salmon runs and harvest levels for over 100 years and there are now about 500 salmon hatcheries in California, Oregon, Washington, Idaho, and British Columbia. (54) Hatchery fish make up the majority of salmon in most Pacific Northwest rivers. Commercial harvests depend heavily on hatchery stocks (44) with approximately 70% of the harvest made up of hatchery-bred fish. (57) Hatchery-bred fish mix with naturally spawned fish in the ocean, creating a mixed-stock fishery where abundant hatchery fish are simultaneously harvested with less common wild fish. (54)

Salmon stocks naturally vary due to a variety of factors including short-term and decadal oceanic cycles. Figure 6 shows both the general downward trend of Chinook and coho harvests in the Pacific Northwest due to regulation and cyclic oscillations. (58)

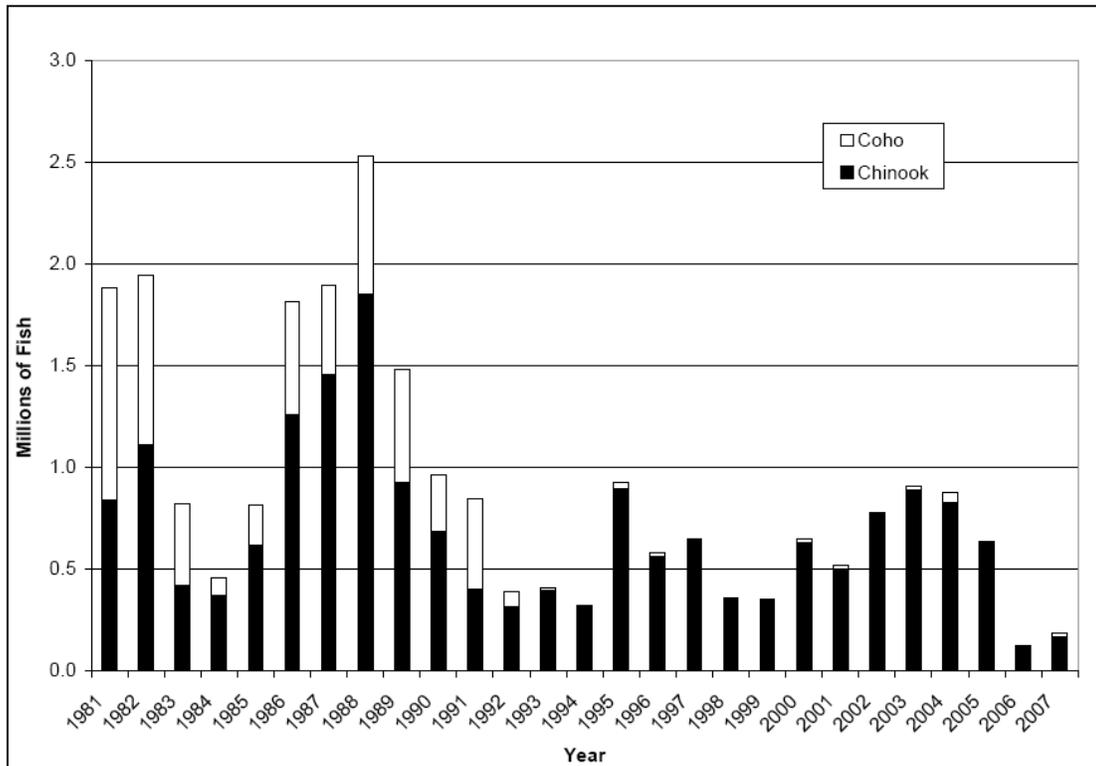


Figure 6. Oregon, Washington, and California ocean non-Indian commercial Chinook and coho harvest, 1981-2007.⁷

Recent Salmon Closures

Three primary river systems provide the salmon that range over the Pacific Ocean off the coasts of Oregon, Washington, and northern California – the Columbia-Snake drainage, the Sacramento-San Joaquin drainage, and the Klamath drainage. Salmon from a specific species (such as Chinook) from these drainages are indistinguishable from each other in the ocean although research is focused on rapid-analysis genetic techniques as a possible solution. (59) Fishing techniques cannot selectively target hatchery-bred salmon in a mixed-stock fishery so mixed wild-hatchery populations are managed to protect the wild fish. Since fishers cannot know if a Chinook they catch in the ocean is from a threatened stock, the PFMC manages salmon harvest on a “weakest-stock” basis. (60) This approach has had profound effects on the northwest salmon fishery and all related businesses such as the micro-canners. In 2006, fewer than 30,000 wild Chinook were forecast to return to the

⁷ Figure IV-1 from *Review of 2007 Ocean Salmon Fisheries*, published February 2008 by the Pacific Fishery Management Council, Portland, OR

Klamath River – less than the minimum required to sustain the run according to the PFMC. The PFMC closed or severely limited all oceanic salmon harvest in California and Oregon coastal waters to protect this threatened stock. The commercial salmon fishery was highly impacted and received federal disaster relief funds. The 2007 season, while not closed, was tightly restricted. In 2008 another major closure occurred, this time in response to a weak Sacramento Chinook stock return. Again, the coastal commercial salmon fishery was highly impacted and received federal financial relief. In the 2008 commercial salmon season, the number of coho landed in the non-Indian commercial harvest was similar to the low 2006 and 2007 coho harvest levels shown in Figure 6. The 2008 Chinook non-Indian commercial harvest, however, was significantly lower than the 2006 and 2007 harvests. The 2008 Chinook harvest was 14,261 fish – only 9% of the 2007 harvest. (61)

Salmon and Food Safety

Salmon are high in omega-3 fatty acids and are widely promoted as a “heart-healthy” food. Salmon accumulate methylmercury but at much lower levels than other predatory fish due to their shorter life spans. Concerns about mercury levels do not affect sales of salmon products as they do tuna. Histamine formation is also not an issue in salmon. (62)

Local Salmon Trends

The average ex-vessel price per pound of Chinook has increased in the last 10 years (51-53,58) (Figure 7) but is not as high as the late 1970s and early 1980s when the price, expressed in 2007 dollars, was over \$6.00 per pound. (58) Ex-vessel prices for salmon decreased in the 1990s due to the increase in imports of

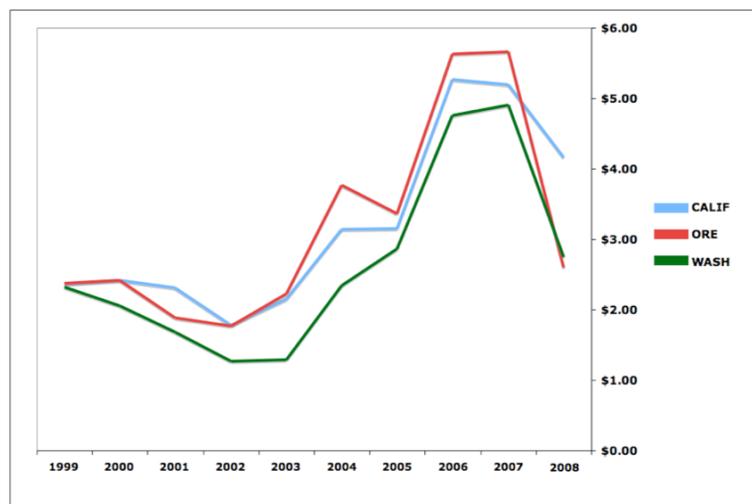


Figure 7. Ex-vessel prices in 2007 dollars for troll-caught Chinook salmon in California, Oregon, and Washington.

low-priced farmed salmon from South America. (50) Marketing campaigns to differentiate wild-caught⁸ salmon from farmed salmon – a classic example of a specialty market niche – have helped ex-vessel prices increase in recent years. The success of Alaska’s marketing promotion of “Copper River Salmon” showed the rest of the salmon fishing industry the value of brand marketing, product differentiation, and working cooperatively for marketing purposes. (50)

One reason ex-vessel prices in 2006 and 2007 were higher than previous years was due to the extremely restricted fishing seasons. (58) The 2008 season was also tightly restricted, with the lowest catch on record (61), but prices did not hold up due to the softening economy. Total revenue received by all fishermen landing Chinook in northwest ports in 2008 was \$9.7 million. (6) This is approximately 3% of the total revenue received by fishermen for all species of landed fish in 2008.

BUSINESS MODEL VARIATIONS

The first phase of the micro-canners project was to conduct a review of business models that provide shared services to their memberships in order to determine feasible options. The following information provides a general overview of the primary business models investigated: cooperatives and trade associations.

Business Cooperative

A cooperative is an incorporated firm that is controlled and operated by a group of users for their own benefit. Each member contributes equity into the firm and shares in the control of the firm on the basis of a one-member, one-vote principle. The success of a cooperative is measured in how well it addresses the needs of its member-stakeholders, not by the return paid to outside investors.

The primary strength of cooperatives is that they are people-centered businesses rather than capital-controlled businesses. The people-centered business exists to serve the needs of the stakeholders of the business (users or suppliers or both), instead of placing primary

⁸ “Wild-caught” does not mean naturally-spawned fish. The majority of salmon harvested in the Pacific Northwest are hatchery bred due to the decline of wild stocks.

emphasis on getting a satisfactory return on invested capital. (63) For example, an effective agricultural cooperative will be concerned with providing services to its members that increase their prosperity as farmers. Aspects of this prosperity might include production of value-added products for market expansion and lower-cost pooled purchasing of health insurance coverage or farm supplies that might be too expensive for an individual farmer to afford on their own. A conventional firm is less likely to care about the well-being of farmers in a specific region than about obtaining the necessary supplies from the most economical source.

The disadvantages of cooperatives include: (63,64)

- Possibility of conflict between members.
- Longer decision-making process.
- Participation by members is required for the cooperative's success.
- Extensive record keeping to track each member's contribution and return.
- Less incentive for members to invest additional capital, threatening the cooperative with insufficient capital for business growth.
- Difficulties in obtaining outside financing. Financiers to cooperatives must risk their funds within an organizational framework where they have little control; therefore they might be reluctant to extend favorable terms on loans for business expansion.

Cooperative Example – NORPAC

A well-known cooperative in Oregon is NORPAC Foods Inc. (originally North Pacific Cannery and Packers) – Oregon's largest fruit and vegetable processor. (65) NORPAC was formed in 1924 and is owned by 240 Willamette Valley farmers. NORPAC produces frozen and canned fruits and vegetables, as well as soup and pasta mixes, under the FLAV-R-PAC®, Santiam®, WESTPAC®, SOUP SUPREME®, and Pasta Perfect® labels. The cooperative sorts, processes, and packages its growers' products at five processing plants in the Salem area and sells the packaged foods to foodservice companies, retail grocers, club stores, and industrial clients throughout the U.S.; it also exports products to Canada, Latin America, Puerto Rico, Japan, Korea, and Taiwan. By working together, the cooperative owners benefit from state-of-the-art processing technology and achieve a broad product portfolio and extensive market access that would be impossible for an individual farmer. Access to a variety of production and packaging techniques is a recognized form of portfolio diversification that reduces economic risk. (10) Combining into a larger group, with greater

total financial resources and technical capabilities, lets Willamette Valley farmers enjoy greater benefits while limiting individual risk.

Cooperative Example – Columbia River Packers Association

Many Americans are familiar with the Bumble Bee® brand of canned tuna – a brand owned by Bumble Bee Foods LLC. The Bumble Bee brand was originally created by the Columbia River Packers Association (CRPA), a cooperative of seven Astoria seafood canners. (66) In 1883, there were 55 salmon canneries on the Columbia River. When salmon runs on the Columbia significantly decreased in the late 1890s, the Columbia River Fishermen's Protective Union was successful in striking for higher salmon prices from the canneries. The united front offered by the fishermen's union inspired some of the canners to organize themselves into a cooperative and CPRA was formed in 1899 from seven companies owning 10 canneries. Each participating canner was bought out by the cooperative or given stock in the cooperative equal to the value of their cannery. Samuel Elmore was a major force in bringing the cooperative into existence and his cannery in Astoria was the cooperative's main processing facility while the other cannery locations were converted into office space or cold storage. (67) One gets the impression that the CRPA cooperative was created largely on the strength of Elmore's personal drive. Success in building cooperatives, like success in building corporations, is often related to leadership qualities.

The cooperative invested in their own fishing fleet in order to ensure product supply at a predictable price and expanded canning operations into Alaska. CRPC experimented with canned beef, crab, shrimp, and albacore products to compensate for the decline of the Columbia salmon runs and to find products that would keep the canneries running year-round. Only albacore proved commercially viable. By the 1930s, tuna production had surpassed salmon both in volume and market acceptance. Tuna and salmon were canned under the Bumble Bee label (and still are) though tuna is more popularly associated with the brand. Today, the Bumble Bee brand ranks third in the U.S. canned tuna market.

CPRA built the cooperative into a large, vertically integrated business spanning fishing, canning, marketing, and distribution. An individual canner would be unlikely to accomplish the same feat. The success of CPRA is an example of what a cooperative can accomplish that would be far more difficult for a single individual.

Trade Association

A trade association is an organization founded and funded by businesses that operate in a specific industry. A trade association participates in public relations activities such as advertising, education, political lobbying, and development of industry standards. Many associations are non-profit organizations governed by bylaws and directed by officers who are also members.

Advantages of a trade association as a shared business resource include: (68)

- Designed to grow the industry/segment size while still encouraging competition; promote industry changes that are beneficial to all members.
- Avenue of mutual support in regard to potentially disadvantageous legislation or regulation.
- Means for maintaining or increasing industry-wide standards.
- Simple to set up and maintain; fewer documentation requirements than a cooperative.
- Flexibility; ability to quickly shift program focus to serve members' changing needs.
- Equity investment not necessary; generally low membership fees.

Disadvantages of trade associations include: (68)

- Potential for rapidly changing membership (entrances and exits).
- Often difficult to provide services at the level of dues members are willing to pay.
- Potential unwillingness of members to communicate or cooperate for fear of weakening their own product's competitive advantage.

An additional weakness of trade associations is the free-rider problem. A free-rider enjoys the results produced by others but without contributing to the cost of producing the result. For example: an architectural trade association runs an advertising program promoting the "green building" expertise of its members. Architects who are not members of the association have a chance to benefit from the campaign and gain new clients yet they paid nothing toward the support of the association or for the ad campaign. They are free-riding on the efforts of the paying association members. Cooperatives are also susceptible to free-riding (69) but the problem tends to be more acute with trade associations.

Trade associations frequently focus their efforts on regulatory or legislative issues that affect their memberships. Figure 8 shows the first page of an educational handout designed to emphasize the healthful benefits of seafood in the diet. (70) Three of the four sponsoring organizations are national trade associations with an interest in the canned seafood market. This handout is an example of multiple trade associations cooperating to influence consumer attitudes for the benefit of their memberships. The goal of this specific program is to strengthen the consumer's perception of seafood as a health food instead of a food with potential safety issues.

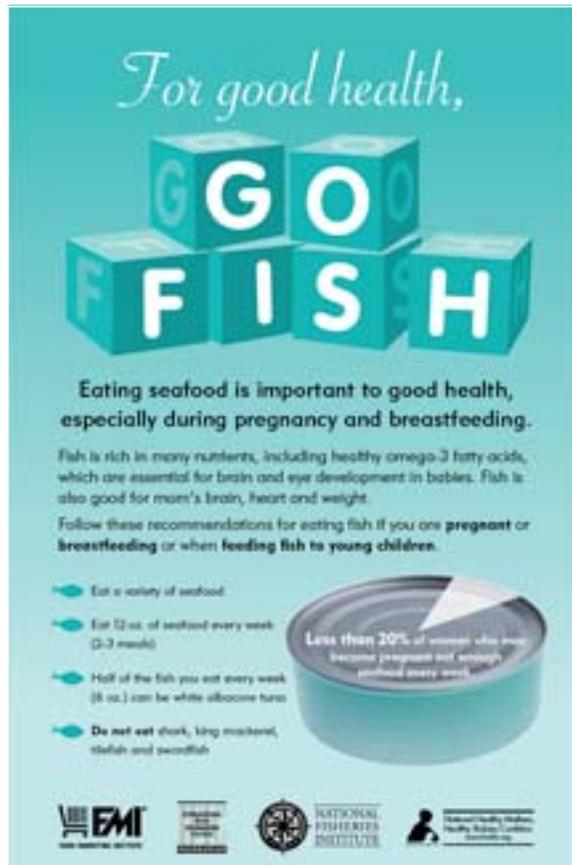


Figure 8. Educational handout emphasizing the health benefits of seafood.

In 2007, the Oregon Brewers Guild (a state-level trade association for small brewers) and the Brewers Association (the national-level trade association) mobilized their Oregon memberships to provide input at public hearings on proposed legislative bills that would have increased beer taxes. None of the bills were enacted. (71) This is an example of how trade associations can engage their memberships in collective action for defense of their industry from damaging regulatory changes.

Trade Association Example – Brewers Association

The first trade association in the United States was the United States Brewers Association, founded in 1862 in response to the passage of the Internal Revenue Act that applied a tax of \$1 per barrel of beer as a means to help finance the U.S. federal government during the Civil War. (72) Trade associations in the alcoholic beverage industry have been battling taxes and regulatory control ever since. The Brewers Association (and its local extension – the Oregon

Brewers Guild) was the inspiration that sparked the Micro-canners Project. The Brewers Association is a national association of craft brewers⁹ that traces its roots to 1942. Their stated mission is to increase the market share of American-brewed craft beer and to exert their influence to ensure fair legislative and regulatory treatment for craft brewers.

The Brewers Association has been spectacularly successful in supporting the growth of the craft beer industry. In 2007, the craft beer market segment grew sales by 12% while other segments (imported beers, domestic non-craft beers) increased sales only a little over 1%. (73) Craft beer sales for the first half of 2008 grew sales 11% over the same period in 2007 despite the softening economy. (74) The Brewers Association attributes this growth to an increasing consumer preference for handcrafted, fuller-flavored beer. There is also an increasing preference for locally-produced beer since the number of companies in the microbrewery segment (those producing less than 15,000 barrels a year and with largely local distribution) increased 20% in 2007. Over 97% of all U.S. breweries are craft breweries and approximately 80% of craft brewers are members of the Brewers Association. (71,74)

The Pacific Northwest is a nationally recognized region for craft brewing. California, Oregon, and Washington account for 32% of the 50 largest-selling U.S. craft breweries. The Portland metro area has more breweries than any other metro area in the world. The Oregon Brewers Guild claims that one of the factors of this regional success for craft brewers is that Northwest residents are “fiercely loyal to local products.” (75) If this loyalty can be extended to other locally produced specialty products (such as canned seafood), it could be leveraged to expand the market for micro-canners’ products in the Pacific Northwest.

The Beer Association and state beer guilds support industry growth through conferences, exhibitions, rallies, tastings, contests, and trade shows; technical education; beer-oriented publishing; political lobbying; and enthusiastic encouragement of the home brewer. Most microbreweries and brewpubs started as home brewers. Home brewers are intensely loyal

⁹ Craft brewers are defined by the Brewers Association as small (brewers who produce less than 2 million barrels annually), independent (have less than 25% ownership by an alcoholic beverage industry member who is not themselves a craft brewer), and traditional (produce predominantly all-malt beers). This definition encompasses microbreweries (a brewery that produces less than 15,000 barrels of beer per year with 75% or more of its beer sold off site), brewpubs (restaurant-brewery that sells 25% or more of its beer on site), and regional breweries (breweries that produce between 15,000 and 2 million barrels annually). (73)

to the market segment and frequently are vocal opinion leaders that influence the choices of others.

The Beer Association has been under the leadership of Charlie Papazian – a widely influential and respected leader, author, and home brewer – since 1978. Many people credit the continued success of the Beer Association to his strong, consistent leadership. Trade associations are no different from cooperatives, traditional corporations, and public agencies in this regard: great leadership builds great organizations. (76)

CHAPTER 3: DATA GATHERING AND RESULTS

SELECTION OF SURVEY CANDIDATES AND THE INTERVIEW PROCESS

Phase 2 of the Micro-canners Project was to interview a cross-section of Pacific Northwest micro-canners as to their business characteristics, management needs, and personal opinions and preferences regarding a cooperation-based business program. A telephone survey of 24 questions, divided into five general topic areas, was selected as the interview method. The survey questions are contained in Appendix A. The purpose of the survey questions was to discover the types of information listed below. This information would allow the project team to understand the factors influencing the micro-canners' opinions regarding a cooperation-based business model.

- Products offered, highest selling product
- Sales channels
- Marketing strategy
- Business scope (annual sales, expansion plans, business longevity)
- Human resources (employee statistics, health insurance needs)
- Business challenges
- Business cooperation experience and opinions

Twenty micro-canners were invited to participate in the survey. In order to provide a range of viewpoints, the Project Manager at the Community Seafood Initiative (CSI) selected the 20 potential interviewees based on the following criteria.¹⁰

- Geographic location (Washington, Oregon, Northern California)
- Estimated business size in yearly canning sales:
Large: \$1M - \$5M; Medium: \$500K - \$1M; Small: \$100K - \$500K;
Very small: < \$100K
- Primary revenue source (processor, distributor)

¹⁰ Businesses employing more than 20 Full-Time Equivalents in their canning business were not included in order to keep the project focused on small canning enterprises.

Contact information for the invitees was primarily acquired from the attendee list at the 2006 Micro-Canners Conference in Astoria, Oregon and augmented from CSI's client database. Attendance at the conference was dominated by Oregon micro-canners likely because of the travel distance involved.

Semi-standardized interviews were conducting during the summer of 2007. The interviews were semi-standardized in that the same questions were asked of all participants but frequently the participants spontaneously provided more information and opinions than the survey covered. Since this type of unsolicited information frequently reveals motivations, concerns, and potential barriers, participants were allowed to expand on their replies.

The 20 interview candidates were contacted first by letter to provide an introduction to the project and assure them of the confidentiality and anonymity of their responses, then by telephone to determine their willingness to participate, and if they agreed, to confirm a time for the interview. Interviews were completely voluntary and the participant could decline to answer any question for any reason. Fourteen micro-canners agreed to be interviewed; six declined. Four interviews were conducted face-to-face and ten were conducted via telephone. The author conducted 11 interviews and the Project Manager conducted three interviews. All responses were pooled in a manner that disguised company names and maintained anonymity.

Non-Involvement

Of the six micro-canners that declined to participate, three were unavailable due to time conflicts (such as fishermen at sea for extended periods); two provided no reason. Only one potential survey participant had a negative reaction to the survey request. The reasons for this person's non-involvement were:

- Want to stay small and not grow
- Want to stay independent and not share information and technology with others
- Involved in similar discussions in the past. They were a distraction and unproductive.

Geographic Representation

Figure 9 shows a breakdown of the 20 survey invitations and 14 acceptances by geography. At the time of the survey, an estimated 46 seafood micro-canning firms were in operation across the Pacific Northwest, 23 in Oregon, five in California, and 18 in Washington. Figure 9 shows that over 50% of all Oregon and California micro-canners were invited to

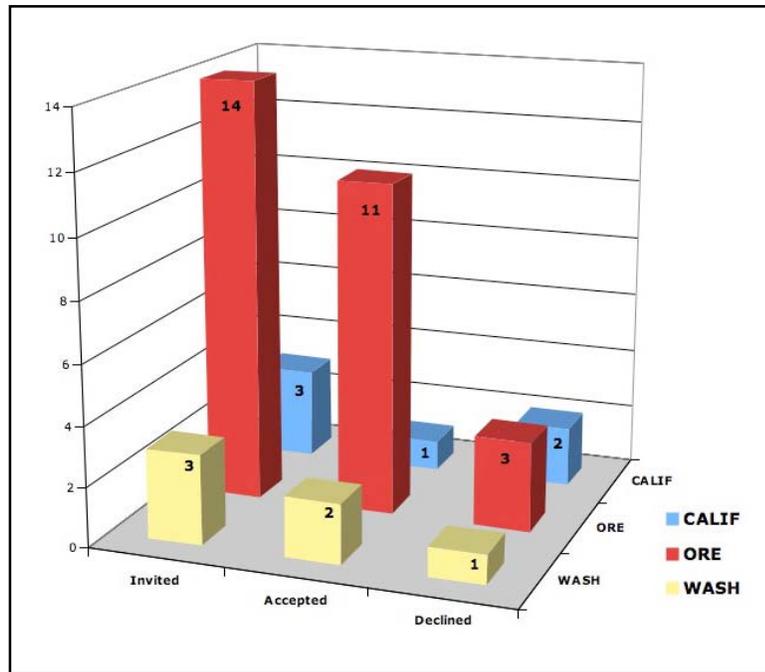


Figure 9. Breakdown by geographic region of survey invitations, acceptances, and refusals.

participate but that less than 20% of Washington micro-canners were invited. This result is a combination of the low number of micro-canners in California and the fact that Oregon micro-canners predominated at the 2006 Micro-canners Conference in Astoria.

SURVEY RESULTS

Business Size

Micro-canners taking part in the survey were asked to provide a general range of yearly revenue from canning sales (\$1M-\$5M, \$500K-\$1M, \$250K-\$500K, <\$100K). Since revenues are extremely proprietary, it was felt that more micro-canners would voluntarily provide the information if a range of values, rather than a specific figure, was presented. Figure 10 shows a breakdown by business size and geography of those micro-canners who participated in the survey: Large: \$1M-\$5M; Medium: \$500K-\$1M; Small: \$250K-\$500K;

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Very small: <\$100K. Oregon participants were evenly distributed across all revenue ranges. Washington and California participants represented one revenue range each; both Washington participants were in the medium range (\$500K-\$1M) and the single California participant was in the very small range (<\$100K).

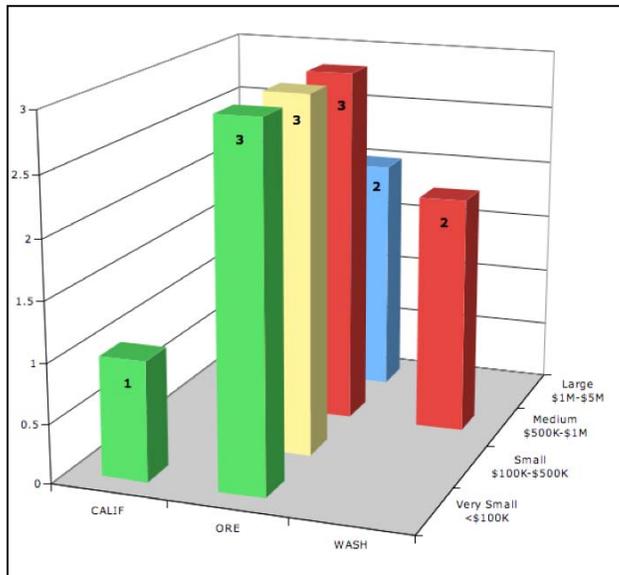


Figure 10. Breakdown of survey participants by region and business size.

These revenue figures are approximate at best. Some micro-canners surveyed who had multiple revenue streams (for example, a fresh fish retail storefront as well as canned fish products) could not specifically identify the revenue obtained from the canning part of their business and provided their best estimate.

Micro-canning Sectors

The top section of Figure 11 shows an overview of the 14 survey participants by business size and micro-canning industry sector.¹¹

The lower two bars of Figure 11 show the number of survey participants who have a retail storefront associated with their micro-canning business and those who conduct a portion of their sales via the Internet, mail, or phone. This data

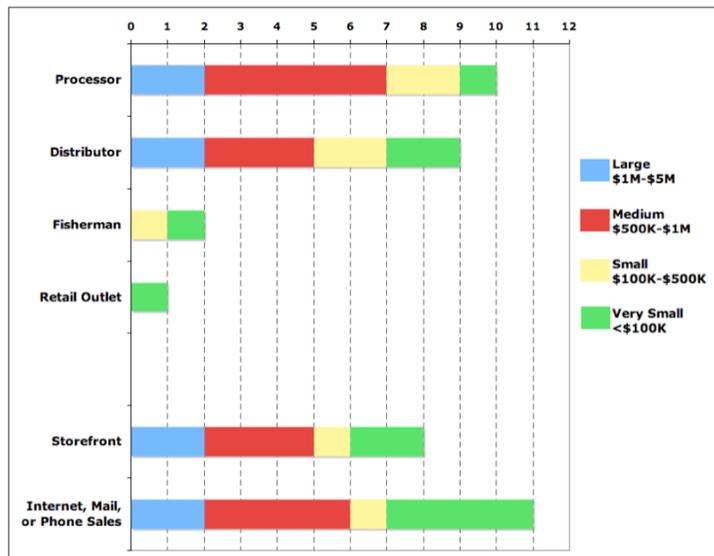


Figure 11. Industry sector distribution of survey participants (top) and additional business strategies (bottom), by business size.

shows that Pacific Northwest micro-canners use diverse business strategies, regardless of business size, and most companies use multiple strategies.

Business Size, Strategies, and Goals

Table 2 summarizes the survey results with respect to business size, employees, business strategies, processing focus, and business growth goals. Ten of the 14 participants have processing capability; all companies in the Large and Medium sales ranges are processors. Regardless of company size, micro-canners frequently occupy more than one industry sector (for example, being both a processor and a distributor) and often use multiple business strategies (such as combining micro-canning with on-premises retail sales). Eight of the 14 micro-canners surveyed have a retail storefront. Four participants indicated that business growth was not a goal. Three of these companies are in the Very Small category and one is the Medium category. Reasons cited for wanting to maintain the status quo included a desire reduce stress and keep their jobs enjoyable, upcoming retirement, and a desire to focus on a different aspect of their business besides canning.

¹¹ Sector definitions are provided in Chapter 2, Table 1.

Company Size in Yearly Canning Sales	Number of Companies
Large: \$1M - \$5M	2
Medium: \$500K - \$1M	5
Small: \$250K - \$500K	3
Very Small: < \$100K	4
Canning FTEs	Number of Companies
15-20 FTEs	1
6-15 FTEs	7
3-5 FTEs	2
1-2 FTEs	4
Business Strategies	Number of Companies
Processing only	0
Processing and distributing	3
Processing and retail storefront	4
Processing, distributing, and retail storefront	3
Distributing only	1
Fishermen with their own brand label	2
Retail outlet with their own brand label	1
Business Strategy by Company Size	Number of Companies
Large: \$1M - \$5M	2
Processing, distributing, and retail storefront	2
Medium: \$500K - \$1M	5
Processing, distributing, and retail storefront	1
Processing and distributing	2
Processing and retail storefront	2
Small: \$250K - \$500K	3
Processing and distributing	1
Processing and retail storefront	1
Fishermen with their own brand label	1
Very Small: < \$100K	4
Processing and retail storefront	1
Distributing only	1
Fishermen with their own brand label	1
Retail outlet with their own brand label	1
Processing Focus	Number of Companies^a
For self only	1
For others only	0
For self primarily, small % for others	7
For others primarily, small % for self	2
Use other processors occasionally	2
Want to Grow Canning Business?	Number of Companies
Yes	10 (71%)
No	4 (29%)

^a Processors may appear in more than one category

Table 2: Business Size, Number of Employees, Strategies, and Goals

Products, Sales Channels, and Merchandising

Table 3 summarizes the canned products sold by the micro-canners and what sales channels and geographic markets they primarily serve. Albacore tuna is the highest selling product for all participants and salmon is generally second.

Half of the micro-canners interviewed receive a significant percentage of their canning-related revenue from their own retail storefront (either as the primary or secondary sales channel). Since most micro-canners are located in small communities, store traffic is highly dependent on tourists. Only two micro-canners use the Internet as their primary sales channel although 11 of the 14 of participants maintain an Internet website with ordering information.

All but one survey participant received the majority of sales from the west coast region. Half of participants indicated that the east coast was the region of next highest sales. One participant sold only along Interstate-5 as a strategic choice and had no plans to expand sales into other geographies. Three participants did not know which geographic region was second highest in sales.

The primary product attribute among survey participants was “quality,” mentioned as the first product attribute 12 out of 14 times. The two next most common product attributes were local harvest and nutritional health benefits.¹²

When this project was launched, there were 45 different brand labels of canned seafood produced by west coast micro-canners. Most participants had a very accurate idea of the extent of their local competition and estimated that 40-50 different brand labels were produced in the Pacific Northwest. (See survey question 1(d) in Appendix A.)

¹² Both albacore and salmon are high in omega-3 fatty acids.

Product Portfolio	Number of Companies
Albacore tuna only	1
Albacore and salmon	7
Albacore, salmon, and others ^a	6
Largest Selling Product	Number of Companies
Albacore tuna	14
Salmon	0
Other	0
Sales Channels	Number of Companies
Retail storefront	8
Wholesale to retail grocery and/or specialty stores	6
Processing services for others	9
Internet	11
Phone or mail order	3
Farmer's markets	1
Primary Sales Channel (highest revenue)	Number of Companies
Retail storefront	5
Wholesale to retail grocery and/or specialty stores	5
Processing services for others	1
Internet	2
Phone or mail order	0
Farmer's markets	1
Secondary Sales Channel	Number of Companies ^b
Retail storefront	2
Wholesale to retail grocery and/or specialty stores	1
Processing services for others	1
Internet	5
Phone or mail order	3
Farmer's markets	0
Geographic Area of Largest Sales	Number of Companies
West coast (California to Alaska)	13
East coast (Maine to Virginia)	1
Central (Idaho, Dakotas, to southwest)	0
Midwest (Minnesota to Kentucky)	0
South (Texas, gulf states, to the Carolinas)	0
Primary Product Attributes Used in Promotion	Number of Companies
Quality	13, 12 first mentions
Nutrition	4
Local harvest	4
Natural	2
Superior taste	1
Business longevity	1

^a Others: Dungeness crab, pink shrimp, sturgeon, clams, oysters

^b One company has a single sales channel. Another company did not answer the question.

Table 3: Product Portfolio Characteristics, Sales Channels, and Geographic Focus

Business Challenges and Needs

Table 4 summarizes the responses to the survey questions that probed for unmet business needs and challenges.

Unserved Market Need	Number of Companies
Wholesale to health food/gourmet retail	4
Internet sales	2
East coast sales expansion	1
“Vanity canning” (custom canning for sportsmen)	1
Consumer education re: nutrition	1
Satisfied with status quo	5
Greatest Business Challenge	Number of Companies
Product supply	6
Marketing	5
Human Resources	2
Business management skills	1
Greatest Business Challenge by Company Size	Number of Companies
Large: \$1M - \$5M	2
Product supply	2
Medium: \$500K - \$1M	5
Product supply	2
Marketing	2
Human Resources	1
Small: \$250K - \$500K	3
Product supply	1
Marketing	2
Very Small: < \$100K	4
Product supply	1
Marketing	1
Human Resources	1
Business management skills	1

Table 4: Business Challenges and Needs

Unserved Market Need

The question regarding unserved market need was designed to learn where/how micro-canners wanted to expand their business. The response with the greatest number of replies was to expand into wholesale distribution to grocery outlets that specialize in health foods and/or gourmet foods. Responses that indicated satisfaction with the status quo arose from varying motivations. One survey participant has a business strategy with specific target customers along the west coast and has no plans to alter his strategy at this time. Another

participant believed that the high quality inherent in a small-batch, hand-crafted specialty product is not compatible with significant business growth. Other participants believed a focus on growth will lead to increased stress and decreased job satisfaction. Recall that four out of the 14 survey participants do not want to grow their canning business (Table 2).

Greatest Business Challenge

The question regarding greatest business challenge opened the section of the survey that probed for opinions on a cooperation-based business model. The purpose of this question was to gain insight into problem areas that multiple micro-canners share and where they might welcome help. Six of the 14 survey participants identified product supply logistics as their primary business barrier, i.e., obtaining enough fish to process. Marketing challenges were a close second with five responses.

The micro-canners struggling with product supply issues share several common characteristics:

- All offer canned salmon as one of their products.
- All are processors.
- All have a retail storefront that is either their primary or secondary sales channel.

Four micro-canners specifically mentioned salmon supply as their biggest business issue. The survey was conducted in the summer of 2007 (at the height of tourist season) and the salmon season was tightly restricted due to regulations, with not enough fish to satisfy demand. These micro-canners either could not find fish or could not find fish at an acceptable price – the survey did not distinguish between these possibilities. The survey also did not determine if the product supply problems were primarily for fish to be canned or for fish to be sold fresh in their retail storefronts.

All micro-canners who consider marketing challenges to be their biggest issue have wholesale distribution as their primary or secondary sales channel and only one has a retail storefront. It is possible that some micro-canners' product supply concerns might be more driven by the seasonal fresh-fish needs of the retail storefront and not purely by the need of fish for canning. The survey did not investigate this possibility.

Opinions Regarding a Cooperation-based Business Model

Table 5 summarizes the survey responses to questions regarding a cooperation-based business model. Table 5 also summarizes the current level of cooperation among micro-canners.

Services to Members of Cooperation-based Group	Number of Companies^a
Marketing	11
Shared purchasing service	3
Process training	3
Health insurance	1
Business management assistance	1
Consumer education regarding mercury in tuna	1
Key Membership Criteria	Number of Companies
Small company size	7
Quality product	7
Key Membership Criteria by Company Size	Number of Companies
Large: \$1M - \$5M	2
Small company size	1
Quality product	1
Medium: \$500K - \$1M	5
Small company size	2
Quality product	3
Small: \$250K - \$500K	3
Small company size	0
Quality product	3
Very Small: < \$100K	4
Small company size	4
Quality product	0
Willingness to Pay Fees by Desire for Business Growth	Number of Companies
Pay Fees: Yes	10
Want to grow canning business	9
Do not want to grow canning business	1
Pay Fees: No	4
Want to grow canning business	1
Do not want to grow canning business	3
Cooperation Among Micro-canners	Number of Companies
Cooperating	13
Not Cooperating	1

^a Some companies provided multiple answers.

Table 5: Opinions Regarding Cooperation-based Group and Current Cooperation

Services to Members

Most survey participants (11 out of 14) felt that the primary service to members that a shared business model could provide was marketing and promotion. Survey participants felt a shared organization could raise awareness of specialty-canned seafood and find new prospects. The next most mentioned areas where a shared organization could provide service to members were shared purchasing services for processors (cooperative buying of empty cans and salt for a greater discount) and technical training in the canning process (for example, how to pass HACCP certification). Survey participants did not feel that a shared business model could help them with their primary business problem – managing product supply logistics.

Qualifications for Membership

Survey participants were divided in their opinion of the key criteria for membership in a micro-canner organization. Half felt that the primary qualification for membership should be small business size and half felt that the primary qualification should be the production of quality products. Those who mentioned company size did not specify how they defined “small.” Several participants used the term “micro-canners” and several others used the phrase “small companies like mine.” All four Very Small companies (<\$100K/yr in annual sales) felt that company size was the primary condition for membership although a few larger companies also shared this priority.

Most survey participants who mentioned quality products as the primary qualification for membership were also not specific in their definition of the term. Two participants, however, described quality in terms of processing characteristics: hand-packed and small-batch. Another participant associated quality with fishing method – “high quality troll-caught wild fish”.¹³ All those who mentioned quality as the key criteria for membership in a cooperative organization also mentioned quality as the primary marketing attribute of their own products.

Willingness to Pay

Most survey participants (10 out of 14) said they would be willing to support the services provided by a shared business model by contributing 1-2% of sales to the organization. Those who would not contribute financially felt that the organization should be supported by

¹³ Referring to wild-caught fish in comparison to farmed fish. The micro-canner was obviously referring to salmon when making this comment, as all Pacific Northwest albacore are wild-caught.

government funds or grants. They wanted the organization to exist but would not contribute directly to its support. This could possibly be a situation for free-riding however most of these micro-canners are not interested in business growth. These businesses are in the smaller range of yearly revenue (two Very Small companies, one Small, one Medium) and budget issues could have been the primary factor in their response rather than a desire to get something for nothing. There was one survey participant who indicated they would pay membership fees but who does not want to grow their canning business; it is questionable whether this micro-canner would actually pay fees.

Cooperative Behavior

Processors were asked if they had ever worked with another micro-canner to purchase supplies in common (survey question 2(b) in Appendix A). All but one processor had cooperated and all said it was a positive experience. Cooperation between processors includes more than just shared purchases of empty cans and salt. Two processors use another processor's services occasionally when their own processing resources are overloaded. Two processors said they occasionally ask another processor to help them solve product supply issues and find fish to process.

Cooperation among micro-canners includes more than just processors. Of all the micro-canners surveyed, all but one business is cooperating with another micro-canner in some way. Micro-canners with their own private label but without processing capability must get their canned products from a processor. All of the non-processors in this survey (four companies) use another micro-canner as their processor. Processors who provide this service are supporting the business of a potential competitor; the fact that they are willing to accept the business indicates a cooperative attitude. Only two of the 10 processors in the survey focus on processing services to others as a primary business strategy. For all others it is a minor sideline.

OTHER KEY INFORMATION GAINED FROM SURVEYS

In addition to the specific information provided in the preceding section, the surveys yielded other key insights.

Health Insurance Not a High Priority

The micro-canners attending the 2006 Micro-canners Conference cited the availability of reasonably priced health insurance as one of the possible benefits of a cooperation-based organization. Based on this prior interest at the inception of the Micro-canners Project, questions regarding health insurance were included in the survey.

None of the surveyed micro-canners in Oregon offer health insurance to their employees; all cited prohibitive costs as the reason. Several Washington micro-canners offer health insurance to senior managers but not to all employees. The difference stems from varying state laws. Washington allows employers to offer health insurance to only a portion of employees. Oregon requires that health insurance be offered to all employees equally. The net result is that Washington micro-canners have at least some level of employer-sponsored health insurance and Oregon micro-canners have none due to prohibitive costs.

In contrast to the feelings of the micro-canners who instigated the Micro-canners Project, those who took part in the survey do not feel health insurance is nearly as important as other business issues, such as product supply or marketing. Only one micro-canner specifically mentioned health insurance as one of the primary benefits that should be provided to members of a cooperation-based organization. Availability of discounted health insurance would not be a large enough inducement to micro-canners to join a shared business model without other significant member benefits.

Internet Is Necessary but a Hassle

Table 3 shows that 11 survey participants maintain an Internet website where consumers can place electronic orders and/or get information for phone or mail orders. The Internet is a primary or secondary sales channel for half of those surveyed. Several micro-canners voiced frustration with the Internet as a sales channel. "A web site is a lot of trouble, doesn't bring you much in the way of direct sales, but you've got to have one." All the micro-canners are small businesses, some very small, and do not have ready access to information technology experts. Frequently the micro-canner himself is expected to fill that role. Two micro-canners found it prohibitively time-consuming to ensure that their company was consistently listed in the top three links for search-engine queries such as "canned albacore".

Micro-canners have the general opinion that their websites are most often used by people who become aware of their company by visiting their retail storefront or perhaps buying a can of their product at a specialty store, then using the Internet to learn how to get more. When used in this manner, the website is a means for repeat business from customers who do not live locally and/or who cannot buy an equivalent product at their local grocery store.

Competitive Suspicions

Despite the broad level of cooperation occurring between the micro-canners surveyed, five micro-canners specifically mentioned competitive concerns. Generally, these micro-canners were interested in a shared business model but only if other members can be held at a distance. There was often a feeling that other micro-canners would join the business model for the sole purpose of “learning my secrets then copying them.” Conversations about the benefits of mutual information exchange and learning from each other sometimes ended with comments like: “That’s fine as long as I maintain my competitive advantage.” One micro-canner said he would be happy to join a shared business model as long as the other members were “the right players.” Wariness of their competitors is likely the reason that the concept of a cooperative was unpopular with the survey participants.

Cooperative Concept Unpopular

The actual form of a shared business model – trade association or cooperative – was not specified during the interviews but opinions regarding these two business forms emerged during the discussions. Two participants were in favor of the cooperative business model but all others who mentioned the subject (five participants) were opposed to a cooperative. The primary reason offered for this opposition was loss of control. They felt that if they were part of a cooperative they would no longer be in control of their own business. This shows that although “cooperative spirit” was evident in almost all survey participants, competitive suspicions were never far away.

ALTERNATIVE BUSINESS MODELS PRESENTED TO THE ADVISORY COMMITTEE

The Project Manager at the Community Seafood Initiative (CSI) reviewed the survey results, prepared two possible scenarios and presented them to the volunteer Advisory Committee in May 2008. Survey results were pooled and did not reveal what companies were interviewed or any individual responses that could potentially identify the source. In both possible scenarios, association membership fees consist of a fixed yearly fee (~ \$500) plus either a percentage of total sales or a few cents per case of product sold. The two scenarios were presented to the Advisory Committee as a CSI-Driven Marketing Association and a CSI-Assisted Marketing Association.

CSI-Driven Marketing Association

In this scenario, CSI serves as a marketing and distribution agent for the association. CSI would create a new brand of canned albacore, market and distribute the brand, and receive 2% of the product's sales as a fee. Association members would provide canned albacore labeled with the CSI brand and receive the revenue from the sales (less CSI's 2% fee) in proportion to the amount of product provided. Association members would continue to market their own brands. Association members would not have to be processors nor large companies.

The purposes of this proposal are to:

- Establish CSI in a leadership role to drive and manage the program since only limited participation in the association could initially be expected from the micro-canners.
- Demonstrate to the micro-canners that a common market exists for high-quality canned albacore and that success is not a result of one company's processing techniques or brand.
- Plant the seeds of acceptance for a cooperative at some time in the future.
- Provide a source of income for CSI to fund program management services. In order to execute a marketing strategy and achieve meaningful sales of a new canned albacore brand, a full-time Marketing Program Manager would be required. A source of funds for this person's salary, travel expenses and marketing budget would be required.

Membership in the association would be limited to those who are willing to provide product to be sold under the new CSI brand. Membership would be limited to this set of micro-canners because they are willing to accept the financial risk associated with the association's start-up phase and should be the first to enjoy return benefits. These micro-canners would also serve as the executive committee to the association and act in an advisory role to CSI. If additional micro-canners wanted to join the founding members, they would be welcomed.

Start-up of a CSI-Driven association would require \$75,000-\$100,000 in initial funding from a grant source plus at least five founding micro-canners. Because the start-up phase is risky, the Advisory Committee felt that five micro-canners was the minimum number for a reasonable distribution of financial risk. If several small companies were included in the founding members, more than five companies might be required.

CSI's marketing strategy would take inspiration from the craft beer industry. Regional demand would be increased by presenting CSI's albacore brand at food-oriented festivals and allowing attendees to experience the product's high quality. The craft beer industry uses this marketing technique very effectively; festivals and tasting events are a cornerstone of the Beer Associations' marketing programs. CSI would target specialty grocers along the Interstate-5 corridor that feature gourmet foods and/or emphasize the "buy local" ethic. Geographic focus would initially be the west coast due to cost considerations.

In addition to driving the marketing and sales for CSI-branded albacore, CSI would offer the following services to association members:

- Health care insurance for the business owner and his/her spouse at competitive rates.¹⁴ (Note that this is not health insurance targeted to the micro-canners' employees but to the micro-canners personally.)
- Product fulfillment center for the CSI-branded albacore. This fulfillment center would support commercial distribution of the CSI-branded product plus Internet and mail order sales direct to consumers.

¹⁴ This service would be provided through cooperation with the Agri-Business Council of Oregon.

A service that would not be provided is pooled purchasing of common supplies such as empty can stock. To provide this service CSI would be required to buy and hold inventory worth several hundred thousand dollars a year and the financial risk for a small organization is too great.

CSI-Assisted Marketing Association

In this scenario, CSI assists the micro-canners in creating their own association. CSI provides funding of \$75,000-\$100,000 in the first year to pay for the services of an association director/marketing program manager and to help fund marketing programs. The money would come from an outside grant that CSI would obtain. After the first year, the association must be self-funding.

All Pacific Northwest micro-canners would be invited to join. An executive council, elected by the membership, would act in an advisory capacity.

The marketing strategy in this scenario would have similar aspects to the CSI-Driven strategy. The association's Program Manager would look to regional food festivals as a means to showcase association members' products to Pacific Northwest consumers. Members' products (as a group) would also be promoted at trade shows that target gourmet and specialty food retailers. There would also be a program related to consumer education on the health benefits of seafood. No specific brand would be emphasized; the focus of programs would be on the micro-canning industry as a whole.

Based on survey responses, it was estimated that approximately 65% of the 45+ Pacific Northwest micro-canners would join a CSI-assisted association. Assumptions included:

- Membership fees would be \$500/year in dues plus 1% of yearly sales.
- The "probably would not join" segment are those who do not want to grow their business plus those who are not willing to pay association fees. When combined, this segment is estimated to be 35% of Pacific Northwest micro-canners. (It is conceivable this percentage could be larger if Washington micro-canners do not join

because distance to the association's headquarters in Astoria is perceived as a barrier.)

- The “probably would join” segment are those who are interested in growing their business and willing to pay association fees. This number is approximately 65% of Pacific Northwest micro-canners – 25-30 businesses.

The association would need at least \$100,000 a year to be self-funding although this is an extremely meager budget for meaningful marketing programs. A complement of 25-30 members could provide this funding if their average contribution to the association based on yearly sales was \$2800 or greater. Based on 1% of sales, the “average” association member would need to have yearly sales in the upper range of the Small category (\$250K-\$500K). The more that the association attracts larger micro-canners (those in the Medium to Large yearly revenue categories), the more programs can be funded.

Advisory Committee Preference

Five members of the project's Advisory Committee reviewed the proposed scenarios. The sixth member of the committee was unavailable during the response timeframe. The reviewers were asked to evaluate the scenarios from two perspectives:

1. Which scenario would you personally prefer (if any)?
2. Which scenario do you feel would gain the greatest acceptance from other micro-canners in the region?

Four advisors preferred the CSI-driven association and one advisor preferred neither scenario and offered an alternative. None of the advisors preferred the CSI-assisted association. All advisors who preferred the CSI-driven association felt that 2% of sales was an acceptable fee structure.

The alternative scenario offered by the dissenting advisor was to direct CSI efforts for the benefit of micro-canners toward the state-supported Brand Oregon initiative. This program is already associated with Oregon's seafood-oriented commodity commissions (the Albacore, Salmon, Dungeness Crab, and Trawl Commissions) but, in the advisor's opinion, would

benefit from increased organization, coordination and leadership. No equivalent suggestion for Washington and California micro-canners was offered.

Reasons for Preferring CSI-Driven Association

The primary reason that the CSI-driven association was preferred is that the Advisory Committee felt that this approach had the best chance of eventually achieving the primary business goal identified in the survey: to develop/expand wholesale sales to health and gourmet-oriented grocery outlets. The Committee felt that a generic marketing strategy suitable for all micro-canned brands would not achieve these results. The Committee also considered the project team's assumptions regarding the level of membership in a traditional association to be too optimistic. They did not believe a traditional association would achieve the "critical mass" of membership that could financially support marketing programs with enough scope to achieve the needs identified by the survey. The Committee felt that more micro-canners than projected would prefer to "wait and see" if the association's programs produced any benefits before they considered joining. This is a classic example of the free-riding problem where a free-rider enjoys the results produced by others but without contributing to the cost. Free riding is prevented in the CSI-driven proposal because all association members are required to make a financial investment in the program in the form of canned product.

The advisors to the Micro-canners Project are volunteers. They believe enough in the industry to give their time freely and without compensation. This commitment translates into a more aggressive and risk-taking attitude than was observed in most of the micro-canners surveyed. The CSI-driven association is not a classic cooperative but it has elements of a cooperative structure. The four advisors who preferred the CSI-driven association were undeterred by the cooperative-like aspects of the program. Recall that only two of the surveyed micro-canners supported the concept of a cooperative; all other opinions regarding cooperatives were negative. There are two possible reasons for this difference of opinion. First, the Advisory Committee knows that members of the CSI-driven program will be able to continue managing their own brands and that no company's individual identity will be diminished. Second, the members of the Advisory Committee likely have less concern for inter-company competition than those surveyed and more concern for overall industry growth. Their willingness to volunteer their time toward an industry-wide project supports this theory.

How Long a Start-Up Phase?

The advisors were also asked their opinion of how long the CSI-driven program, if it were instituted, would exist before additional micro-canners would want to join the original participants. All advisors felt that the micro-canning industry is slow to adopt new ideas and that three years was a reasonable timeframe before one could expect additional micro-canners to join the program and provide product to be sold under a “common” CSI brand. Two advisors indicated they were willing to become founding members of a start-up CSI-driven association. The two other advisors who endorsed the concept were more cautious and preferred other micro-canners to take the lead. All agreed that the success of a CSI-driven association would hinge on recruiting founding members with the same beliefs, motivations, and working style plus the financial resources that would allow them to accept the project’s start-up risks.

CURRENT PROJECT STATUS

Before progressing further with this project, the Community Seafood Initiative must receive approval from its Board of Directors. The primary issue will be the need to secure three years of project funding to provide the CSI-driven association an opportunity to prove its value. In many respects, starting a CSI-driven association is like launching a business start-up with all the risks common to such ventures.

One key aspect of the Micro-canner’s Project has changed since the Advisory Committee provided their endorsement of the CSI-driven association scenario. The Director of the Community Seafood Initiative left the organization in July 2008. An unspoken assumption when the CSI-driven and CSI-assisted scenarios were presented to the Advisory Committee was that the Director would have general oversight of the program and that her business experience, connections in the Pacific Northwest seafood industry, leadership skills, and high-level of personal drive would be critical to the program’s success. It is not known if or how a change in project leadership might change the Advisory Committee’s preference.

CHAPTER 4: CONCLUSION

PROJECT SUMMARY

Micro-canners at the 2006 Micro-canners Conference in Astoria, Oregon suggested a project to study the feasibility of a cooperation-based business model that could help their industry expand and achieve greater success. The Community Seafood Initiative (CSI) received grant funding for a study with the following goals:

1. Determine if a significant number of Pacific Northwest micro-canners believe that a cooperation-based program would help them achieve greater market share, lower business costs, increase profitability, and support business growth.
2. If a cooperative program is viewed favorably by micro-canners, assist them in developing and implementing the program.

Fourteen of the 45+ micro-canners in Oregon, Washington, and northern California were interviewed in 2007. Highlights from the survey include:

- A majority of those interviewed (approximately 65%) would join a cooperation-based business model and contribute 1-2% of sales towards its maintenance.
- The primary business challenge is product supply – getting enough fish to process – with salmon being the largest problem due to restricted fishing seasons. Marketing is also a business problem, especially for micro-canners who focus on wholesale distribution.
- The most desired area for business expansion is wholesale sales to health and gourmet-oriented grocery outlets.
- Marketing is the primary service a shared business model could provide to members.
- Micro-canners use diverse business strategies (processing, distribution, direct retail sales, internet sales) and multiple simultaneous strategies are the rule.
- A majority of micro-canners have a retail storefront. The retail outlet provides the major source of canning-related revenue for many of them, indicating a close tie to the level of coastal tourism.

- All but one of the micro-canners surveyed is already cooperating with another micro-canner in some way.
- Few micro-canners would support a classic cooperative due to fears of losing their company's uniqueness and individuality. Suspicions of the motives of others in the industry were also evident during the survey.

Based on the survey feedback, two possible business models were presented to the project's volunteer Advisory Committee: a CSI-driven association (an association but with elements of a cooperative) and a CSI-assisted association. The Advisory Committee preferred the CSI-driven association despite its cooperative-like aspects. The Advisory Committee felt that a trade association, which by necessity would focus on generic issues common to all micro-canners, would not achieve market growth results significant enough to sustain membership levels and therefore program funding. The Advisory Committee also felt that survey-based projections on the level of membership in a trade association were too optimistic.

The next phase of the Micro-canners Project is for the Community Seafood Initiative's Board of Directors to review the Advisory Committee's recommendation and decide on future project funding.

REDUCING INDUSTRY RISK WHERE POSSIBLE

Pacific Northwest micro-canners face many business risks. Some risks – such as unknown effects of climate change, inadequate coastal infrastructure, and cyclic economic swings – are largely beyond their influence. Troubled economic times with decreased discretionary spending and volatile gasoline prices are legitimate concerns for industries tied to tourism. Over the last 15 years, total direct travel spending has increased approximately 120% in Oregon coastal counties (77) and a majority of Pacific Northwest micro-canning businesses have developed tourist-based marketing strategies. Sixty percent of micro-canners surveyed have a retail storefront, and for 50% of those surveyed the retail storefront provides a significant proportion of their canning-based revenue. One of the motivating factors behind this feasibility study is a desire to extend canned seafood sales into new channels and over a broader geographic area in order to decrease dependence on tourism.

Almost half of the micro-canners surveyed indicated that product supply was their greatest business issue and shortages of salmon are the cause of the problem. The micro-canners surveyed have product portfolios dominated by albacore tuna and salmon. Currently, albacore harvests in the Pacific Northwest are stable and ex-vessel prices are on a downward trend. This advantageous situation for local micro-canners could abruptly vanish if the international organizations charged with managing the global albacore fishery impose restrictive stock allocations and/or if the PFMC severely limits fishing effort. If both salmon and albacore supplies are scarce, many micro-canners are at high risk of going out of business if they do not have alternative products. Unpredictable product supply and the impact of regulatory changes are large business risks but the level of risk can be reduced. Micro-canners should investigate other local seafood products with a more predictable supply as a hedge against the possibility of a potentially devastating albacore supply problem. A diversified product portfolio reduces economic risk. (10)

The micro-canners can reduce their risk of decreased revenue (or potentially going out of business) by:

- Diversifying their product portfolios with different product types, forms, sizes, and price points.
- Building a strong product niche regionally, and then nationally, for specialty-canned seafood characterized by high quality and environmental benefits that appeal to the gourmet and environmentally-aware consumer segments.
- Promoting the health benefits of a diet that includes seafood.
- Leveraging eco-labels when appropriate.

Micro-canners – by definition small businesses – will find it extremely difficult to accomplish these actions individually. In addition, seafood supply chains are shortening to decrease costs and also to enable product traceability. Such a trend tends to create fewer, larger companies and makes it increasingly difficult for small businesses to access larger markets. (11)

Conventional management wisdom says that, in order to reduce their individual business risk, the micro-canners must form some sort of cooperation-based business coalition to achieve greater economies of scale, improve resource utilization, broaden their marketing

reach, and gain access to restricted supply chains. (64,78) Contrary to “conventional wisdom”, strength also lies in smallness. Cooperation-based groups do not have to be large to be successful. A study of small Irish dairy cooperatives showed that small groups can be more entrepreneurial, more flexible, and more adaptable to changing market conditions than large groups because they have greater inter-group communications and, by necessity, a stronger group social structure – i.e., “cooperative spirit” or trust. (78) The micro-canners could potentially succeed on multiple levels if they formed a “quasi-cooperative” as recommended in the CSI-driven association proposal. They could have the benefits of a consistent, directed, and expanded specialty-market niche program yet still remain a small group and retain the identity of their individual companies.

The foundation for a cooperative-type business model exists although the micro-canners likely do not recognize this at the present time. Micro-canners surveyed felt that the primary qualifications for membership in a shared business model were small business size and products produced with the same quality and attention to detail. These characteristics describe the majority of Pacific Northwest micro-canners, which shows that the micro-canners, as a group, have much in common. The survey also showed that over 90% of micro-canners are already cooperating on some level and demonstrating “cooperative spirit.” The survey indicated that the micro-canners want to cooperate when it makes sense but also retain their business identities. A “quasi-cooperative” as proposed would support both these goals.

ATTITUDES INFLUENCE THE BUSINESS MODEL

Not all micro-canners want to grow their business. Nearly 30% of those surveyed are satisfied with the status quo. These survey participants tend to be small companies who want to keep their canning business small in order to let them focus on a different part of their business such as fishing or their retail storefront, or to maintain their current level of job satisfaction. Only one of the four Very Small companies surveyed was eager to grow their canning business. Most of these companies also indicated they would not pay to support a cooperation-based program.

The relatively high incidence of a “no-growth” attitude among the survey participants creates a new type of risk for the micro-canning industry and for any cooperation-based business model. The number of seafood micro-canning businesses in the Pacific Northwest is not large and the number has been static over the last three years. In the future, business closures through owner retirement and normal business turnover could equal or perhaps exceed the number of new entrants. There is significant chance that the regional micro-canning industry will have a smaller, not greater, industry footprint in the future. Any cooperative business model must assume a low membership and therefore limited funding for programs. Under such constrained circumstances, only highly targeted marketing programs designed to achieve specific results make sense. General-purpose programs are unlikely to provide measurable results and therefore continued funding would be doubtful. In addition, general-purpose programs applicable to all micro-canners encourage free-riding.

A small industry footprint, a significant “no-growth” attitude, competitive suspicions, probable low membership, and the risk of free-riding make a trade association an impractical choice for a cooperation-based business model for the micro-canners. Low membership means a small budget, which in turn means small-scale marketing programs. Such programs are unlikely to deliver measurable increases in sales for members, which would ultimately lead to loss of membership. With low initial membership, a micro-canner trade association could be very short-lived and have the undesirable side effect of increasing the wariness of local micro-canners regarding business cooperation.

Competitive suspicions and wariness of the cooperative concept make a formal cooperative an impractical choice for the micro-canners. The cautious attitude of micro-canners evident from the survey influenced the development of a quasi-cooperative concept proposal – the CSI-driven association. This proposal assumes a very limited membership for several years in order to prove-up the concept and attract additional members. The imperative need for demonstrable results is the underlying reason for the “driven” aspect of the proposal. The greatest risk with this concept is in the recruitment stage. Can enough “visionaries” be recruited who are willing to trust each other and willing to accept increased individual business risk during the start-up phase? The Advisory Committee felt that five companies was the minimum starting membership for the CSI-driven association.

THE NEED FOR LEADERSHIP AND TRUST

The demonstrable success of other cooperation-based industry groups such as the Brewers Association and the Columbia River Packers Association (now Bumble Bee LLC) shows the value of having strong leadership for a cooperative venture. The need to prove the value of the CSI-driven association concept in as few years as possible also points to the need for strong leadership. Strong leadership can come from many sources – from CSI and also perhaps from one or more of the founding “visionaries.” In order for this to happen, however, the other founding members must demonstrate enough “cooperative spirit” and trust to let one or more of their members have a larger role.

Trust is one of the primary resources of a successful cooperative venture, equal in importance to financial and technical resources. (64) Mutual trust is one of the centripetal forces that keep a cooperative together. Trust must be strong enough to counteract the centrifugal forces that try to pull the cooperative apart, such as the inevitable conflict between members and between members and management. In order to create the best environment for trust to develop, the founding members of a CSI-driven association need to have similar attitudes, motivations, and working styles.

RISK AND REWARD

The Community Seafood Initiative’s Board of Directors oversees many programs and has significant financial responsibilities. If they approve the recommendation of the Micro-canner Project’s Advisory Committee and endorse the CSI-driven proposal, they will position themselves in a role similar to that of venture capital “angel” investors. They will be funding the start-up phase of the CSI-driven association in order to demonstrate market-growth results and secure enough membership growth to make the association self-funding.

Undoubtedly, this situation is financially risky, but like other venture capital investments it has the potential for large returns. One of the goals of the West Coast Governors is to strengthen the economic stability of coastal communities that depend on coastal and ocean resources. (1) By emphasizing actions to support working waterfronts and increase opportunities for value-added businesses, the governors recognize that many coastal industries are inter-related. If the micro-canning industry can work together to increase the

market for their specialty seafood products, not only will they improve their own financial circumstances, they will also indirectly stabilize the business of the fishermen that supply them with product. (10) Dynamic working waterfronts tend to attract visitors, which in turn support a variety of other businesses, including the retail storefronts of many micro-canners. Increasing the stability of one coastal-dependent business sector can improve the stability of related sectors. A relatively small investment in a cooperation-based business model for coastal micro-canners which allows them to compete collectively in the seafood supply chain, diversify their product portfolio, and grow their market presence could have significant positive coastal economic impacts – much broader impacts than the micro-canners themselves.

FUTURE POSSIBILITIES

Additional information could improve the ability of the Community Seafood Initiative to serve the region's micro-canners more effectively. The survey used in this project could be expanded to include more Washington micro-canners. Less than 20% of Washington micro-canners were invited to participate in the 2007 survey and therefore opinions from that region are not representatively included in the results. Also, it is possible that physical distance from the Community Seafood Initiative in Astoria will have an effect on the level of membership of any micro-canner cooperative business model. The 2007 survey did not include any questions that probed this topic. If distance is perceived as an issue that affects membership or results, the leader(s) of the cooperative program will need to modify their communication and coordination plans to try to neutralize the impact. The goal of the Micro-canner Project is to improve the business prospects for all micro-canners in the Pacific Northwest, not just those in Oregon.

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APPENDIX A: SURVEY QUESTIONS

1. **Marketing and Sales**

- a. What are your sales growth goals over the next 3 years in %?
- b. What is your primary market venue?
 - Own website
 - Other website _____
 - Farmer's markets
 - Traditional grocery retail
 - Gourmet and natural food grocery retail
 - Own retail shop
 - Other local retail shops
 - Food service
 - Specialty and gift stores
 - Other _____
- c. What is your secondary market venue?
 - Own website
 - Other website _____
 - Farmer's markets
 - Traditional grocery retail
 - Gourmet and natural food grocery retail
 - Own retail shop
 - Other local retail shops
 - Food service
 - Specialty and gift stores
 - Other _____
- d. How many different brand labels do you believe are currently produced on the West Coast (California to Washington)?
- e. What region in the U.S. do you sell your greatest volume to?
 - West Coast (California – Alaska)
 - Central (Idaho – Dakotas, south to New Mexico)
 - Mid-west (Minnesota – Kentucky)
 - South (Texas – Carolinas, south to Florida)
 - East Coast (Maine – Virginia)
- f. What region is second highest?
- g. What are the key attributes you promote in marketing your canned products?
(examples: sustainability, quality, local, gear type, nutritional values)
- h. Is there either a niche and/or region in the domestic market that you are interested in selling to which you have not yet reached or are just beginning to sell to?

2. **Processing**
 - a. List the top five fish by volume that you can. (ex: albacore, salmon, crab, shrimp)
 - b. Do you ever purchase canning supplies with other canners to try and get a price break? If so, was it a positive or negative experience?
 - c. Do you plan on purchasing any new processing/canning equipment in the next 5 years? If so, generally what type of equipment is it?
 - d. What % of production is your own labeled product vs a custom label?
3. **Business Management and Human Resources**
 - a. How many people do you employ during peak season?
 - b. How many people do you employ during your slowest period?
 - c. Do you provide health care benefits to any of your employees? Would you be interested in making it available to your employees? What would you need in order to do so?
4. **Business Model/Program Opportunity**
 - a. What is the greatest challenge you face in your operation to achieving your business objectives?
 - b. If there was a coordinated business model formed for micro-canners, what activities/services would you like it to provide (in ranked order)?
 - c. What would you want the key criteria to be for member participation? (examples: business size, product volume, product quality, location, target markets)
 - d. Would you be willing to contribute at least 5% of your sales to the program if it provided the services you mentioned?
5. **Business Profile**
 - a. What are your average annual sales from canning?

Under \$100,000	\$500,000 to \$1M
\$100,000 to \$250,000	\$1M to \$5M
\$250,000 to \$500,000	Over \$5M
 - b. What is the number of your FTE employees?
 - c. How long have you owned or managed the business? Are you expecting any changes to your company's management in the next 5 years and if so, what?
 - d. What type of business ownership structure do you have?

Sole proprietor	S-Corp
Partnership	Other
LLC	
 - e. How many facilities do you operate and where are they located?