The Icelandic Seafood Exporting Sector
Structure and main characteristics of the exporting companies

Nína Björg Sæmundsdóttir
Ingjaldur Hannibalsson

Viðskiptafræðideild
Ritstjóri: Ingjaldur Hannibalsson

Rannsóknir í félagðvísindum XIV. Erindi flutt á ráðstefnu í október 2013
Reykjavík: Félagðvísindastofnun Háskóla Íslands
ISBN 978 9935 424 17 4
The Icelandic Seafood Exporting Sector

Structure and main characteristics of the exporting companies

Nína Björg Sæmundsdóttir
Ingjaldur Hannibalsson

Throughout the history of Iceland the sea has played an important role. It has been both a friend and a foe. The fishing industry plays an important part in sustainable economic development for the nation. Much has been done to further the industry, making it more valuable and more sustainable. Even so, much remains to be done. The aim of this research was to study the current structure of the Icelandic seafood export sector and describe the main characteristics of the exporting companies. Some things have indeed changed from how they were and some have not and yet others have started to change.

Significant work has been done in analysing value chains and structural changes within the business area of the fishing industry. In 2001 Ögmundur Knúttsson studied the structural changes in the Icelandic fish industry value chain from 1990 to 2000 and there seemed to have been quite a bit of concentration, the companies were getting fewer and bigger. Four main factors were identified that had influenced the fishing industry in the previous 10-15 years; implementation of the quota system, more export freedom, more overall economic freedom in Iceland and a larger number of fish industry companies in the public stock market. Knúttsson further noted a conflict of interest in the creation of value within the value chain and that resulted in a lack of trust between concerned parties (Knúttsson, 2001).

In 2006 Ögmundur Knúttsson and Ólafur Klemensson analyzed, documented and described changes in three of the most important fish producers’ organizations in Iceland, how these changed from being non-profit producers-organizations to being publicly listed global corporations competing both domestically and globally. (Knúttsson & Klemensson, 2006).

A pilot study by Knúttsson, Gestsson and Klementsson (2008) mapped the structural changes from 1990 to 2008 in the Icelandic fishery sector. Interestingly enough they also found that the fish industry in Iceland was getting more and more competitive and profitable but that the large marketing and sales organizations (MSOs) were not finding their place in the new order of the value chain (Knúttsson, Klemensson & Gestsson, 2008).

In a paper that was a part of an on-going study on the structure, organizational and productivity changes in the sector, Knúttsson, Gestsson and Klementsson (2009) studied changes in the strategic positioning in the sector’s value chain. They found that power was starting to shift within the industry, away from the quota holders and to the marketing agents. More value had to be generated due to high price of raw material. They also point out that since the ending of the former MSOs no one was longer working towards a better global image of the industry products (Ögmundur Knúttsson, Helgi Gestsson & Ólafur Klemensson, 2009).

Yet another study by Knúttsson, Gestsson and Klementsson took a close look at the importance of small and medium size enterprises (SMEs) in the Icelandic fishing industry global value chain. The conclusion was that most Icelandic exporting firms
were SMEs and that only a handful could be described as Multinational enterprises. The SMEs overcame some of their internal and external barriers with possibilities available in the global value chain, often supported by use of ITC and emerging logistics possibilities (Knútsson, Gestsson & Klemensson, 2009).

In 1994 Arnar Bjarnason analysed the nature and behaviour of the Icelandic fishing industry with a special focus on exporting. He categorized participating firms into two main categories, export management companies (EMCs, firms only in exporting) and partially integrated exporters (PIEs, exporting firms that also process and/or fish). A total of 34 firms were categorized as EMCs and a total of 26 as PIEs. He further identified trends and behaviour within the exporting sector. When the research came out extensive deregulation had taken place within the fishing industry although its business environment was still largely dominated by laws, regulations and government policy decisions. Profitability within the fishing and the processing sector was also poor, due to over-investments and debt burdens. According to the study the Icelandic fishing industry was in a do-or-die situation when it came to the process of internationalisation (Arnar Bjarnason, 1996).

In February 2012 Eyjólfur B. Eyjólfsdóttir finished a master’s thesis, Export Incentives and Barriers to Export: The Icelandic Fishing Industry. The export behaviour of Icelandic marine product export companies was identified in three steps, first the companies were identified and located, secondly the export barriers were listed, and thirdly the incentives to export were summarised. High transportation cost from Iceland seemed to be the largest obstacle, second came the policy of political parties, third came domestic transportation cost and fourthly was the unstable business environment in Iceland. The most important drivers of exportation were the personal characteristics of the managers/owners of the companies. These included factors like international experience and fishing industry experience as well as personal networks. Eyjólfsdóttir concluded that no single theory could explain the internationalization of these exports from Iceland though there was strong evidence that management characteristics and incentives to export; explained by the network model, would be a common factor for most of the companies.

In June 2013 Eyjólfur B. Eyjólfsdóttir finished another master’s thesis Styrkleikar, veikleikar og markmið útflutningsfyrirtækja. Útflutningar íslenska sjávarafurða, (e. Strengths, Weaknesses and Goals of Exporting Firms. Exportation of Icelandic Seafood). The aim of the thesis was to identify strengths, weaknesses and goals of Icelandic seafood exporting companies. The results were fourfold. Firstly the main goals of the exporting firms seemed to be to build long term business relations with foreign buyers. Secondly the reliability and personal trust built by managers/owners of the firms towards their foreign buyers was perceived as the respective firm greatest strength. Thirdly unstable and unreliable access to raw material was perceived as the greatest weakness of the participating firms. Finally it seemed that managers/owners did, in many cases, not fully realise what were the firm’s strengths and weaknesses. This fourth conclusion was based upon the finding of many firms’ complete lack of professional business analysis.

Research method

The main aim of this research was to explore the current structure of the Icelandic seafood sector and describe the main characteristics of the export companies. A secondary aim was to compare the findings of the current study to findings from Bjarnason’s 1996 study. This would be done in order to give an answer to the following questions.
• What is the current structure of the Icelandic seafood sector?
• What are the main characteristics of the export companies?

Both qualitative and quantitative research methods were used. Individual semi-open interviews were used to gain insight into the industry. For the purpose of the study, the participants had to have experience in exporting seafood products. For that reason managing directors were chosen. Thus, a purposive sampling was used. There was no existing published or accurate list of Iceland seafood exporters and getting a complete list of exporting companies was not an easy task. A list of 122 companies was obtained from the Iceland Trade Directory and a list of 215 companies registered with Ríkisskattstjóri (RSK, Directorate of Internal Revenue). Combined the two lists resulted in 312 possible seafood export companies. Those were then further researched, firm by firm, to see if they were still operating. The result was a list of 119 companies, including information like a phone number or an e-mail, though it was not completely clear still that each and every one of those firms was in fact actively exporting seafood.

From these 119 companies 15 were selected for the purposive sampling. The criteria were chosen as to get a viewpoint from as many different types of firms as possible. A letter was sent out them were they were asked to participate in an interview about the Icelandic fish industry. As the participants were promised anonymity, their names will not be shared. A total of nine companies were willing to participate. The interviews took place between the 5th and the 12th of August 2011, and the duration was between one and two hours. All the interviews were recorded, with the permission of the participants, and then transcribed.

With the analysed interview data and questions used in Arnar Bjarnason’s (1996) study, a questionnaire was created and posted on the internet. This questionnaire was quite lengthy as its purpose was to gather data for more than one study. It took between 10-15 minutes to complete the 31 questions, divided over 6 pages, many of which had sub-questions. After series of reminders, the total number of responses from participating exporting companies was 57.

Of the 119 e-mails originally sent out, 28 were immediately rejected with a message of nonexistence. Additionally, it is clear that of the final 119 companies there was no guarantee that all of them were actively operational. After consulting with people intimately connected with the fishing industry at large, the more accurate count would be closer to 80 companies actively involved in marine exports. With 57 participants having completed the survey, it can be assumed that the results yielded by the survey-data can be considered representative and that realistic conclusions can be drawn from them.

The data was analysed by using Excel. The nature and purpose of this research did not call for the usage of a specialized statistical program like SPSS. All graphs and tables were made in Excel.

Key findings

According to the research most firms were domiciled within the capital area (42 firms) while 15, or 26%, were domiciled outside. Firms’ average number of years in operation was 32 years although most of them were between 10 and 29 years old. The average time lag from foundation to exportation for the firms participating in this study was 5.8 years. Most of the participating firms were owned by relatively few. More than half, or 32 firms, had 3 owners or fewer and 14 more had 10 owners or fewer. Adding up to a total of 81% of the participating firms being owned by 10 or fewer. No firm was currently openly exchanging ownership in a free stock market and only 2 firms had more than 100 shareholders.
This is not very different from Arnar Bjarnason’s (1996) findings. Then 25% of the firms were domiciled outside of the capital area and were on average 30.9 years old. The average time lag from the firm’s establishment until the time they initiated exporting was 3.7 years and the general form of ownership seemed to be shareholding, although many were also operated on a family basis. Distinct from the rest were the Principal EMCs (MSOs), being operated either on a cooperative basis or primarily owned by their producers.

Despite two decades having passed and significant migration to the capital area, there is still a similar ratio of exporting firms outside the capital area. This might be a direct result of a changing world and technological advances permitting those companies to use tools such as the internet to conduct their business.

Both studies showed that these types of firms can be considered quite old. It might be because they operate in a traditional Icelandic industry, often family operated and in some cases being the backbones of fishing villages around Iceland. Older companies can also indicate accumulative knowledge within each company.

An increased time lag can be seen from foundation until exports have been initiated. It could be attributed to the time periods in which these two studies were conducted. When the first study was undertaken the monopoly conditions of seafood exporting were coming to an end. That might have forced some of the firms to go at it alone and thus a longer time had passed from the time of their establishment until the time point when they initiated their own exporting, resulting in the longer time lag in the second study.

It still seems that the fishing industry in Iceland is largely a family owned industry although a few seem to be operating on a larger scale than they did in 1992. One reason why might be that these companies are mostly small or medium sized. Another reason might be the current quota system in place and the recent debate on the matter. Future changes of the quota system might affect how the ownership of such firms will be structured.

**Exporting**

The majority of the firms were not far along with internationalisation even if exporting, by itself, is a certain level of internationalization. Only one company operated completely outside of Iceland and 9 firms had sales subsidiaries and processing plants abroad. The larger firms were likely to have specific employees in export planning although the majority of the firms did not. Further, most firms exported to relatively few markets, a total of 24 firms exported to only two markets and 33 firms (or 62%) exported to three or fewer markets. Most firms did not seem to make efforts to strategically segment export markets although some had started to do so. Noticeable was also what seemed to be a market shift from the U.S. market to the European market as well as to the Asian market.

This varies slightly from what Arnar Bjarnason (1996) discovered two decades ago. Then the Principal EMCs were the farthest along with internationalisation, with sales subsidiaries and processing plants abroad. Those same companies were the only ones that conducted extensive and strategic export planning. The number of export markets per firm was similar, with most exporting to only one or two markets. The Principal EMCs were also the only firms that strategically segmented export markets and there seemed to be a market shift from the U.S. market to Europe.

With the ending of monopoly conditions and firms going it alone a void seems to have been created in strategic exporting knowledge within firms currently exporting. Though some progress can be seen it is likely that some time will still pass before the void will be filled.

Firms still export to few markets. That can be attributed to a lack of strategic thinking within the exporting firms. They might not have the necessary capital or their
operations might not allow for them to produce products for more than relatively few markets. On the other hand, firms seem to have become more advanced in strategically segmenting markets though still not completely there. As with strategic export knowledge, the end of monopoly created a knowledge void in regards to segmenting export markets. Since then some seem to have seen the need for doing just that and have started. It is likely that there is still a general lack of knowledge of such tasks and that some time will still pass before they will gain general knowledge of doing so. Two decades ago a market shift was detected from the U.S. market towards the European market. That still seems to be true though a shift towards Asia can also be detected. The reason why might be found both in the ending of the monopoly conditions as well as the world being better connected. The U.S. market is large and entrance into it is difficult, expensive and very time consuming. Markets in Europe are small in comparison to the U.S. market and thus might be easier for small and medium sized companies to enter. Asian markets are known for their love of seafood and as firms might deem those markets to be very lucrative and as a result seafood exporters might be more willing to try to enter Asian markets than the U.S.

Clients

Many of the participating firms had a long lasting business relation with relatively few big buyers. Arnar Bjarnason (1996) found that there was great concentration when it came to buyers of the participating firms’ products. Few clients are also a plausible explanation behind firms exporting to relatively few markets. In many cases the participating firms had, in the beginning, one (or a few) clients that bought most of their product and with the passing of time the seafood exporting firm grew as the client grew. Such a relation can be good as long as both parties strive for the success of the value chain. However, it can be dangerous for the exporter e.g. if there would be a shift in power within the business relation and/or if clients would go through harsh economic times.

This brings up the important topic of new clients and the importance of reaching new clients. The study showed that most of the participating firms did in fact not reach new clients, rather new clients reached them. A total of 63%, or 36 firms, claimed to reach new clients through familiarity or networking and 58% claimed to reach them through sales exhibitions. Further 40% used the internet to reach new clients and 16% through sales organizations. Most participants used a variety of ways to reach new clients. The firms in Arnar Bjarnason’s study mostly used personal contact with customers and visits to foreign buyers although company brochures and participating in trade exhibitions were also important. It is evident that technological advances have made an impact on the seafood exporting sector as it has on the rest of the world.

Arnar Bjarnason’s study revealed that the export sector was (then) largely dominated by relatively few firms despite the extensive structural changes that had taken place at that time within the industry. Those changes seem to have reaped long term results since this current study did not show that tendency in the export sector although it seemed obvious when it came to acquiring raw material. Entry barriers to seafood exporting have been broken down to some extent making it easier for new entities to enter. It seems that currently almost anyone can export seafood but acquiring the raw material to do so and maintaining the product flow can be harder. This is a direct result of the end of monopoly on exporting in Iceland. The knowledge of processing, the acquirement of raw material and the business relations in place are still a powerful barrier for anyone who wants to dominate the fishery sector.
Firm Categorization

One of the aims of this research was to categorize the participating firms based upon their size and vertical integration. Most of the companies were small or medium sized with 37% having ten employees or less. A further total of 18 firms had 50 employees or less translating into 68% of the participating firms having 50 or less employees.

In terms of integration the majority of the participating firms seem to be, to some extent, vertically integrated. A total of 35 companies out of the 57 were integrated. Of those 14 participated in processing as well as exporting. And 21 were in fishing and processing as well as exporting. Only 22 companies were only exporting. None of the exporters were only exporting and fishing.

Arnar Bjarnason (1996) categorized the participating firms into 7 different categories, a categorization that does not quite fit the purpose of this current study though still important. See table 1. The two main categories were export management companies (EMCs) and partially integrated exporters (PIEs). The EMCs were then subcategorized into Principal EMCs (the large Marketing and Sales Organisations: MSOs) and Other EMCs (other exporting management firms in the sector). The PIEs were subcategorized into five categories ranging from PIE-1 to PIE-5 depending on what kind of products these firms were producing and exporting. A total of 34 firms were categorized as EMCs and a total of 26 as PIEs.

Table 1. Categorisation of Arnar Bjarnason’s firms

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EMCs</td>
<td>34</td>
</tr>
<tr>
<td>TOTAL PIEs</td>
<td>26</td>
</tr>
</tbody>
</table>

In this study a total of 22 firms were found to be EMC’s while 35 were PIE’s, see table 2. Thus it can be seen that tables have turned resulting in more than 60% of the participating firms being PIE companies and less than 40% EMC firms.

Table 2. Categorisation of current firms into EMC’s and PIE’s

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EMCs</td>
<td>22</td>
</tr>
<tr>
<td>TOTAL PIEs</td>
<td>35</td>
</tr>
</tbody>
</table>

One reason for this is likely to be access to raw material since that lack of access to raw material was a complaint frequently heard from EMC company owners during this study. The growing numbers and success of PIE companies can most likely be traced to them accumulating exporting knowledge and experience since the end of the monopoly conditions. These firms also have a steady supply of raw material.

Both studies showed that most companies were small or medium sized which is not surprising given their Icelandic business environment. The latter study showed that some firms were getting more vertically integrated than before.
Conclusion

It seems that seafood exporting firms are still mainly small or medium sized companies sustaining themselves for more than 30 years on average. Despite the age the exporting firms still seem to lack knowledge, capital and/or drive in some important aspects of exporting. They still generally do not strategically plan their exporting nor do they segment markets although efforts can be seen in regards to the latter. Seafood exporting firms seem to still be subject to a risk that rises from having few large buyers.

It was interesting to see how many exporting companies still existed outside of the capital area and how many firms seemed to have incorporated the use of the internet in reaching their clients. Some firms nevertheless were apparently less successful in the usage of interactive web based technology, which, if used correctly, can be a powerful tool. Today there are even some that base their operations almost solely upon the usage of the internet.

Only a handful of firms export to the U.S. market while in the past many more did so. It is a very important market within the world economy and there seems to be much to gain if Icelandic seafood exporters could regain a foothold in that market. The US used to be a market for highly processed Icelandic fish products, like breaded fish sticks. Today, the Icelandic fishing industry does not excel in producing such products. This is probably in part a result of the market shift from the U.S. and to European markets. What the Icelandic fishing industry does well is produce traceable, sustainable products that have no or little added extra ingredients, something that might be desirable for a nation such as the U.S.

The end of the monopoly conditions seems to have, in the long run, shifted power within the industry. In the 1990's the big sales organisations held the power while in 2010’s it seems that firms that have managed to vertically integrate completely as well as gain control over their raw material flow, have the most power.

Icelandic seafood exporting firms have come a long way since the beginning of such exportat from Iceland. There is still much to be done and it seems evident that the most pressing matter is to strategically export and segment exporting markets.

References

Arnar Bjarnason. (1996). Export or die: The Icelandic fishing industry, the nature and behaviour of its export sector. Reykjavík: Fisheries Research Institute, University of Iceland.


