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An Icelandic case in Strategy**

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# **An Invitation to a Merger: An Icelandic Case in Strategy**

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## **Abstract**

The companies that are the main players in this case are the two largest marketing companies in the Icelandic fish industry, the Union of Icelandic Fish Producers Ltd. (UIFP) and the Icelandic Freezing Plant Corporation (IFPC). They were both traditionally co-operative companies owned by producers in the Icelandic fish industry until they were changed to Limited Liability Companies in 1993 and 1997.

The markets for Icelandic fish products have changed considerably during the past two decades. Europe has become the most important market and the Japanese market has increased its share considerably. The long term traditional markets like the US and former Soviet Union have declined for the past decade. It is not merely the changes in market areas that affect the fish industry but also changes within the markets.

The Union of Icelandic Fish Producers Ltd. (UIFP) was, until 1999, almost entirely in the business of selling salted and chilled fish, while the Icelandic Freezing Plant Corporation (IFPC) has marketed frozen fish. The years 1997–2001 brought significant changes to the export sector in the Icelandic fish industry. The Icelandic Herring board was changed into Islandssild hf. in July 1998 and merged with the Union of Icelandic Fish producers (UIFP) on 1<sup>st</sup> January 1999, making it the third largest marketing company for fish in Iceland. Icelandic Seafood, then Iceland's second biggest marketing

company merged in 1999 with UIFP, making the new UIFP the largest marketing company for fish in Iceland. IFPC, formerly the largest marketing company in Iceland, showed unsatisfactory performance in 1998 and 1999, forcing them to change their operation, mainly by focusing more on their core activity, the sale of frozen fish. Hence, IFPC has gone out of related businesses, such as transportation, and sold its share in other companies. After 1999 only two of the four Primary Marketing Companies are still in operation. To further meet changes in the global industrial environment, UIFP has expanded and diversified its operation from being only a marketing company for salted fish into becoming an international marketing company focusing on chilled and frozen fish. At the same time IFPC has focused its operation on being an international marketing company for frozen fish.

Through time there have been pressures toward the merger of IFPC and UIFP but without success. At the annual meeting of IFPC for 2001 the chairman of the board suggested that these two companies should merge. He claimed that with the merger of the two companies they would save up to ISK. 500,000,000 and increase their competitive status globally as well. This case ends at that time, leaving the readers with unanswered questions regarding the future of the companies.

JEL classification: L1, L2

Keywords: Strategic Management, Case studies, Union of Icelandic Fish Producers, Icelandic Freezing Plant Corporation

## **Introduction**

The aim of this paper is to introduce to the readers an Icelandic case in strategy and management set in the export sector of the Icelandic fish industry. The paper is useful for scholars and students in strategy and management that are interested in an Icelandic business case. The case was first used by the authors at an intensive course for students of business administration from six European universities held by the Business Administration faculty of the University of Akureyri in 2001 and has since then been used for students of the United Nations University Fisheries Programme in their business administration course in Akureyri.

At the end of the case, the reader is left with four strategic questions from the authors but the case itself opens up all sorts of questions, i.e. regarding management practices, business ethics and strategic management.

For readers unfamiliar with the Icelandic fish industry, the authors can recommend their working paper; The Icelandic Fish Industry, a comprehensive overview until the end of 2001 (Knutsson and Gestsson, 2006) as a useful paper for those who are looking for a brief introduction to improve their understanding of the background of the Icelandic fish industry at the dawn of a new millennium.

## **The Union of Icelandic Fish Producers**

The Union of Icelandic Fish Producers Ltd. (UIFP) was established in July 1932 after the merger of three of the five salt fish merchants in Iceland. The merger happened after much pressure from the commercial banks and government. In addition, producers and ship owners in Iceland supported the establishment of UIFP. The main objectives were to improve the development of the export of salted fish from Iceland and minimise internal competition on the market.

Five periods in the development of the company are observed. The first period is from its foundation in 1932 to 1957 when UIFP went through difficulties leading to operational changes. The second period is from 1957 to 1990 when the operation was characterised by monopoly of export and taking care of matters of interest to the producers. The third period is from 1990 - 1993 when UIFP faced increased competition in exporting, leading to ownership changes in the company. The fourth period is from

1993 until 1999, when UIFP operated as a limited liability company. The last period is from 1999 to 2001 after UIFP merged with Icelandic Seafood (IS) and Icelandic Herring Board (IHB) two of the then four major marketing companies in the Icelandic fish industry.

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

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

When UIFP was established, there were around 322 members, but after a difficult period during World War II and the aftermath of the war, membership was down to around 138 in 1949. This was mainly due to there being fewer companies in salt fish production as well to as increased competition from other production methods such as freezing. It has to be noted that precision of the figures of members over the years is debatable because of varying methods in counting members (Valdimarsson and Bjarnason, 1997).

### *Monopoly: 1957 – 1990*

The period 1957-1959 was in many ways an important turning point in the history of UIFP due to the increasing dissatisfaction of the members with its operation. Three main issues displeased the members. Firstly, the sales organisation appeared to have stagnated; secondly, the members found that UIFP did not pay as much attention to matters relating to members' common interest as it should have done; thirdly, the members were of the opinion that they had very little say in the governance of UIFP, as they found the board too remote from the members and their needs. A reflection of this criticism was apparent in the composition of the board, where in 1959 not all of the board

members were directly related to salt fish production, and most of them were somewhat advanced in years and had been on the board for a long time.

Dissatisfaction with governance and the increased emphasis on matters of common interest are closely connected. It was not until after a meeting of 39 members of UIFP in September 1959, where they planned to establish an organisation separate from UIFP to take care of matters of common interest to salt fish producers, that the board of UIFP started to react to the members' requests for stronger action in such matters. This resulted in UIFP establishing a special interest committee to take care of issues of shared importance, with three members nominated by the board and six by the producers. By this measure, UIFP widened its aims and acted increasingly as a lobby group in matters of common interest such as putting pressure on the government for a better operational base for salt fish production, on banks for increased access to loans for producers, on the government's fund controllers for increased financing of new equipment and buildings, and in relation to other matters that might concern salt fish production (Valdimarsson and Bjarnason, 1997).

The dissatisfaction of members lead to their becoming much more active in the governance of UIFP, first through the common interest committee and secondly by changes to the board where more active producers were included in 1960 and in 1965 when all the seven deputy board members started attending all board meetings. Later, in 1983, the number of board members was increased to fourteen and deputies were promoted to full members.

During the period 1957-1990, the operation of UIFP grew fast, mainly due to increased service to members as well as the broadening of its role. An example of this development occurred in 1962, when UIFP hired employees to take care of technical matters for both UIFP and its members. This was the beginning of a technical department of UIFP. In 1967 UIFP built its own warehouse where fish was collected before being exported, and could also be packed and graded if necessary. In 1972, UIFP hired an employee to take care of the quality control of the products of its members, which was the birth of a quality department. Later, in 1984, UIFP started its own R&D work to develop new products. Following the establishment of the R&D department, UIFP operated the packing of fish in consumer packaging from 1987 to 1990 when the

equipment was passed over to producers in Iceland (Valdimarsson and Bjarnason, 1997). The increased operation of UIFP also resulted in diverse information sharing with members, in the form of production guides, guides to expected prices and stocking times, as well as regular newsletters. During this time, the number of employees rose from 10 - 15 in the 1950s and 1960s, to just over forty in 1990. Around 25 employees were working in the headquarters in sales and administration and the remainder in quality control, R&D, warehouses and other handling of the products.

Membership fluctuated during this period: in 1970 there were 219, 311 in 1982 and in 1986-1987 membership reached its peak rising to 405. In 1991, however, the number had gone down to 286 (Valdimarsson and Bjarnason, 1997). Most of these members were very small companies with a yearly production of less than 25 tons.

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

During the period before 1990, UIFP had a near-monopoly on the export of salted fish from Iceland due to limits in the number of export licences granted by the Ministry of Fisheries and later the Ministry for Foreign Affairs. However, this time other companies were granted a limited licence to export salted fish from Iceland, but usually in small quantities or on strict conditions. Export licences came under pressure, for example in 1987, when producers outside UIFP started exporting fresh split fish to Denmark or the UK where it was salted and then sold on to Spain, mainly as Icelandic salted fish. This meant that exporters could circumvent the export licence that blocked them from exporting fully produced salted fish from Iceland as well as avoiding the high import taxes into the EU. Pressure was also exerted, during this time, by the imminent implementation of an international contract between EFTA and the EU about the European Economic Area and the single market, where Iceland had to adapt to free trade between European countries. To cut a long story short, in 1991 Iceland's Ministry for Foreign Affairs granted companies other than UIFP limited licences to export salted fish mainly to Latin American countries. The Ministry also granted other companies provisional licences to sell salted fillets to Mediterranean countries, and, in 1992, to sell split fish (Morgunbladid, 1994, 27/03). After these provisional licences were issued in 1991 and 1992, and with the prospect of free trade with EU countries, it was clear that

UIFP's exclusive export licences would be abolished; they were indeed abolished in January 1993.

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

Before 1990, UIFP was completely dependent on Icelandic producers for fish to sell, and the producers also depended on UIFP for selling their products. With the acquisition of the company in France, UIFP started to become more independent from its members because the secondary plant was not limited to Icelandic producers in its purchases of raw material.

Another aspect of altered strategy during 1990 was that members embarked on serious discussions about changing the form of the organisation, realising that it was ill-suited to free market competition, mainly due to its bylaws and obligations to members. These obligations related to information sharing, equality of members of UIFP, having to act as an interest group and other services to members that were incompatible with free

market competition. UIFP's bylaws and resolutions rendered the company inflexible and excessively dependent on its members, especially in financial matters. For example, UIFP had to return its profit to members and therefore depended on their agreement to leave profit in the company when needed for investments. Due to the frequent poor profitability of the producers, this could be difficult and then UIFP had no other option than to obtain the necessary funding as a loan. This could delay changes and was not a feasible form for free competition. Hence, the next step in improving UIFP's competitiveness was to grant the company more freedom and independence from the producers. In order to do that it was necessary to move away from the obligations and equality principle that had been the essence of connecting UIFP with its producers. An annual meeting for 1991 agreed on changes aiming at granting UIFP more flexibility and independence from its members. The suggestion for changes took on the following issues, among others (Valdimarsson and Bjarnason, 1997):

- Grant UIFP more authority to influence quantity and production.
- Grant UIFP authority to let individual producers take on special production that is not necessarily on offer to all producers.
- Grant UIFP more freedom in ways of payment to producers in order to be able to return higher prices.
- Grant UIFP permission to buy products under its own name as well as granting permission to own and operate primary processing companies, both domestic and foreign, if appropriate to the operation of UIFP.
- Grant UIFP permission to sell all products the members wish, not only salted fish.
- Grant UIFP permission to sell on behalf of non-members' companies.

These changes, which were finally implemented in 1991, did not go too smoothly through the system of UIFP; for example, the general manager, Magnus Gunnarsson, resigned after a members' meeting in October 1990 had failed to agree to stop them exporting fresh split fish in competition with their own salted fish sold through UIFP. Later the same month the manager withdrew his resignation when over 90% of the members signed a statement of support for him (Morgunbladid, 1990; 24/11).

At the same time as UIFP faced increased competition, the fish quotas were reduced, leading to diminished salt fish production. This meant that UIFP's operation declined and from October 1992 to October 1993 the number of staff was cut by half (from just under 50 to around 25). This also affected the profitability of UIFP; in 1990, UIFP made around 483 million ISK in profit, and in 1991 it made a profit of 150 million ISK. In 1992, however, it lost 118 million ISK, which was the first time in its history that UIFP had not returned a profit on its operation.

Due to these difficulties, a members' meeting on 26th January 1993 agreed that it was necessary to go one step further in the conversion of UIFP by changing the company's ownership into a limited liability form, for increased the flexibility. In order to achieve this, UIFP was abolished and a new company, UIFP Ltd., was established in February 1993. The allocation of shares in the company was proportional to members' ownership in the reserve fund, and current or former producers owned almost all of the shares.

In 1993, UIFP sold products for around 200 Icelandic companies with 50 (i.e. a quarter of the total number of companies) producing 86% of the total quantity of the goods. The remaining 150 companies produced only 14% of the total quantity of UIFP's sales in 1993 (Morgunbladid,1994;12/05).

### *Transformation: 1993 – 1998*

UIFP Ltd. took over the equity and operation of UIFP on 11th October 1993 when the accounts of the old UIFP had been settled. After the establishment of UIFP Ltd., around 700 shareholders owned the new company, most of whom were current or former fish producers. The biggest owner had a 4.71% share so the ownership was well distributed and no one had overriding power to dominate the company. In March 1997, UIFP was registered on the Icelandic Stock Exchange market. Thus its shares were now on the free open market, and consequently UIFP had to give information on a regular basis concerning its operation and profitability (UIFP, 1998).

In 1993 the company hired a new general manager Gunnar Orn Kristjansson after Magnus Gunnarsson, the former manager, had resigned in order to give the board and the new manager a clean table to decide upon a new strategy and vision (Morgunbladid,1993;

26/11). Apart from the change of manager, the staff of UIFP was the same as before the ownership change.

Although this change did not formally alter the day to day operation of UIFP, it is evident that when UIFP was converted into a limited liability company with a new general manager, the strategy of the company changed dramatically. The main developments that followed were that UIFP became much less dependent upon the producers in Iceland since it now did not only act as a sales organisation for the Icelandic processing companies. Instead UIFP started, for example, to buy and sell salted fish from foreign producers, beginning in Norway. This move led to the establishment of a subsidiary in Norway, UIFP Union a.s., in 1995, which was later changed into Mar-Nor a.s., to take care of selling products from Norwegian companies. UIFP also started to buy the fish from the producers instead of selling it for a commission, which meant that producers got paid earlier, but at the same time this meant that there was often the opportunity for UIFP to buy fish when the price was low and keep it until the price went up before selling it again (Morgunbladid,1995; 21/5).

In 1994, UIFP established a company in Spain, Copesco & Sefrisa s.a., in co-operation with one of the biggest Spanish salted fish distribution companies. This company took over the operation of UIFP's subsidiary in Spain, and was supposed to strengthen UIFP's position on the market. In 1996 this co-operation between UIFP and the Spanish partners collapsed, leading to the resurrection of UIFP's subsidiary in Spain to be in charge of UIFP's activities there. In 1996, UIFP went into a new sector by buying a 40% share in Icebrit Ltd., which is based in Hull, UK, and is in the business of selling fresh fish.

The expansion of UIFP boomed in 1997, starting in March when UIFP bought the Hvítanes, a cargo ship which previously had taken care of about 80% of the transport for UIFP from Iceland and Norway to France and Mediterranean countries (Morgunbladid,1997; 09/04). In May, UIFP bought a 50% share in a Norwegian processing company to strengthen its position on the Norwegian market. Then in September 1997, UIFP bought two Canadian companies in Nova Scotia: Sana Souci Seafood Ltd., which operated fish processing, secondary processing, distribution and marketing of salted fish mainly in North and South-America; and Tara Nova Ltd., which

is primarily a processing company (Morgunbladid,1997, 12/09). This meant that UIFP bought access to the fish market of (mostly North) America, where it had not been strong before. The final move of UIFP in this foreign investment was in November 1997 when, along with its Norwegian partners, it bought another primary processing company in Norway.

After these changes, it is estimated that UIFP and subsidiaries controlled around 16% of the total salt fish sale in the world, making UIFP the biggest single seller of salted fish in the world (Morgunbladid,1997;12/09). In table 1 a few essential figures indicating the financial status of UIFP are summarised for the years 1993–1998. It can be seen that the operation has expanded quite rapidly, that its revenue has increased by around 25.5% from 1993 to 1996. In addition to this, the latest investment in 1997 is estimated to have boosted the revenue significantly, by about 1.8 billion ISK or 17.5% compared to revenue in 1996. Profitability, however, has been moderate; from 3.6% of operating revenue in 1994 to 1.1 % in 1996. For the same period, the general nominal interest rate on non-index secured loans in Iceland during that time fell from 14.4% in 1993 to 12.4% in 1996 (UIFP, 1994 - 1999).

**Table.1 Consolidated financial key figures of UIFP1993 - 1998.**

Year	Operating revenue in ISK '000	Return on operation revenue	Equity ratio	Return on equity	Number of staff	
					Icel.	Abroad
1993	8,209,000	1.8%	25.4%	10.3%	N/A	N/A
1994	9,200,054	3.6%	21.2%	24.1%	N/A	N/A
1995	9,473,7333	1.8%	18.9%	20.5%	59	162
1996	10,304,499	1.1%	25.4%	9.0%	70	154
1997	11,675,880	1.3%	24%	11.0%	64	330
1998	18,834,193	2.7%	28%	24%	60-70	776-786

The decline in revenue on equity in 1996 is due to increased equity by new shares sold in 1996. In the table, revenue is taken from the coalition of the parent company, UIFP, and subsidiaries.

### *1999 - 2001*

In 1999 came another boom in the growth of UIFP. In the beginning of the year (or from 1<sup>st</sup> December, 1998) Íslandssild hf., formally Icelandic Herring Board, merged with UIFP (Morgunbladid, 1998, 30/12). Then in the autumn 1999, Icelandic Seafood and UIFP merged under the name of UIFP (Morgunbladid, 1999, 29/09). In this way, UIFP significantly diversified its operation from the time before the merger with Icelandic Seafood, when it defined its role as an “international marketing and production company in chilled fish production” (UIFP, 2005). Now UIFP handles frozen fish products as well, so, theoretically speaking, it covers almost all forms of fish product exported from Iceland. Íslandssild hf. was mainly in the business of marketing salted herring, which is not very different from UIFP’s business. Additionally, most of the largest producers of salted herring are also big producers of salted cod and were already in business with UIFP. Hence the merger with Íslandssild hf. did not signify a strategic change in UIFP’s operation. The merger with Icelandic Seafood, however, was different because their producers were in many cases bigger and the value adding is higher than in salt fish production. This was sure to create pressure on UIFP’s strategy and on its relationship with producers. Before the merger with Icelandic Seafood, in June 1999, UIFP changed its structure to improve efficiency. UIFP Iceland was then established to take over the operation in Iceland and the relationship with producers in the same way as the old UIFP had done. The UIFP Mother Company was established to head all its subsidiaries in Iceland and abroad.

In 1999 Fridrik Palsson, former general manager of IFPC, was appointed to become chairman of the board of UIFP, which he still was in March 2003.

Since the merger of the three companies, the time has been spent synchronizing the operation of the three companies. It was not until the year 2002 that UIFP appeared to have overcome difficulties in integrating the operation. In Table 2 key figures are taken from the consolidated financial statements for the years 1999–2001 (UIFP, 2000–2002).

**Table 2. Consolidated financial key figures.**

Year	Operating	Return on	Equity	Return on	Number of	
	revenue in	operation	ratio	equity	staff	
	ISK '000	revenue			Icel.	Abroad
1999	33,849	0.1%	21%	1%	N/A	N/A
2000	52,931	-1.9%	15.7%	-24.0%	N/A	N/A
2001	60,517	0.7%	16.6%	11.1%	N/A	N/A

In this table, revenue is taken from the coalition of the parent company, UIFP, and subsidiaries.

### **Icelandic Freezing Plant Corporation**

#### *Establishment and Entrepreneurship: 1942 – 1962*

Solumidstod Hradfrystihusanna, the Icelandic Freezing Plant Corporation (IFPC), was established in February 1942. The initial ownership form of IFPC was a co-operative among the producers. To explain the main objective of IFPC, it is necessary to look at the first bylaws of the company from 1942, some highlights of which as stated in Hannibalsson's and Hjaltason's (1997) book on the IFPC are:

- The objective of the company is to sell marine products produced in members' companies on foreign markets, to take care of necessary purchases for the members' companies, to look for new markets and to experiment with new products and production methods in the companies.
- Members can only be those who operate freezing plants and they have to obey the bylaws of the organisation and its legal agreements.
- Members have to hand over all their products to the organisation to sell and they are not allowed to sell, by themselves, or have others sell the products of their freezing plants. Failure to fulfil this requirement can lead to a penalty.

- The organisation is allowed to have control over the production of its members to guarantee the quality of the products.
- To cover the operational costs, the organisation takes 1% of the FOB price of sold products from its members. In addition, the organisation is allowed to add a levy on the price of accession that it sells to its members' companies.
- Profits of the organisation will be split between its members in proportion to the percentage of export value of each member's companies.
- Each freezing plant has one vote at meetings of the organisation.

From the first provision of the bylaws it is obvious that strong emphasis is placed on the equality of members, as indicated by the paragraph that each member has one vote. Other interesting characteristics of IFPC are the co-operative ownership and the fact that the company is supposed to be a non-profit organisation. This indicates that in the beginning IFPC was only meant to be a commission-based sales organisation for the producers with no involvement in any other operation.

IFPC opened its first sales office abroad in the US in 1945. In 1947, it then changed the form of the sales office into a subsidiary, Coldwater Seafood Corp., a US company fully owned by IFPC. In 1954, Coldwater established a secondary processing plant in Maryland US to produce coated fish sticks made from raw material from Iceland. This was the first secondary processing plant owned by IFPC. With the establishment of the subsidiary in the US, IFPC set the strategy that it has followed, for the most part, since. The main aim of this strategy was to get as close to the customers as possible by establishing subsidiaries in local markets, and to use its own brand name to build up customers' loyalties to the brand. It is clear, though, that changes in the retail sector over the last two decades, with the increased importance of supermarkets and their own brand names has impacted on this strategy of IFPC. Hence, an increased quantity of IFPC production now goes into supermarket brand names.

Other highlights in the history of IFPC during this period include:

- |      |                                                                                                                                                                                                                                                                                        |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1946 | Sales office in Amsterdam opened. This was closed in 1949.                                                                                                                                                                                                                             |
| 1948 | Sales office in Prague opened. This was operated until 1953 when it moved to Hamburg.                                                                                                                                                                                                  |
| 1953 | Sales office opened in Hamburg and closed again in 1956 when the operation moved to Prague until it was closed in 1960.                                                                                                                                                                |
| 1955 | Snax Ross Ltd., a Fish and Chips company in the UK, was bought and started its operation in 1956. In addition, in 1956 IFPC established secondary processing plants in the UK under the name Frozen (Fresh) Fillets Ltd., which started operation in 1958 but was closed down in 1962. |

Around 1960, the freezing industry faced increased operational difficulties at home, and, in addition, payments from the main market in the US were delayed due to the time consuming sales process and increased stocks in the US. In addition to this delay, it became obvious that Coldwater paid 10% less for the products than the main competitor from Iceland, the Icelandic Co-op Federation. This was due to difficulties in the operation of the secondary processing plant, causing them to pay the producers in Iceland a lower price. Hence, producers were in fact paying for the loss of the secondary processing plant in the form of lower prices (Hannibalsson and Hjaltason, 1997). All this, together with increased dissatisfaction with the governance and effectiveness of the operation of IFPC, led to changes in governance and the management team of IFPC around the annual meeting in 1962.

The aim of these changes was to increase the decentralisation and flexibility of the organisational structure to ensure a more effective operation. The main changes were (Hannibalsson and Hjaltason, 1997):

- The operation was divided into three sectors; each with its own manager; sale and markets, production and a financial sector. The three managers, as well as the chairman and vice chairman of the existing board, formed the executive board of the company that also included the operation of subsidiaries abroad. The chairman of the board worked in IFPC.

- The country (Iceland) was arranged into seven production areas, each of which had one full member of the board and one alternate member, and the board would meet at least once per month instead of once a week. Each area had one member and the chairman and vice chairman of the board would be elected separately, so the board would be composed of nine members.
- A special equity fund was established to ensure that IFPC would have a stronger financial status and be less dependent on its owners than before.

In the history of IFPC it is claimed that, as an organisation, it had probably never been as close to collapse as during the period of 1960 – 1963, and if the changes that were made then had failed the future of IFPC would have been uncertain. The organisation of IFPC established in 1962 mostly remained unchanged until 1985, with the exception that the financial manager was made general manager or chief executive in 1969 (Hannibalsson and Hjaltason, 1997).

#### *Growth and expansion: 1963 -1982*

After the changes in 1962, IFPC was granted much more independence from the producers than it had before. This made IFPC much better qualified to cope faster and better with the changes in the business environment and expand its operation. Professional managers were now the ruling actors in managing IFPC instead of the board interfering with daily matters. There were three general managers of IFPC, all working on the same level. In order to bring the board and the managers of IFPC closer, a managers' committee was established. Its role was to take care of operations between the board meetings (that were now held once a month, instead of at least once per week). The managers' committee comprised the three managers of IFPC and the chairman and vice chairman of the IFPC board. It was not until 1969 that one manager was promoted to become president of IFPC instead of the three managers (Hannibalsson and Hjaltason, 1997).

One of the main aims of IFPC during the first part of this period was to build up the infrastructure of the company to cope with the increasing independence. One aspect of this was to develop services for the members' companies. More emphasis was placed

on the service of the technical department that also saw to the implementation of new work methods and cost analysis. The technical department also implemented a new salary system in the fish industry, based on a bonus system. This meant focusing on work analysis, time measurements and work descriptions. Quality control was also a prominent part of IFPC's operation during this time. There was also an expansion in other services that IFPC provided for its members, leading to an increase in IFPC's operations. It is clear that IFPC was now much more than a marketing company. It can be claimed that it served its members with regard to almost all of their needs, including supplies for their production, consultancy for their business, and the sale of their products.

The strategy of IFPC and its owners during this time was clearly that all matters that would benefit the members' companies would be done within IFPC or other companies connected to IFPC. These companies included: Joklar hf., which was a sea transportation company; Umbudamidstodin hf., which produced boxes for fish fillets as well as other boxes that were used by the members of IFPC; and Tryggingarmidstodin hf., an insurance company that provided insurance for the members of IFPC. Umbudamidstodin and Joklar were jointly owned by IFPC and their members' companies but Tryggingarmidstodin was in majority ownership of IFPC member companies.

Another aspect of IFPC's operation during this period is the role of IFPC as an active interest group for its members. This role focused mainly on taking care of its members' interests against the government in a highly regulated environment. Due to difficulties in the operation of the fish industry in 1966–1968 and again in 1972–1976, this role dominated the IFPC managers' attention, as well as the time of managers of the Primary processing companies, the PPCs. IFPC also played a big role in the pricing of the raw material that was decided by a price committee with an equal number of representatives from the fish industry and the fishing sector. The government nominated an arbitrator to judge the price, so in practice the government more or less determined the price of the raw material.

IFPC mainly operated on two markets during this period. The chief market was in the US, where IFPC sold its products through its subsidiary, Coldwater US. The second most important market was in Eastern Europe, mainly in the former Soviet Union. For a

decade, these two markets took over 90% of the total production of the IFPC members. The US market reached its peak around 1979 but after that the importance of the two main markets in Eastern Europe and the US declined and other markets such as Western Europe and Japan increased. Due to booking “6” in the agreement between EFTA and the European Union (EU), which took effect in 1976, the Western European market started to increase for IFPC because of a lowered import toll on fish products to EU countries from EFTA countries. In the 1970s, IFPC sold around 75% of the total frozen fish exported from Iceland, with this proportion peaking in 1976 when it was 77.4% (Hannibalsson and Hjaltason, 1997).

Highlights of the operation of IFPC and its subsidiaries during this time include:

- 1962 Decision taken to stop operation of secondary plant in UK.
- 1963 Coldwater US stopped commission sale of fish from IFPC members. Instead, Coldwater bought all the fish they sold for their own account.
- 1964 Umbudamidstodin (packing company) established.
- 1965 Licence granted to build a new secondary processing plant in Cambridge US.
- 1969 Coldwater established Royal Guard to operate fish and chips shops in US. The reasons were twofold, to sell more Icelandic fish and to learn how to run such shops to become better sellers. This operation was stopped in 1973-1974 and the reason given was that it was negative to be in too much competition with their main buyers.
- 1969 Operation of Snax Ross reached its peak with around thirty fish and chips shops. In 1983, the last fish and chip shop was sold.
- 1970 Coldwater US made an agreement with producers in the Faroe Islands to sell their product in the US. The Faroe Islands producers got the same terms as members of IFPC.
- 1972 Coldwater made sales agreement with Findus in Denmark to sell their products
- 1977 IFPC bought 39,9% share in Joklar hf., which had previously been owned by member companies of IFPC. Later, in 1980, IFPC increased its share in Joklar hf., to over 90%.

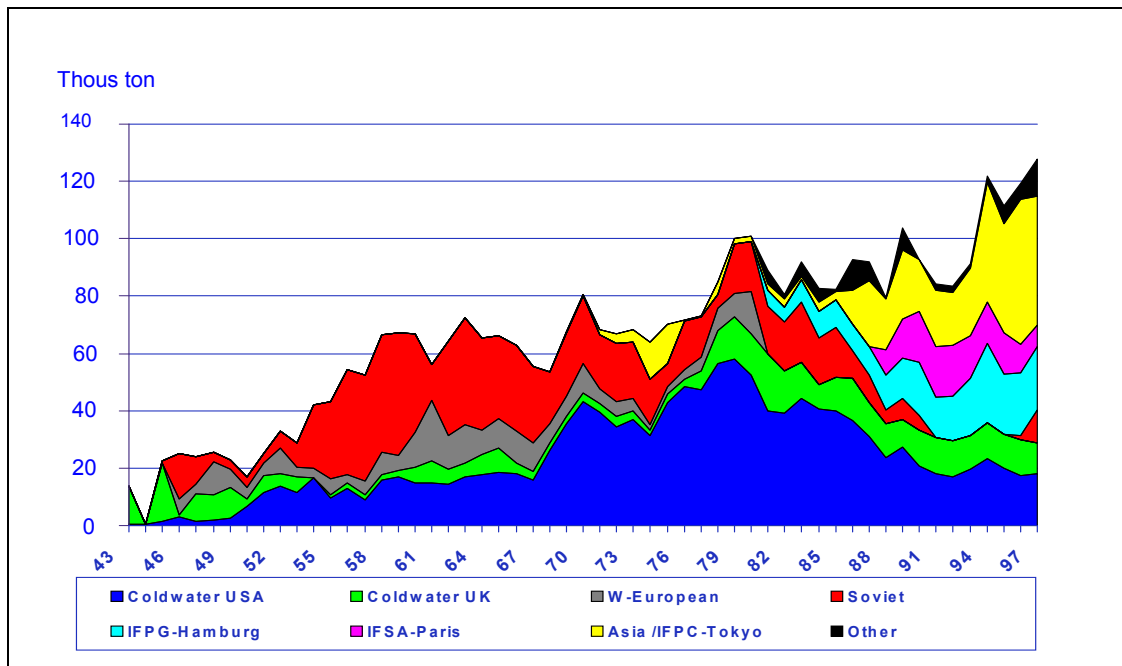
1978 New secondary processing plant started its operation in Boston US.

Constellation characterizes the operation of IFPC during this period; i.e. either IFPC or its owner took care of most of the needs of members' companies. Due to this constellation and centralisation of both knowledge and the physical flow of supply and products through IFPC and its subsidiaries, it is clear that IFPC had every opportunity to gain much more power from this alliance than its members had.

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

The turning point for IFPC's operation was around 1980 when the market in the US declined and increased emphasis was placed on markets in Western Europe by the establishment of marketing subsidiaries in Germany and plans for building a secondary processing plant in the UK. Other markets grew stronger during this period, such as Japan. It is clear that at this time IFPC was changing its strategy by starting to expand into other markets much more systematically than it had done before (see Figure1). This new strategy can partly be traced to the result of the so called "European committee" that worked inside IFPC in 1979, as well as the increased problems in the US market.

Implementation of this new strategy began in 1980 when the IFPC board agreed to start preparations for building a secondary processing plant in Grimsby (UK) and changed the name Snax Ross to Icelandic Freezing Plant Ltd. Production started at the plant in 1983. In 1981, IFPC established a marketing subsidiary in Hamburg (Germany). Other changes during this time included, for example, when IFPC, in autumn 1984, was authorised by its members to export and sell products from non-members. This was mainly due to pressure from owners of processing trawlers that were in many ways outside the Principal Marketing Companies, the PMCs, and therefore did not have easy access to the markets. This is in many ways an interesting turning point in the history of IFPC. The fact that IFPC had started to sell for non-members indicates that IFPC was moving away from solely serving its members towards becoming a more general sales and marketing company for fish products. Despite this turning point for IFPC, it has to be remembered that Coldwater US had earlier, in 1970, made an agreement to take on the marketing of fish products from the Faroe Islands and, in 1972, for Findus in Denmark.



**Figure 1. Total sale of IFPC categorised according to market areas 1943-1997.**

At the annual meeting of IFPC in 1984, Jon Ingvarsson became the chairman of the board. This was the starting point of a new generation of managers and board members of IFPC. The first and second generations had mostly left the industry and the third generation overtook the operation of both PPCs and PMCs. These changes continued in 1986, when Eyjolfur Isfeld Eyjolfsson resigned as general manager of IFPC and Fridrik Pálsson was hired. Fridrik had previously been general manager of UIFP. In addition, new managers of finance and markets were hired to IFPC (Hjaltason, Einarsson and Hannibalsson, 1997; Hannibalsson and Hjaltason, 1997).

Highlights of the operation of IFPC and its subsidiaries during this period included:

- 1980 Snax Ross was renamed Icelandic Freezing Plant Ltd., and preparations began for building a secondary processing plant.
- 1981 IFPC established marketing subsidiaries in Hamburg (Germany).
- 1983 Production started in a secondary processing plant in Grimsby (UK).
- 1984 In autumn 1984, IFPC was authorised to sell products from companies in Iceland that were non-members of the organisation.

1984 New general managers hired to Coldwater UK after the manager, Thorsteinn Gislason, resigned.

1988-86 Changes of president at IFPC, Eyjolfur Isfeld resigns and Fridrik Palsson hired.

The period of 1980 to 1985 was characterised by increased emphasis on globalisation by expanding to new markets as well as the decision to build a secondary processing plant in the UK. This expansion of IFPC was both forward and backwards in the value chain: Forward to new markets and backwards to get more producers (that is, non-members) to sell their products through IFPC.

It is obvious from the change of managers in Coldwater US and IFPC, and of the chairman of the board of IFPC, that there were conflicts in the operation of IFPC during this time. After 1980, IFPC started to expand to new markets and in many ways implemented a new strategy. Hence, the question may arise, since relatively young men took over as chairman and vice chairman of the board of IFPC in 1984, whether the board had been pushing for younger men as managers to implement the new strategy. At least it is clear, although not official, that the change of manager of IFPC and Coldwater was not as straightforward as it looked. The former president, Isfeld and the manager Gislason were both regarded to be too obvious solo players for the new board and the new generation of managers that were taking over in the PPCs and on the board of IFPC.

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

As a result of the changes in the board and management team of IFPC, discussion started in 1986 as to how IFPC could change their operation in accordance with the current altered business environment. These changes included, for example, increased freedom in the Icelandic economy, a foreseeable abolition of the duopoly of IFPC and SIS/IS (Federation of Icelandic Co-operatives/Icelandic Seafood) on the sale of fish products to the US, and declining fish stocks in Icelandic seas. Fridrik Palsson, president of IFPC, continued this discussion at the annual meeting in 1987 when he said (IFPC,1988): “that IFPC should be a sales organisation but the question was whether the company should continue to act as an interest group for its members, especially in the light of unclear

boundaries between fishing and producing”. Pálsson was referring to the fact that IFPC nominated one member in a committee that decided the price of raw material for processing. In many cases the owners of the fishing vessels and the processing plants were the same. Hence, IFPC was representing processors against the owners of fishing vessels which were often the same company, causing conflict and confusion concerning on which side of the table members of IFPC were sitting. As a response to this discussion about the role of IFPC, it was decided that IFPC would participate in the establishment of Samtök Atvinnurekanda í Sjavarutvegi, (The Organisation of Employers in the Fishing Industry), abbreviated SAS, in the autumn 1987. The aim of SAS was to guard the interest of the PMCs. Thus IFPC more or less quit acting as an interest group for its members. Hence, the main aim now was to operate as a sales organisation for its members (Hannibalsson and Hjaltason, 1997).

In November 1987, the Ministry of Trade gave six new exporters licences for exporting fish products to the US. This meant that the duopoly that IFPC and IS had had on export to the US was abolished for good. IFPC reacted to these changes by claiming that due to limited competition between sales companies from Iceland they were the leading sales company on the US market. Because of this they were leading in price formation on the US markets and could obtain higher prices than other competitors. Hence, they would be able to earn higher returns for the Icelandic producers. The abolition of the duopoly was just one of the milestones towards increasing competition and freedom in the market.

It is interesting to note the efforts of Fridrik Pálsson, president of IFPC, to maintain the restrictions on competition in the marketing of fish from Iceland. At the annual meeting in 1990 he claimed that the old saying “together we stand but divided we fall” was still valid in the export of fish products from Iceland. He also claimed it was clear that the primary marketing companies were the only hope for private enterprises in the fish industry. The primary processing companies were too small to be able to implement “go - it alone” strategies in marketing of their products. If they did, they would need to depend on foreign companies, which both now and in the future would be in a dominant position versus the small Icelandic producers. Hence, it was only through a

company network or large enterprises that producers could maintain their independence against these foreign buyers (IFPC, 1991).

At an annual meeting in 1988, major changes in the philosophy behind the organisation were agreed on. The main change was to abolish the one-member/one vote system. In the new system, 20% of the votes were distributed equally, whereas 40% of total votes were distributed in accordance with the value of export of each company through IFPC and the remaining 40% of total votes were distributed to each company according to its ownership in the equity fund of IFPC (Hjaltason, Einarsson and Hannibalsson, 1997). Despite this, each company had a veto on agreements, bound in the memorandum of the association agreement, so theoretically, one company could block changes. This veto was kept unchanged until IFPC was converted into a limited liability company in 1997.

IFPC's constellation strategy, that of participating in all matters beneficial for its members inside IFPC, started to change after 1990. The first step in that direction was the reduction and final abolition of the technical department over the years 1993 and 1994. Changes in this strategy became more obvious in 1996 and 1997 when IFPC sold its share in Plastprent hf., and Umbudamidstodin hf. At the same time, IFPC quit the sea transportation operation of Joklar, which was terminated and changed into a holding company to take care of its investment in other companies. This clearly demonstrates the leading strategy during this time; that is "do well what we do best and let others take care of the rest" (Hannibalsson and Hjaltason, 1997). This was a practical indication that IFPC was focusing on the international marketing of fish products. This is in accordance with trends in business operations at this time, to stick to the core business and let others do what is their core business (Hamel and Prahalad, 1994).

In the period before 1995, IFPC had limited its vertical integration to production to foreign companies. In 1995, Icelandic Seafood h.f. (IS), the main competitor of IFPC, bought an approximate 30% share in one of the largest Icelandic producers, Vinnslustodin hf., then a member of IFPC. This meant that the marketing of its products would move from IFPC to IS. A similar situation arose concerning IFPC's biggest producer, Utgerðarfélag Akureyrar hf. (UA). During this time, UA was in the majority owned by the municipality of Akureyri. IS offered to move their company's headquarters

to Akureyri if UA would market products through them. This ended in a competition between the two companies for the business of UA. The result was that IFPC kept UA's business, but moved a third of their headquarters to Akureyri.

A part of the strategy of IFPC was not to be vertically integrated into its members. In many ways, this competition with IS reflected one of the main criticisms/weaknesses of IFPC during this time: that is, it was too slow to react quickly to such a situation. It also demonstrates that IFPC's ownership form and relationship with its members in many respects limited its ability to react promptly to changes (Morgunbladid, 1996, 29/11). On the other hand, IS, a Limited Liability Company, was considered to be quicker to respond to new conditions.

In 1990, discussion of the ownership form of IFPC received increased emphasis, including whether it was necessary to change the company into a limited liability enterprise. In that year a future committee was established with the mission to make suggestions about the future role and ownership form of IFPC. The committee concluded that IFPC should not change its ownership structure into a limited liability form (Hannibalsson and Hjaltason, 1997). Despite this, it was clear that from around 1990 the pressure on IFPC to change its ownership structure would increase. This was due to factors such as:

- General changes in the business environment towards more deregulation.
- Changes in the fishery management system meant that reduced quotas led to a declining supply from members in Iceland into the sales network and therefore increased pressure for fish products from other countries and companies.
- Changes in the production sector where companies (often family owned companies) were increasingly registering on the open stock market.
- Producers were merging and getting bigger.
- Due to often-low profitability in the production sector, members' companies negotiated with IFPC to free some of their share in the company. IFPC had to pay their share out in 10 years' time in accordance with the IFPC agreements. Members claimed that they did not receive the market price for their share in IFPC.

- Competitors like IS were limited liability companies. This gave them better access to capital as well as reduced response times to changes.
- UIFP went through the ownership changes in 1993/94. Many of IFPC's members were also members in UIFP.

Highlights of IFPC's operation during this time include:

- 1987 The virtual duopoly that IFPC and SIS had on export to the US was abolished.
- 1989 IFPC established a marketing subsidiary in France: Icelandic Freezing Plants Eur. Ltd. in Paris.
- 1989 IFPC established a sales office in Japan, which in 1997 was changed into IFP Ltd. Japan, a marketing subsidiary owned by IFPC.
- 1993 The board of IFPC agreed to participate in the operation of a company in India to fish and produce tuna in co-operation with a domestic company.
- 1994 IFPC bought Saemark hf., a fish exporting company that specialised in the export of fresh fish from Iceland. IFPC used this company to sell and buy fish from IFPC non-members.
- 1994 IFPC bought 50% of Superior Salmon Express in Belgium. This company specializes in the marketing of fresh fish.
- 1994 IFPC bought all the shares in Icecon hf., whose main business was the export of knowledge relating to fishing and fish production. After IFPC's buy-out the main aim of its operation was to acquire new business connections and products for IFPC and its subsidiaries to sell.
- 1995 IFPC moved 1/3 of its headquarters operation to Akureyri after fierce competition with its main rival IS about the marketing of products for UA Akureyri.
- 1994 IFPC bought a 50% share in Faroe Seafood Ltd., which operated a secondary processing plant in Grimsby. In 1996 Faroe Seafood Ltd., and Icelandic Freezing Ltd., UK merged to become Coldwater Ltd., UK where IFPC owned a 75% share against, a 25% share ownership of the previous owner of Faroe Seafood Ltd.

1996 IFPC established a marketing subsidiary in Spain, Icelandic Iberia S.A.

1996 Change in IFPC ownership form from Co-operative to Limited liability.

**Table. 3 Key operational and financial figures of IFPC.**

Year	Net sales in ISK '000	Return on operation revenue	Equity ratio	Return on equity in %
1986	12,802,646	0.63%	26.8%	6.6%
1990	16,454,865	1.84%	19.9%	18.7%
1996	24,744,136	2.9%	23.0%	19.3%

In table 3, figures are shown from the operation of IFPC during this period. These figures are for the operation of the consolidated company (that is, IFPC and its subsidiaries). The figures show that the net sale of IFPC increased by 93% in the period 1986 -1996. This increase can be traced to the sale of products of non-members, which had greatly increased during this period. In 1996, 13% of the total sale came from foreign producers that sold their products through IFPC or its subsidiaries (Kaupthing, 1998). IFPC had around 43% share of the total value of frozen fish export from Iceland in 1996.

#### *Independence: 1997 –1999*

The ownership change brought about a new role of IFPC as outlined below (IFPC, 2005):

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

This role is defined in the mission of IFPC (2005) as:

IFPC operates subsidiaries overseas to ensure marketing of products, and to process seafood products. In order to ensure its market position and growth, IFPC makes production and sale agreements with Icelandic as well as overseas parties and invests in production and marketing companies. The company shall yield a normal return on the capital invested in it at any time.

For the first time in its history of over fifty years, IFPC's aim was to make a profit for its owners and instead of returning it in lower commission. IFPC had also changed its strategy and allowed the option of vertical integration by buying shares in producers in both Iceland and abroad.

The chairman of IFPC during this period declared in an interview that with the conversion of IFPC to a Limited Liability Company, it would have to change its association with former members which would now be based on business connections, and the social relationship and perspective would be abolished (Hannibalsson and Hjaltason, 1997). After the ownership change, companies in IFPC were no longer bound to hand over all their frozen products to the company. Instead, individual companies made sales contracts (service agreements) for part, or all, of their products, which were terminable from each side at a six-month notice. In this service agreement, IFPC undertakes to monitor products in all phases of the process, from production to delivery of the product to final buyers. This entailed, for example, that IFPC consults the producers about which products are suitable, about the condition of markets, and that it also takes care of all export transportation and documentation. In addition, producers were now under the control of the quality department of IFPC, and had to fulfil the standards that IFPC sets for each product it sells. Producers can also make contracts with IFPC for supplies of various operational goods, packing in particular. This means that producers are no longer bound to buy their packing from IFPC and can buy from elsewhere as long as the merchandise fulfils IFPC quality standards. In addition, IFPC operates a R&D department, which aims to increase the value creation of the production as well as meeting the needs of buyers and consumers of the products (Kaupthing, 1998).

Producers that make a service agreement with IFPC receive services with the aim of providing the producers with the highest price possible as well as all information needed about the market. Saemark h.f., the trading subsidiary of IFPC, then takes care of other producers that want to trade on the free market. Saemark h.f. either buys the product for further sale or sells it on a commission basis. Saemark h.f. does not have the same obligation to the producers regarding information or other services as does IFPC h.f. By this IFPC claims that they can keep the operation of IFPC producers oriented so that they can return the highest potential prices for the products and provide producers with more services than would otherwise be possible.

Highlights of IFPC's operation during this time include:

- 1997 IFPC established a marketing and purchase subsidiary in Russia (IFPC Russia). In 1997, IFPC also bought a fish wholesale company in Russia, which sells considerable quantities in and around Moscow, and established a holding company, Navenor Holdings Ltd., to run it.
- 1997 IFPC established a marketing and purchase office in China.
- 1997 IFPC established a subsidiary in Norway (IFP Norway A.S.), which aims at providing products for IFPC's sale and production system worldwide.
- 1997 At a shareholders meeting in 1997 it was decided to lift all restrictions on the sale of shares in IFPC and the company applied for registration on the Iceland Stock Exchange.
- 1998 The operation of Coldwater UK was split up into two companies. On the one hand, Coldwater Seafood UK LTD, which is in charge of the operation of the two secondary processing plants and the sale of their product. On the other hand, the sales company IFPC UK that takes care of selling products of companies that sell through IFPC.
- 1998 In the beginning of 1998 the Iceland Stock Exchange approved trading of IFPC shares on its main stock market.

One of the obvious changes in IFPC's strategy is the vertical integration into the production sector. In September 1997 IFPC owned a share in only one producer (a 10%

share in UA h.f.) whereas Joklar, the handling subsidiary of SH, owned shares in seven producers. In none of the companies are IFPC or its subsidiaries in dominant positions. In Table 4, key figures from the operation of the Coalition of IFPC for the years 1997 and 1998 are presented (IFPC, 1998-1999).

**Table 4 Key operational and financial figures of IFPC in 1997 and 1998.**

Year	Net sales in ISK '000	Return on operation revenue	Equity ratio	Return on equity	Number of staff	
					Icel.	Abroad
1997	28,484	0.97%	17.3%	8.52%	100	1169
1998	16,454	1.84%	19.9%	6.82%	N/A	N/A

#### 1999 - 2001

A new turning point for IFPC came during the annual meeting in March 1999 for the year 1998 when Robert Gudfinnsson, chairman of Thormodur Rammi hf., and the biggest shareholder in IFPC, was elected as chairman of the IFPC board after competition with the sitting chairman. Mr Gudfinnsson claimed that his candidature as chairman was due to increased dissatisfaction with IFPC's operation. Mr Gudfinnsson election was secured when he and his supporters had increased their share in IFPC the night before the annual meeting (Frjals verslun, 1999). Soon after the annual meeting, Fridrik Pálsson, president of IFPC, resigned as president and a new president was appointed. The main criticism of IFPC was that the centralisation of its operation was not adding value, neither for producers nor for IFPC. Judging from interviews in the media with the new board and president and an interview with Robert Gudfinnsson, the main changes seem to be the following.

- Increase the formal authority of the president of IFPC by making him chairman of the board of all IFPC's subsidiaries.
- Abolish the big producer's board over each subsidiary.
- Make each subsidiary more independent, enabling it to make contracts and buy direct from producers.

- Move activities to producers and subsidiaries from IFPC MC to decrease centralisation. This was done, for example, by abolishing the R&D department of IFPC MC.
- Move IFPC's sales system closer to the consumer.

The aim of these changes is to decrease centralisation to make the network more effective. Hence, this will mean that producers will no longer make contracts with IFPC, rather, producers will make contracts with each subsidiary. These changes are meant to bring more freedom to the network and ensure that producers can choose how and through whom they sell. It is clear, also, that the IFPC sales network will be evaluated on a much more competitive basis against its competitors. One aspect of these changes is that for the first time IFPC defines its role or vision as being an “*international marketing company for fish products*” and not a service company for producers (IFPC, 2000). As a confirmation of this change, IFPC abolished Joklar hf., the holding company, and sold almost all its shares in other companies. Accordingly, IFPC sold Saemark h.f., and has cut its business down to frozen fish as its core operation. Despite this, IFPC still focuses on good co-operation with producers, but not only as their service company.

Table 5 shows key operational figures from the consolidated financial statement of IFPC for the years 1999-2001 (IFPC, 2000 -2002).

**Table 5. Key operational and financial figures 1999 - 2001.**

Year	Net sales in ISK ‘000	Return on operation revenue	Equity ration	Return on equity	Number of staff	
					Icel.	Abroad
1999	37,196	-0.5	15.6%	-6.3%	N/A	N/A
2000	43,307	0.35%	16%	4.5%	N/A	N/A
2001	55,203	1.16%	17%	13.73%	N/A	N/A

Through time there have been pressures toward the merger of IFCP and UIFP but without success. At the annual meeting of IFPC for 2001 (IFPC, 2002) Gudfinnsson, the chairman of the board, suggested that these two companies should merge. He claimed

that with the merger of the two companies they would save up to ISK. 500,000,000 as well as increasing their competitive status globally. The case ends at this point, leaving the readers with unanswered questions regarding the future of the companies.

### **Epilogue**

In November 2002 the boards of IFPC and UIFP decided to start formal negotiations in order to merge the companies. The chairmen of the boards of both companies, Mr. Gudfinnson and Mr. Palsson, were appointed negotiators for each company. Due to differences in the estimated value of the companies the negotiations were ended on March the 4<sup>th</sup> 2003.

### Case questions from the authors

The members of the board of UIFP have consulted you and want you to evaluate the feasibility of the merger of UIFP and IFPC. To be able to assess the consequences of the merger, the board wants you to draw up an abbreviated income- and balance statement for the first whole year of the joint operation of the companies. Other issues that the board wants you to cover are as follows:

- The pros and cons of a possible merger.
- An overview of the difference in structure and strategy of the two firms.
- The effect that a merger will have on the stakeholders of the companies.
- A report on the possible barriers of cultural difference in a merger between the two companies.

As a consultant you will of course evaluate other issues that you find relevant to the possible merger.

Since exact figures on cost and revenues are not available, you will have to rely on assumptions regarding the income and balance statement. Assumptions should be identified separately in references.

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