Adapting to Ever-changing Market Demands

CONSUMERS, BUSINESS CLIMATE, EXTERNAL THREATS & OPPORTUNITIES

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Does the world ever stay the same?
Does the world ever stay the same?
Can your aquaculture business stay the same and survive?

Can we still stock fish from milk cans?
Changing Consumer Demand

There was a time when catfish was eaten only along the Mississippi River.

There was a time when orange roughy was called “slime head.”

There was a time when shrimp was a luxury product, with low volumes consumed.
Changing Consumer Demand: where is it headed?

Consumers want highly differentiated, individualized flavors & products.

Demand for “local” food growing; people want to know the “story” behind their food.
Changing Consumer Demand: where is it headed?

Millennials want quality:

TASTE, SAFETY, SUSTAINABILITY, RESPONSIBILITY

Food Safety in the Seafood Industry
A practical guide for ISO 22000 and FSSC 22000 implementation

What is Sustainable Food?
And How Can we Build a More Sustainable Food System?
The Business Climate

- Competition with imported fish
- Regulations
- Economic growth

U.S. Imports of Edible Seafood

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
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<td>2009</td>
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<td>2011</td>
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<tr>
<td>2012</td>
<td></td>
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<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
</tr>
</tbody>
</table>

U.S. producers spend an estimated $12.1 million per year on regulatory compliance.
External Threats & Opportunities

- Specific to one’s business and location.
- Water rights & access
- Labor
- Predation
- Urban encroachment
Common Pitfalls for Aquaculture Businesses

• Not adapting to changing consumer demands & preferences
• Confusing a hobby with a business
• Market risk
• Adequate capital
  ✓ Investment
  ✓ Cash flow
Keys to Avoiding These Pitfalls

• Not looking/waiting for a silver bullet.
• Make adjustments every year.
• Plan for adequate capitalization (including to cover market & production risks)
• Don’t let the business get too far into debt.
There’s really no substitute for it any more; 20 or 30 years ago it wasn’t as essential as it is today.

There just is no getting around the need to spend time every year in thorough business planning & on-going financial analysis.
FREE!

AgPLAN

The Agriculture, Fisheries and Small Business Planning Website

www.AgPlan.umn.edu
This is the cover page for your business plan. Enter the name of your business, contact information, including address, email, fax, phone, website, and the date the plan was prepared. You may also want to include a graphic image or photo representing your business. Make the business name the most prominent feature and otherwise, keep the page relatively clean - lots of white space. This is a good place for a logo.

The page may also include a "title". The title might say "Business Plan", or might briefly describe what the business plan is for. For example, it might say "Business Plan for Vessel Acquisition".
Lakeshore Orchard

Review the settings below, then click Generate Business Plan to create your business plan.

Include:  ○ Business Plan Only
          ○ Business Plan & Comments
          ○ Comments Only

[Generate Business Plan button]


Business plan generated. Click on an icon above to open your business plan.
Strategic Marketing

FINDING YOUR KEY MARKETS & CHOOSING PRODUCTS FOR THOSE MARKETS

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ENGLE-STONE Aquatics$  VIRGINIA TECH.
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Successful businesses are complex & require many good decisions.

- Market decisions
- Financial decisions
- Profitable Business
- Management decisions
- Personnel decisions
- Scope & scale decisions
- Production decisions
Reality Check:

As much as I would like to be able to give you a cookbook recipe for financial success of aquaculture businesses, there really is no such thing.
Market-related reasons for business failure:

Peter Drucker: management didn’t ask “what is our business?”

Eric Wagner: “entrepreneurs retreat to a cave instead of thoroughly understanding their customers’ needs.”
Each business must have a unique plan that works for that business.
Each business must have a unique plan that works for that business.
Preparing a strategic business plan

Steps.....

Set business goals, SWOT

What are you really selling?

Identifying target customers

Develop marketing strategy

Feedback; revise production & financial plan
Setting Goals: Every Year
Business & personal
Long-term & short-term

What else do I need?

I’ve got my truck.. I’ve got my dog.. And a place to hunt..
Define what you are really selling.

- What need does your product fulfill?
- What unique benefits does it provide?
Define what you are really selling.

<table>
<thead>
<tr>
<th>Is this person selling:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aquaponics</td>
</tr>
<tr>
<td>2. Strawberries</td>
</tr>
<tr>
<td>3. Fish</td>
</tr>
<tr>
<td>4. Ornamentals</td>
</tr>
<tr>
<td>5. Organic food</td>
</tr>
<tr>
<td>6. Environmental sustainability</td>
</tr>
<tr>
<td>7. Other</td>
</tr>
</tbody>
</table>
Identify your target market
Identify your target market

- Who wants what you can uniquely provide?
- Where are the people who want what you can uniquely provide?
- How many people are there who want what you can provide uniquely?
- How much will they buy of your unique product?
- What price will they pay?
Finding Your Key Markets: How to locate customers

• Visit similar businesses
• Observe
• Ask others
Finding Your Key Markets: How to determine customers’ preferences

• Ask them.
• Observe them.
• Ask others.

SurveyMonkey

Qualtrics
You have to find a price that covers your costs.....

Can you compete with price of wild-caught & imported shrimp?

If not, who will pay higher prices?

For how long & what volume?
Map out distribution systems that engage business effectively with supply chain partners

How many trucks will you need?
Will your markets require grading facilities?
Will you need to invest in shipping facilities?
Communication strategies: continuous stream of information & interaction with customers.

Traditional

Social Media

- Mail
- Facebook
- Twitter
- YouTube
- Craigslist
- Pinterest
- Reddit
What can you be the best at growing & selling?

That your targeted customers want to buy at a price that is profitable for you?
What Specific Products Will Best Meet the Needs of Customers in Your Key Markets? What size?

• What size?

• When do they want to buy this product?
  • Weekends?
  • July 4?

• What form do they want it in?
  • Live?
  • Filleted?
How many different products should you sell?

- Do your customers want variety?
- How much variety?
- How many different types of products can be managed efficiently in your business?
Develop the Marketing Strategy

- Processing?
  - Operations
  - Costs

Distribution?
Marketing Strategy

- Promotion
- Messaging
- Advertising plan
- Costs

ADVERTISING
- Internet
- Television
- Radio
- Print
- Newspaper
- Billboard
- Magazine
Use Marketing Plan to Inform Overall Business Plan

- Facilities, location
- Production system
- Permits, licenses
- Customer service
- Risk management
- Financial plan

Revise annually & keep business fresh!
Farm Financial Health

Annual Checkup, Pitfalls, Strategies for Success

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Farm Financial Health

Annual Checkup, Pitfalls, Strategies for Success

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Successful Aquaculture Businesses

Financial Success

$  

Successful

Cash Flow  
Financial Position  
Profitability
Financial Position

Profitability
Where does cash go?
(Why are cash flow problems so common?)

- Business
  - Receivables
  - New equipment
  - Inventory

Unrecognized expenses
- Well pump goes out
- Vehicle repair
- Renovations to meet codes
Given the amount of capital used in aquaculture, two key questions are:

1. What is my cash balance right now?

2. What do I expect it to be 6 months from now?
Given the amount of capital used in aquaculture, two key questions are:
1. What is my cash balance right now?
2. What do I expect it to be 6 months from now?
How often should cash flow be measured?

Monthly!
Common pitfalls in developing a cash flow budget

- Overly optimistic yields
- Omitting loan interest & principal payments
- Overly optimistic sales
- Under-estimating expenses
- Omitting capital replacement items
- Under-estimating expenses
- Omitting loan interest & principal payments

[Image of a car in a sinkhole]
Watch your cash! Protect it!

Pay attention to the details, monthly.
### Cash Flow: Checklist

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Interpretation</th>
<th>Good</th>
<th>Marginal</th>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending cash balance</td>
<td>Higher or lower than beginning balance?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding oper. loan</td>
<td>Higher or lower than beginning of year?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow coverage ratio</td>
<td>Above or below 1?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Cash Flow: Checklist (Cont.)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Interpretation</th>
<th>Good</th>
<th>Marginal</th>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt-servicing ratio</td>
<td>Higher or lower than beginning balance?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% revenue can decline &amp; meet cash flow</td>
<td>Higher or lower than 10-25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% op. expenses can increase &amp; cash flow</td>
<td>Higher or lower than 10-25%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Southern Regional Aquaculture Center Fact Sheets
Managing cash flow: Short-term strategies

• New borrowing – line of credit.
• Re-schedule loan payments.
• Establish clear payment terms.
• Keep bank informed.
• Slow expansion, renovations.
Surviving cash shortfalls

• Delay large capital purchases, like new equipment.
• Collect receivables.
• Get rid of “stale merchandise”, even if at a discount.
• Selling & leasing back assets, like tractors.
Surviving cash shortfalls

• Supplies: may get extended terms, if a good customer.

• Liquidate assets (last resort).

• Choose which bills to pay carefully.
  ✓ Payroll first.
  ✓ Crucial suppliers second.
  ✓ Ask others if payment can be skipped.
  ✓ Or make a partial payment.
Successful Aquaculture Businesses

Financial Success

Cash Flow

Financial Position

Profitability
Profitability

Cash Flow

Financial Success

Profitability
Critical Warning Sign: Financial Position

From Balance Sheet (Statement of Finances)

Debt-to-Asset Ratio greater than 50%!
Hold’em or Fold’em?
Debt-to-Asset Ratio & financial risk

Debt-to-Asset Ratios as Early Warning

- <50%, Low Risk
- >50%, Moderate Risk
- >100%, High Risk

Year 1 - Year 4

Foreclosure
## Financial Position: Checklist

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Interpretation</th>
<th>Good</th>
<th>Marginal</th>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>Greater than 1.5; lower than 1?</td>
<td>☣</td>
<td>☣</td>
<td>☣</td>
</tr>
<tr>
<td>Debt-to-asset ratio</td>
<td>&lt; 40%; &gt; 65%?</td>
<td>☣</td>
<td>☣</td>
<td>☣</td>
</tr>
<tr>
<td>Net worth</td>
<td>Positive? Increasing?</td>
<td>☣</td>
<td>☣</td>
<td>☣</td>
</tr>
</tbody>
</table>
## Profitability: Checklist

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Interpretation</th>
<th>Good</th>
<th>Marginal</th>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net farm income</td>
<td>Positive or negative?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Business must be adequately capitalized

How will equipment be replaced if the business does not generate enough money for its replacement?
Does the farm have enough equipment to handle emergencies?
Research yields: Do not account for normal probability of losses from diseases & other factors.
Cost frequently ignored if farmer already has a tractor.

Yet tractor is needed for fish crop & cannot be used for other crops when used for fish.
Some budgets don’t include costs of pond construction (annual depreciation).

Where will $$$ come from for rebuilding?
Farmer’s labor:
• Often not included in budgets.
• Farm must make enough money to compensate farmer for his/her time.
• Or, will quit farming fish to do something else.

• Need to value operator’s labor at more than minimum wage.
• Farmers need to pay for college, insurance, retirement. Benefits can be 25% or more.
Farmers get tired of working long hours without financial compensation.
Nathan Stone’s Wal-Mart Test

We should be asking people if they can make as much money from small-scale aquaculture as they can as a greeter at Wal-Mart.

Otherwise, they are better off working at Wal-Mart, where they can stay warm.

Even hobby farmers need to make money.
Keys to avoiding pitfalls?

- Plan for adequate capitalization.
- Maintain adequate cash flow.
- Farms that make adjustments every year.
- Do not let themselves get too far into debt before taking action.
## Checklist of Farm Financial Health

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Good</th>
<th>Marginal</th>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow</td>
<td>Good</td>
<td>Marginal</td>
<td>Problem</td>
</tr>
<tr>
<td>Financial Position</td>
<td>Good</td>
<td>Marginal</td>
<td>Problem</td>
</tr>
<tr>
<td>Profitability</td>
<td>Good</td>
<td>Marginal</td>
<td>Problem</td>
</tr>
</tbody>
</table>
Keys to economic success

- Monitor cash flow monthly!
- Do a Financial Checkup at the end of every year.
- Identify & prioritize weaknesses.
- Set goals & plans to improve weaknesses.
- Make adjustments every year.
Questions?

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