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Supreme Seafoods

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Fintan Barrett's four year old daughter would often turn to him while playing and exclaim "what to do, Daddy?" Indeed, this very question of what to do next had frequently swirled around his own head as he considered the options that were now available to him and his business Supreme Seafoods. Some commentators had described the recent economic crisis as 'a perfect storm' and that analogy was particularly apt for someone operating in the fish industry. Although Fintan's family had worked in the fishing industry for many generations, whether out at sea or processing and selling fish on land, the older surviving members could not recall such a gathering of negative economic happenings ever previously coming together in such proximity. While salt water might flow through his veins, Fintan was also a pragmatist and recognised the enormous challenges that he and his business faced. He still found it difficult to believe that just twelve months earlier, the business was in excellent health and prospects for him and his family had never looked better. Now, he had too many staff (all of whom were well paid), he had lost some of his largest customers, he was stretched because of the diversified strategy that he had pursued over the past five years, a major processor was squeezing him so hard on margins that there were no profits left on the deal, the currency crisis was hitting his limited international activity, and the bank manager was making demands upon his loan repayments that he simply could not meet. What to do indeed?

Family Business Background

Fintan Barrett grew up in the fishing port of Killybegs in County Donegal in the north-western corner of Ireland. His father ran a fish merchant business there and it was always taken for granted that his elder brother Justin and himself would go into the local 'fish trade'. In 1990, Justin took over the business from his father and two

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[1] This case was prepared by Dr Thomas M. Cooney and Prof Roger Mumby-Croft as the basis for class discussion rather than to illustrate either the effective or ineffective handling of a business situation. It is based on a case called 'Seaking' which was originally written by Roger Mumby-Croft and Tim Cracknell. The case was first published in the Irish Business Journal, Vol. 5, No 1, pp 5-12.

years later, Fintan became a Director of the business. Although both were in their twenties, together they built a profitable business in a very challenging industry.

Five years later, in 1997, Justin was approached by a local entrepreneur who was interested in buying the business, and as Justin had identified an attractive personal opportunity in the USA, he decided to sell. Fintan received some money from the sale and also stayed on as Retail Sales Director with the new organisation, but as often happens after such takeovers, it was clear within twelve months that the customer-care policies of the new owners did not align with the philosophy of the original owners. Fintan was becoming increasingly frustrated with his role in the new organisation and he knew that he had to move away. He also felt that the new owners were not responding quickly enough to the changing industry trends and that they were in danger of being left behind (the business subsequently collapsed in 2005).

The 1990's was a period of dramatic change for the Irish fishing industry, primarily due to the introduction of the Common Fisheries Policy by the European Commission in 1983 which resulted in the introduction of fish quotas that boats could land. The restrictions regarding what fish could be caught and the limits on the amount that could be landed were providing increased difficulties for those trying to make a basic livelihood from the industry. The number of Irish fishing boats unloading in ports fell, while numerous boat owners went into arrears as they could no longer make the repayments on their boats (indeed many trawlers were repossessed). Irish fishermen frequently highlighted their plight and the fact that there was minimal supervision of European fishing boats off the Irish coast, but little actually changed during this time as the European Commission continued to dictate terms. Additionally, the boom in the Irish economy in the late 1990s meant that many of the younger people were no longer willing to endure the difficult lifestyle that is involved in going to sea and so manning the boats had also become a significant challenge.

Despite the difficult trading environment in the Irish fishing industry, Fintan decided that the time had arrived for him to go out on his own and so he established his own fish processing business in early 1999. In truth he did not have to think too much about the decision itself - although he thought very hard about how he should organise Supreme Seafoods. The fish business was his life; he had, and still has, a passion for trading. He believed that dealing in perishable products had to be immediate, as there was no second chance. He found that nothing matched the adrenalin surge of pulling off a good deal, or the cut and thrust and the camaraderie of the market. This was his life; it was all that he knew!

The Business Start-Up

The basic business concept was that Fintan would be a primary processor which meant that once he had purchased the fish on the quaysides, he would then bring them back to his premises where a proportion would be gutted, filleted, and possibly frozen for onward distribution and sales, while the remainder would be sold in their natural state. Because of the challenging environment of the fishing industry at that time, Fintan decided that the best way to build a profitable business was to be a specialist in a number of market niches rather than being ‘all things to all people’. Additionally, because there was increasing competition from large secondary processing firms that were delivering frozen fish products to retail consumers who were increasingly seeking convenience products, Fintan chose to concentrate on two areas where he had strong contacts, the delicatessen business and the wet fish market trade. The only packaging involved for these target markets was plastic bags as he did not need to put them into the more formal packaging that was required for supermarkets. He also did not need to build a brand identity as such a matter was irrelevant in delicatessens and wet fish shops.

Having registered the business as a limited company, Fintan felt that the first thing he needed to organise was an overdraft facility. This was essential for a fish merchant because of fluctuating cash requirements due to boat owners having to be paid weekly. He toured the local banks but most were not interested, saying “we have enough fish merchants on our books, thank you”. Then, through the introduction of some friends who already managed their own companies, he arranged a meeting with the local manager of one of the big retail banks. The bank manager listened to Fintan’s ideas, looked at his business plan, and offered a €20,000 overdraft facility as long as Fintan provided him with the security of a personal guarantee backed by a charge on the equity of his house. This proposal left Fintan dismayed as his business plan was based on a €50,000 overdraft, as well as putting into the business his own

€30,000 which was all he could afford at that time (he had put a substantial part of his personal savings into building a large house in 1998). However, he felt that he had to accept the deal rather than fail at the first hurdle.

It is said that one of the worst things for a start-up business is to have too much cash but that certainly was not a problem for Fintan. He recognised that if the business was going to operate on a shoestring then he had to give priority to financial control and cash flow, and that he could not afford fancy accounting fees. His partner Grace, who was a nurse at the local regional hospital, offered to undertake a book-keeping course through Donegal County Enterprise Board so that she knew how to reconcile the figures, and this allowed them to give well ordered information to the local accountants who produced quarterly accounts and acted as auditors. Fintan's interactions with the Enterprise Board enabled him to gather much more information about managing a small business that he would ever have considered, as well as availing of some of their business support services. Premises were rented from the Killybegs Harbour Centre and potential customers were visited. Fintan was responsible for equipping the premises and rent was due in advance on a monthly basis. The company opened for business on Monday March 1st 1999 with five customers and three employees (two process workers to do filleting and labouring, and a FAS[2] trainee), plus Grace helping with the administration in between her shifts at the hospital.

Fintan always had a very strong belief that 'low pay meant low output'. Therefore he always paid well above the going rate for the job (together with bonuses) to show he valued the input of everyone on the team. He believed that this combination of good pay and feeling valued by management meant the company was one with good morale and productivity. The other thing he was determined to do from the start was to arrive as quickly as possible at a weekly breakeven figure. Every expense he incurred was gradually built into this calculation so that he could tell if the business was above or below this magic figure soon after trading finished on a Friday. This exercise was to prove of great assistance during the early years of the business. By the end of the third financial year in March 2002, Supreme Seafoods had increased its turnover from

[2] FAS is the national training agency in Ireland.

€61,000 to €523,000 per annum and its customer base from five to forty. Through a commercial mortgage from the bank, Fintan was able to invest €610,000 in a small fish factory in Killybegs that was equipped with cold storage and freezer capacity, and this would become the new home for the business. The bank had also extended the overdraft limit to €50,000 and Fintan was well positioned for the next phase of Supreme Seafoods's expansion during the economic boom of the 'Celtic Tiger'.

Growing the Business

In February 2003, after careful financial analysis, Fintan decided to expand the business by spending €430,000 to buy a small company which dealt in specialist fish species such as orange roughy. This business had an excellent network with the delicatessen market throughout the north-western region of Ireland and offered wider horizons as he could now supply local processors and distributors with these specialist species. The fact that his customers generally settled their accounts within one month reduced the potential for cash flow problems that the extra €24,000 per month of new business might have caused. Two months later, a fish cake making machine plus a customer list was purchased for just €27,000. The owner of a small business which supplied fish and chip shops in the north-west region was retiring and the machine effectively took up unutilised space in Fintan's premises. It also gave Fintan an entry into fish and chip shops which had previously remained outside of his target markets.

The next expansion was in June 2004 when Fintan bought two wet fish retail shops. These shops provided additional outlets for the fish processing business and increased turnover without adding to cash pressures as the business was over-the-counter cash trade. One shop was in Letterkenny and the other was a mobile pitch in a fish market in Greencastle. The former owner continued to look after the Greencastle outlet. Unfortunately the wet fish shops would prove a considerable diversion to Fintan's efforts even though much time was initially spent establishing good administrative systems. After acquiring the two retail outlets Supreme Seafoods had 13 employees, a turnover of €1.6m and an overdraft facility of €80,000.

Fintan now found that more and more of his time was being taken in controlling all aspects of the operation and (with hindsight) he could see that he was becoming slightly arrogant in believing that he had the formula for achieving growth in both profit and sales through acquisition. Also at this time his first daughter was born and Grace had little time to work in the business. Fintan did not have the time to continue the weekly break-even analysis and relied on the figures produced by the accountants. The final accounts in March 2005 came as a terrible shock as he had not realised that the company had lost money - quite a lot of money! He immediately went back to the weekly break-even figures and quarterly accounts and by January 2006 he had put the company back in profit (even if it was quite small).

In 2006, Fintan finally felt that he was able to rely more and more on his staff and that they were working as an integrated and motivated team. In June of 2006, he purchased a third wet fish shop at Mullaghmore in County Sligo. Three months later he was approached by Kinsella Brothers Ltd., an ailing but substantial local company, with a view to him going on the Board to try to rescue the company. He was being touted in the local media as an example of the new breed of Irish entrepreneurs that were confidently building successful businesses and making money, and so his achievements had been noted by many people in the fishing industry. The salary from Kinsella Brothers Ltd. would be paid directly to Supreme Seafoods and Fintan decided that this could lead to useful opportunities, even if it created more distraction to the management of his own business. Ultimately Kinsella Brothers Ltd. could not be turned around, but when it closed in August 2007 he was able to benefit through its two main salesmen joining Supreme Seafoods and bringing sixty accounts with them.

Table 1 – Products and Primary Customers for Supreme Seafoods

Products	**Primary Customers**
Wet Fish	Wet Fish Shops Delicatessens
Filleted Fish	Wet Fish Shops Delicatessens Fish and Chip Shops
Specialist Fish	Wet Fish Shops Delicatessens Local Processors Local Distributors
Fish Cakes	Wet Fish Shops Delicatessens Fish and Chip Shops
Wet Fish Shops (3)	Consumers
Consultancy	Kinsella Bros. (finished)

By the end of 2007 Supreme Seafoods had a turnover of €2.1 million and a healthy profit. The assets included a well equipped fish house, two special vans, and three fish shops. The bank loans were being repaid on schedule, there was a healthy equity balance, a customer base of 125 regular contacts, and 15 highly motivated staff. With the demand for the company's products growing, all seemed bright for the future of Supreme Seafoods at the start of 2008, but by October the company was in serious financial difficulties.

A Storm Suddenly Blows Ashore

In early 2007, it was apparent to Fintan that the economic boom had to end - the question was when. He felt that the business had about two years before the business climate would become difficult and so after consultation with the management team it was decided that they should form a link with one of the large companies involved in producing frozen and breaded fish products by supplying them with frozen fillets. This would reduce Supreme Seafood's dependence on their existing retail trade should it suffer during the anticipated recession. They had also noted in a 2007 report on the Irish fisheries industry that between 2000 and 2005, Ireland's seafood exports had increased from €331 million to €354 million, with France being the largest market accounting for 23% of the total value at €82.1 million. Fintan had bought a nice holiday home in France in 2004 and had travelled there frequently. Although he could not speak the language, the other members of the team felt that it would be worthwhile for Fintan to travel to France to examine the possibility of expanding into that market.

Fintan struck a deal in April 2007 with Blue Waves, a frozen food company based in Derry (Northern Ireland), to supply frozen fillets worth approximately £10,000 (sterling) per month. This move into the processed fish industry seemed to meet his policy of looking for low risk expansion and the new business depended on a sophisticated skinning machine that he had been able to buy very cheaply when Kinsella Brothers Ltd. had been wound up. The bank was willing to expand their credit facilities to enable this increased level of activity, even though warnings of an economic downturn were beginning to gather force. Indeed the bank manager was quite disappointed when Fintan stuck to €100,000 as the overdraft limit that Fintan felt was appropriate at that time. However the bank manager did demand the reimposition of his personal guarantee to offset the larger borrowing facility that the business now required. Some of Fintan's colleagues in Supreme Seafoods expressed strong reservations about signing the contract with the processor, but he felt that they were being too cautious. One of the biggest concerns that his accountant expressed about the deal was that because Blue Waves was based in Northern Ireland, it meant that Supreme Seafoods would be paid in sterling which meant that the company's finances would be subject to currency fluctuations. However, a good working relationship was quickly established with the processing company and initially all went well.

Then many outside influences hit the company in a short space of time. Through the 'Total Allowable Catches' policy, the EU Commission for Maritime Affairs decreased the overall amount of fish that could be caught Irish fishermen due to fears of over-fishing. This meant that Irish fish processors did not have enough fish to satisfy demand, and it was not viable to import raw fish from abroad. Growing import competition in fish products from low-cost producing countries such as China and Chile placed an added pressure on Irish processors to take a less commodity-orientated approach and generate higher market value for production. The sector began suffering from low/declining profitability (with an increasing number of companies making losses) as a result of the reduced supplies of raw materials, competition at home and abroad from low-cost countries, and substantial industry fragmentation. During this time, five of the sixteen fish processing firms in Killybegs were forced to close as they were unable to keep the business going due to the scarcity of fish. For an island country, it was surprising to many people that such a situation should exist.

During the first half of 2008, energy costs also increased significantly due to the oil crisis and Fintan was put in the position of having to raise his prices (although not making any more profit). This annoyed his clients significantly but he felt that he had no choice in the matter. While this increase in pricing was occurring, he also noted that it had become increasingly difficult to get customers to pay their bills on time due to the economic recession that was hitting the country. Without any discussion with Fintan, Blue Waves extended the credit that they took from four to six weeks, and for the first time in seven years one of Supreme Seafood's major wholesale customers failed to pay their monthly account on time. Another financial difficulty was the currency decline of the euro against sterling. In January 2008, the Blue Wave contract was worth approximately €13,381 per month but by November this had lowered to €12,039, a loss of €1,342 in revenue each month simply due to currency fluctuations. The margin had already become very tight on this deal and this development further exasperated the situation. In August came possibly the biggest body-blow. Fintan learned that a major wholesaler customer had gone bust owing him €87,000. Fintan had stayed in his house the previous week and afterwards he kept asking himself why the customer had not given him even a hint that he was in trouble. Indeed the customer had even bought €5,000 worth of fish off Supreme Seafood the day before his company had ceased trading. He also wondered how he had allowed such a large debt to continue to build.

All of a sudden the bank became alarmed with an overdraft balance staying consistently high and had noted that Fintan was also struggling with his loan repayments. The bank manager asked to meet him in early November to discuss his financial predicament. The bank manager was very concerned about the amount of bad debt that would have to be written off by the company, the poor cash flow situation, and the decreasing sales and profit figures. Fintan was informed that the bank was tightening its credit facilities and that they would be seeking to ensure that all repayments were being paid on time, something that Fintan believed was going to be extremely difficult for him to achieve. The bank manager suggested that Fintan should make decisive trimming moves by concentrating on the most profitable, reliable and quick paying customers. But inevitably this would have meant getting rid of staff and Fintan felt a reluctance to abandon people who had worked so hard for him for so many years. He was also apprehensive about the effect on the reputation of the company locally if he was seen to be shedding staff rapidly. However, he did agree to cut his own salary by 50% with immediate effect.

Exporting to France

Fintan was always an optimist by nature and he felt confident that the company could trade their way back into profitability and that exporting to France might just be the answer to their problems. Irish seafood continues to be high on the shopping list for the French consumer with the total value of Irish Seafood Exports worth €43.1 million for the six-month period from January 2007 to June 2007, an increase of 2% over the corresponding period for the previous year. In particular, strong growth was shown in the area of shellfish (where Supreme Seafoods had limited experience), with Irish seafood exporters achieving increased returns from €22 million to €25.4 million in the first half of 2007, compared to the first half of 2006, while the export value of all molluscs (e.g. clams and winkles) was up 24% from €11.6 million to €14.4 million over the same period. Some Irish companies were already highly active in France and every year the industry was growing with a steady increase of exported seafood products.

Exporting into France held many positives for Fintan. Besides the fact that he had visited his holiday home near La Rochelle quite frequently, France offers Irish exporters a close market geographically with many modes of transport available. Additionally, over the past decade French importers had grown confident in the quality of Irish goods and with a population of over 64 million people, the French market was over sixteen times bigger than that of Ireland. Another major attraction for Fintan of doing trade in France was the euro. Indeed this was an increasingly significant contributor to Irish companies trading with France instead of their nearest neighbours Britain who still retained the pound sterling.

Economic commentators have long observed that small companies view the international environment as hostile, and therefore ignore the possible gains from exporting and concentrate instead on their domestic markets. Following some research of his own, Fintan identified the major perceived barriers to entry for non-exporting SMEs as:

- too much red tape
- trade barriers
- transportation difficulties
- lack of trained personnel
- lack of export incentives
- lack of coordinated assistance
- unfavourable conditions overseas

- slow payment by buyers
- lack of competitive products
- payment defaults
- language / cultural barriers

According to newspaper reports that Fintan read concerning some companies that already exported to France, language and the cultural differences were significant barriers to trading there. Translators needed to be employed, market researchers who have backgrounds in French relations needed to be found, and all documentation needed to be duplicated due to the dual languages. Each year, discrepancies are made in accounts due to misunderstandings in the translation of these documents. Also packaging that is used in the Irish market has to be changed for the French market as the labelling, instructions, and even the name of the goods needs to be changed for the French market. According to the newspaper reports this is a huge cost initially until a company becomes established in France. French companies tend to be more formal in their business practice than Irish companies and sometimes this might result in a clash in opinions as to how the collaboration should be managed. But according to these newspaper reports, once an Irish company has established itself through the quality of its goods or services and the competitiveness of its foreign trade, culture differences soon melt away to minor irritations. However, one of the most disappointing items that Fintan read in these articles was that Irish firms found that it usually took longer to build a profitable market in France than in most other European countries.

A constant comment that is heard amongst the business communities of Donegal is that they suffer a significant disadvantage from their peripheral location in the north-western corner of Ireland. Many local business people argue that the county has poor infrastructure and that to export they have to send their products either through the port in Dublin, or through Belfast in Northern Ireland. There is a small airport located at the very north of the county but its international routes are quite limited. Therefore, one of the key decisions to be made by Fintan and his management team in exporting to France is what type of sales channel should the company select. The basic options generally available are the use of distributors, virtual sales force, sales agents, systems integrators, partnerships, or direct sales. As Fintan had always done the selling himself for Supreme Seafoods, he was reluctant to hand over responsibility to someone whom he did not know. However, he had been informed that business organisations in France tend to be highly organised and hierarchical in structure, that administrative systems are favoured over flexibility, and so having a French person representing the company who understood the local business culture would appear to be sensible. However, where would he find such a person? He would also have to decide what type of transportation would be used to transfer his produce to France and how it should be packaged to survive the journey. While he did not know any of the answers to these and many other questions related to exporting to France, he figured that since many Irish companies are already successfully exporting fish to France, somebody must have the answers to these questions.

What Next?

Fintan had agreed to meet the bank manager again on February 20th 2009 when he would present a business case to him on the future development of Supreme Seafoods. He knew that both his wife Grace and the bank manager wanted him to cut back both on the number of staff and on the salaries that he was paying them. His management team wanted him to reduce the number of activities in which they were currently engaged and become far more focused in terms of their target markets. The industry was pushing fish processors to move up the value chain by adding greater value to the raw material, while a friend of his suggested that he should sell the whole business except for the three fish retail shops which Fintan could manage himself quite comfortably. Fintan was excited by the idea of opening up a new market in France and believed that success there would solve all of his business problems. He knew that whatever strategy he selected would have to be successful as it would be highly unlikely that the company would survive otherwise. He also knew that he needed to act fast as there was little time or money available to him. Once again his daughter’s catchphrase came to mind - what to do, Daddy?