

ADDING VALUE TO SALMON HELPS CAPTURING MARKET SHARES

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ABSTRACT

France is Europe largest market for salmon, close to saturation for traditional products but open to opportunities for differentiated items. Over the last ten years, the supply of salmon-based products has moved from basic items to more sophisticated ones. Processing is one way of turning the product into what consumers want. But inserting non-material values is another one, which proves to be quite efficient as well. This article, inspired by a study undertaken for the salmon industry in 2005, reports that adding value to salmon is a good response to changing consumer demand and customer expectations and a successful way at capturing market shares. This presentation shows that through filleting, fixed-weight portioning, pre-cooking, assembling ingredients, packing, branding, labelling (Environmental, Regional Marketing&), producers and processors change the product, its image, its utility, its value, and ultimately its market attractiveness.

Keywords: Salmon, adding value, marketing, French Market, market shares, innovation

INTRODUCTION

Limited growth in the market for food products

In wealthy France, food needs are fully satisfied. Population growth is low (1% per annum) and demand for food rather stable in volume terms. In value terms, the National Statistic Institute, INSEE, considers that over the past 30 years, the cost of food has risen gently at 2.3% per annum¹. In this context, major protein producers compete to gain access to the limited space on supermarket shelves and to make their products become in demand by end users. Industrialists challenge is to catch householders' attention that spend less than 40 minutes in supermarkets, compared to 90 minutes some twenty years ago², and no more than 12 seconds to choose and place selected items in their shopping trolleys³?

Changing Eating Habits

What goes into shopping trolleys and what the catering industry buys is different compared to some twenty years ago. Demographic, social and economic factors all contributed to alter food consumption habits.

The population is aging. In 2005, France included some 12.6 million people aged over 60 years compared to 9.1 million in 1970. This group constitutes 21% of the population compared to 18% in 1970. According to the National Statistics Institute (INSEE), by 2020 people aged 65 years old and over will represent 33% of the total population.

¹INSEE (2002)

² MarketingScan 2005

³ Les échos (2005)

Family structures have changed with an increasing number of single people. In 1999, 7.4 million people were single, i.e. 30% compared to 20% in 1969⁴. Despite the high birth rate in France (the second highest in Europe after Ireland⁵) the country numbers less couples today with children (31%) than thirty years earlier (35%). Family structures are far more heterogeneous today (number of persons, organisation).

France is experiencing a lasting period of high unemployment (20 years with an unemployment rate over 10%). This gloomy economic situation, with enlarged low-income population, has favoured low price sub-segments. When it comes to food, development of low price retailers (hard discount) and caterers (fast food, low budget restaurants, sandwiches) are the most visible effects. In the catering industry, the need for cost control to maintain competitiveness has induced, among others, some changes in purchasing attitudes, with preferences given for example to better yield and no loss products (fixed weight portions for instance).

Women predominantly choose food products for domestic consumption. Hence, they still perform the so-called gatekeeper function, operating as filters for the whole family. Compared to one or two generations ago, women today have the benefit of a higher level of education and enjoy a higher employment rate. The former gives them easier access and a better understanding of a wide spectrum of information (daily newspapers, women's magazines, doctors' prescriptions, etc.). The latter stimulates their demand for time-saving products. These higher educated consumers are also more health-oriented.

One subject that has been most frequently investigated by sociologists concerns the development of new eating habits (snacking, fast food consumption etc.) versus the traditional meal model. The specific French pattern of three structured and regular daily meals is weakening. Though the "grazing" – or "Americanisation" – of food patterns meets some resistance in France, due to the important social role of meals, snack food and sandwiches are growing in importance.

The loss of culinary expertise that traditionally passed from generation to generation is due to the reduced time spent in the kitchen by those with the knowledge (generally the mother/ grandmother) as well as by those learning (children/ young adults) and possibly to lack of interest. This phenomenon has stimulated the demand for already made products, including all dishes (starters, main dishes, desserts).

The growing need for time-saving products of householders and catering chefs and the impact on the seafood industry have been demonstrated earlier. Cleaning, cutting into portions, pre-cooking, assembling is performed increasingly by industrialists, but less and less by end-users. Not only do consumers yearn for pre-processed products at competitive prices, they tend to give their preference to items that carry "positive" values.

Values are changing

In addition, consumers' values change; Today European consumers require their food to be safe, to be healthy, if possible environment friendly, etc. In France, the demand for certified good taste and high quality is more solid than ever. Intensity of these expectations varies from country to country but in Western Europe, trends are converging. Food products certainly need to carry increased immaterial values and comfort consumers in their new beliefs and values.

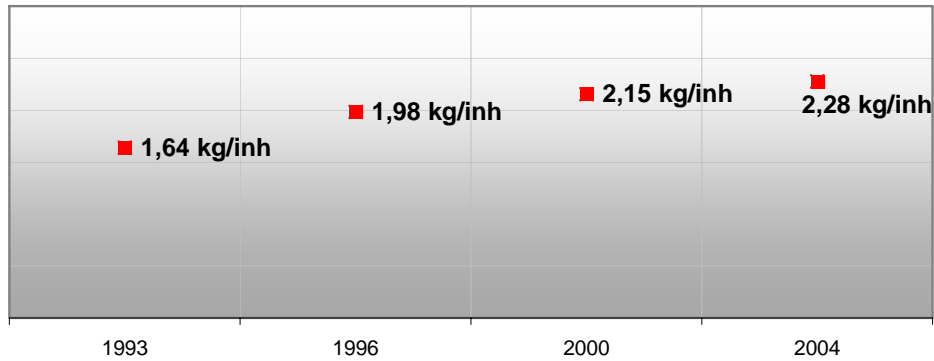
THE FRENCH MARKET FOR SALMON

France is Europe's largest net importer of salmon products, with net imports worth 320 million euros in 2003, far ahead of Germany (230 million euros) and Italy (120 million euros). In that year Denmark, a

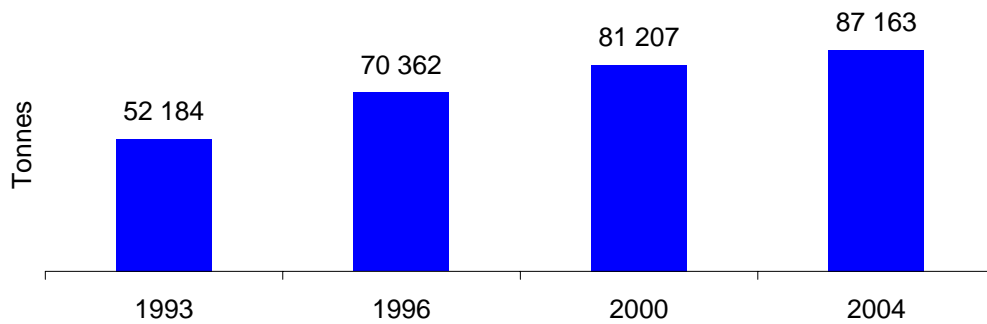
⁴ INSEE (2005)

⁵ 12.7% birth rate in France, 15.5% in Ireland, 10.4% Europe Union 25 (source: INSEE)

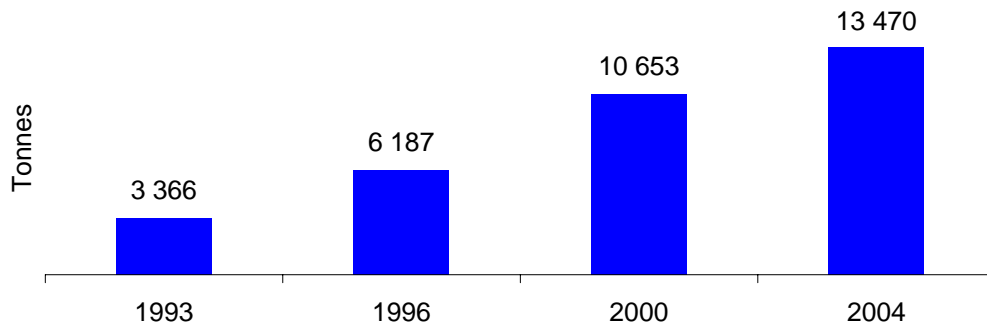
large scale importer and re-exporter, recorded 90 million euros net exports. Per capita consumption rose from 1,64kg/ annum in 1993 to 2,28kg in 2004. But what made France being so receptive to this farmed fish? The price was certainly an important factor for market penetration. But why has France been more open than its neighbouring countries?



Source: Compilation MCM based on INSEE & external trade data⁶
 Graph 1: Growing Salmon Consumption, kg per capita 1993-2004



Source: External trade data
 Graph 2: 1993-2004 Fresh Whole Salmon Imports



Source: External trade data
 Graph 3: 1993-2004 Frozen Salmon Cuts Imports

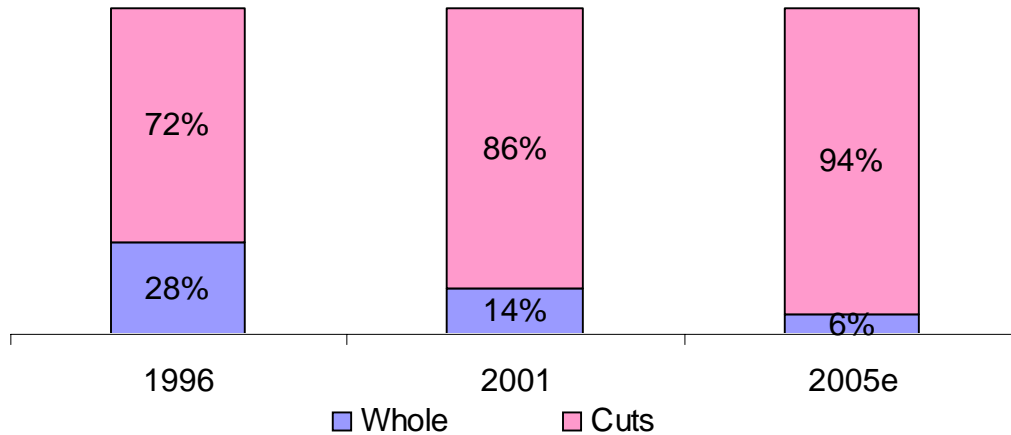
⁶ We used the following conversion rates: 1.1 for fresh salmon, 1.2 for frozen fish, 2 for smoked and other fillets, 3 for canned products.

After one decade of double digits growth (1980-1990), sales of traditional products such as whole head-on gutted salmon, smoked salmon stabilized in the nineties. In order to stimulate demand and to penetrate new segments, both exporters and French processors added new values to the fish. Numerous ways of transforming the fish had been explored. When in the late eighties and nineties, processing the fish was undertaken with success; lately changing the image of products in incorporating new attributes, without changing its physical aspect was the way industrialists chose to gain market shares.

ADDING MATERIAL VALUE: PROCESSING

More Cuts

In the retail market, sales of whole head-on gutted salmon represent a mere 6% of total fresh salmon sales, compared to nearly 30% ten years ago. Though it occurred later, this move is also observed in the food service sector: chefs tend to buy more and more already cut products (skin-on fillets, portion-sized items).



Graph 4: Development of Cuts: Now Nearly 100% of all Fresh Salmon Retail Sales

Source: Ofimer, Sécodip (value wise)

2005e: first quarter preliminary data

Cooking, Pre-cooking

Less time to cook and less knowledge to accommodate fish contributed to the development of ready meals. Since their introduction in the eighties, sales of chilled ready meals continue to grow (+26% in 2004⁷ compared to 2003, in volume terms). This product family includes meat and fish recipes. Penetration rate for chilled ready meals is about 40%. A sub-segmentation with on the one hand (circa 10% of the sector) very classy recipes backed by the signature of renowned chefs (Joël Robuchon for Fleury Michon, Paul Bocuse for Marie), sell at around 5/6€ one portion one person pack and more common products including Private Label sell at <3 €pack average price. The most utilized seafood in the higher priced segment includes salmon, cod, perch and sole. The lower priced segment incorporates Alaska Pollock, saithe and salmon yet again. The latter is in both lines of items: the gastronomic and the low priced one, and is the number one species in terms of volume processed.

⁷ Synafap (2005)

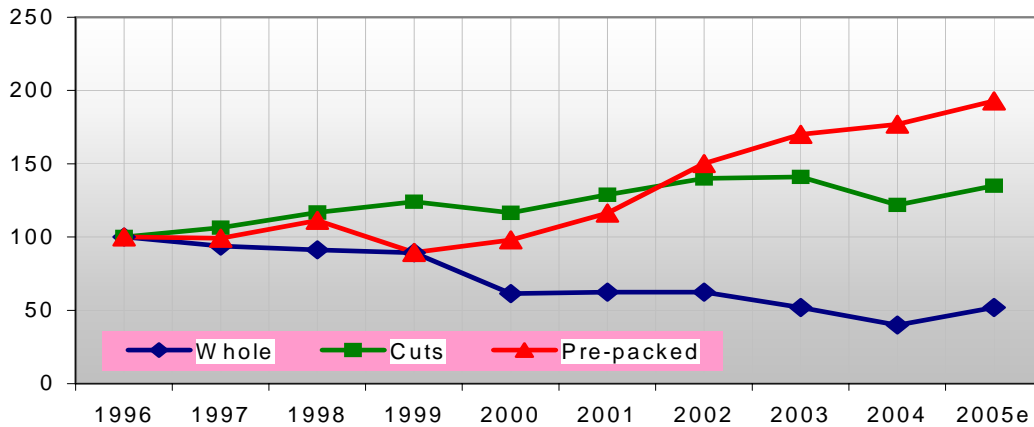
Pre-cooking offers an advantage both to the client (less to do) and to industrialists (lower bacteriological risk). The nascent segment for pre-cooked portions offers a limited range of products, most being made of two species: Alaska Pollock and salmon.

Assembling ingredients

Incorporating ingredients to make medallions, rôti, confers to the raw fish a superior culinary value. This recently created segment (late nineties) is estimated to absorb circa 1,500 tonnes (output weight) of fish, of which over 90% salmon. According to one of this segment leader, the action of converting cheap salmon products (mince and bits & pieces) into highly convenient preparations attract consumers that would not otherwise consume that species.

Packing: the must

Packing contributes to the protection of products and conveys messages to consumers. In the traditional fresh seafood market, packing is a recent development that really took off this decade. Booming supply has been a determining factor in the success of this segment. In the early nineties, large-sized supermarkets endowed with wet fish counters had integrated the packing of fresh fish. Yet, in-site preparations were unsatisfactory in many respects (not complying with the EU regulations for processing fresh seafood in many cases, not 100% safe, costly, etc.). Today, a large proportion of retailers offer pre-packed fresh fish cuts that have been developed by industrialists. Overall retail sales are estimated at 18,000/20,000 tonnes. In the catering market, supply mainly involves MAP boxes.



2005e: first quarter preliminary data

Source: Ofimer-Secodip

Graph 5: Success of Pre-Packed Salmon on the retail Market (1996-2005 volume)

Cutting and packing fresh fish is highly valued by end-users as it makes the final product closer to their needs (size, convenience, longer shelf life, etc.). The extra costs the client is willing to pay are related to the price he/she has to pay for acquiring other packed and cut finfish and to the price difference with non-cut non packed similar products (when they exist in the same point of sale).

ADDING NON MATERIAL VALUE

In order to attract consumers seafood processors and retailers may incorporate non material value. Modern consumers tend to give their preferences to products that convey what they perceive as being positive values such as brands, quality labels, label mentioning the origin, health allegation, guaranty that the fish is organic, or produced according to environment friendly practices. In what follows, we only refer to private labels and Label rouge, quality label to illustrate the benefit of this type of actions.

Premium Brands, Private branding

Seafood is branded in diverse ways, according to the segment targeted. In the wet fish segment, no name spontaneously comes to consumers' minds, for the simple reason that branding is a very recent phenomenon. Yet, retailers affix their names to some fish when they claim that the "supply chain" is fully controlled. Retailers' fresh produce labels play the same role as traditional company brands. They create loyalty, they prevent direct comparison between retailers' offerings, and - last but not least - they confirm retailers' commitment to values which are important to their clients. They tell consumers what they want to hear. They not only say that the product is safe, but also that it is produced according to environmentally friendly methods, socially acceptable processes, etc. They not only say that the product is safe, but also that it is good, produced according to environment friendly methods, socially acceptable processes, etc. These retailers' private brands explicitly suggest a guaranty of quality. As such, they compete with dedicated quality labels.

Label	Full traceability	Flavoursome, Tasty, Superior quality	Environmentally friendly	Economically acceptable, ethics	Other values	Salmon
Auchan Filière Qualité						YES
Carrefour Filière Qualité						YES
Casino Terre et saveur					Animal wellbeing	YES
Cora Engagement dès l'origine					Good value for money	YES
Intermarché Gulf stream					Convenient	YES
Leclerc Les chemins de la qualité					Good value for money	In preparation

Compilation MCM

Fig. 1: Retailers' Fresh Seafood Labels: What do they Say to Consumers?

Figure 1 shows that all retailers have chosen to label salmon. According to retailers, these private brands accompanied with proper communication stimulate sales of these selected products.

Labelling: the Battle is open

Producers may as well voluntarily choose to provide more information for consumers. They may want to tell about the production methods they use, about the specificities of the output (taste, nutritional elements). Some of the labels are **official**, i.e. strictly defined by national or European authorities, other are voluntary.

In the salmon business, three official labels are available to producers:

- Label Rouge, French quality label. (Value promoted: Quality)
- Organic, French quality label. (Value promoted: Environmentally-friendly)
- Origin or Production: (Value promoted: Local production)



Label Rouge: Official Label

Label Rouge is a quality label set up by the French Ministry of Agriculture in 1960. It was designed to differentiate between high quality food products which offer a real, perceivable difference and standard products of the same type. 40 years after its introduction this label enjoys a very good image as well as

widespread recognition. Today it is the best known food quality label, recognised by 80% of French consumers⁸. In 2003, 420 red labels have been delivered by 26 certification bodies and generated 2 billion Euros. Each year about 15 new projects are examined.

No more than nine seafood have received this award, and up until now, Scottish farmers are responsible for the greatest volume of all LR seafood sold. Since 1992, the French National Commission has accredited Food Certification (Scotland) Ltd for Labels and Certification of Agricultural Food Products for the certification of Scottish farmed salmon marketed under the Label Rouge award. Only farmed salmon produced in certain conditions and complying with strict criteria can be marketed with this well-known label. Today 48 farmers and three French processors, approved to cut and pack (Charly Guennec, Salmon'Est, Frais Embal) are accredited producers of Label Rouge salmon⁹. Approximately 5% of Scottish production is ultimately sold under Label Rouge in France.

In the late nineties, there were market alerts that the expected quality difference compared to standard products did not always exist.¹⁰ Recently the French Ministry of Agriculture asked SQS to amend the 1992 specifications for the strengthening of some practices. Characteristics for authorized feed have been modified for instance, with a still very high proportion of ingredients of marine origin. The flesh colour has a minimum intensity of 26 on the Roche Scale. Fat content for fish <3kg should range from 6% minimum to 14% maximum, and for fish >3kg from 8% to 16%. Shelf life is set at 10 days after slaughtering.

Label Rouge fresh salmon occupies some 12%-15% of the market. The expected arrival of Norwegian and Irish labelled fish¹¹ in the near future will change the market situation. What channel will this fish follow? What will be the attitude of large scale distributors (retailers/ wholesalers) who sell quality guaranteed salmon under their own brand? Will they add their private brand on top of the label rouge? Their strategy will depend upon the type of partnership which links them to producers and their view on how to share the added value.

Compliance with the very stringent standards for producing Label Rouge makes it costly. The market has a high recognition of this product and accepts to pay a premium. Yet the level of price received by producers does not always cover the extra production costs. This varies with the highs and lows of the market. However, in dramatic circumstances, when consumption drops, whether for a food safety reason or not, the quality Label plays the role of a protective shield: the drop in prices and in demand is not as severe for Label Rouge as for standard fish.

Benefits for producing Label Rouge, just like most quality labels, are not only financial. Demand for Label Rouge products has proved to be more stable; Customers are loyal to the Label. Being able to produce Label Rouge salmon conveys a very positive image. It communicates that the company is able to deal with demanding production standards and with complex documented protocols. It proves its commitment to quality (process and products). Yet, but does it foster sales? Yes, would say Label Rouge producers. This label helps at developing sales on specific upper grade niche, such as the segment for traditional fishmongers and tablecloth restaurants that are reluctant to sell farmed fish.

⁸ When questioned about food quality, 45% of respondent pools spontaneously mentioned Label Rouge, 80% through prompted questions.

⁹ A fourth company (Leroy France) should receive the accreditation before the end of 2005.

¹⁰ Report on the value of the Scottish Label for the farmed salmon industry, Stirling University

¹¹ Companies from both countries have applied and should be granted the label soon provided they provide some complementary data required by the Ministry, who reviewed favourably their application files.

Twenty years after the massive introduction of salmon in France, supply has clearly moved from plain unbranded little processed fish towards highly convenient articles which carry specific values. Without underestimating the impact of its competitive price and its year through availability, today position of salmon on the French market is with no doubt also due to the differentiation efforts undertaken by all operators along the value chain.

Salmon is today:

- # 1 fish species sold in retail shops (it was #5 in 1987),
- # 1 fish species served in restaurants,
- the most widely spread fish consumed all over the country,
- # 1 Label Rouge fish retailed,
- # 1 organic fish retailed in France,
- # 1 species (12%) in householders' total seafood budget, shrimp comes second (8%), tuna third (7%),
- # 1 in householders' fresh seafood budget (14%), with cod (14%)
- # 1 in supermarket fresh seafood sales (11%), with shrimp (11%)
- # 1 species in terms of number of items created

CONCLUSIONS

Salmon is the most consumed species in France. One major reason for its continuous success, beside its competitive price level, lies in the intense supply of value added products. The continuous flow of new salmon based items offered to French consumers such as processed items (portion sized, packed, pre-cooked), and labelled items (organic, quality certified, healthiness) has clearly contributed to stimulate overall sales of the species.

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- Labelling Food stuff: Directive 2000/13/EC of the European Parliament and of the Council of 20 March 2000 on the approximation of the laws of the Member States relating to the Labelling, presentation and Advertising of foodstuffs.
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- Health claims: Regulation of the European Parliament and of the Council on nutrition and health claim made on foods: proposal 2003/0165 (COD).
- Packaging: Regulation (EC) N° 1935/2004 of the European Parliament of 27 October 2004 on materials and articles intended to come into contact with food and repealing directives 80/590/EC and 89/109/EC.

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