EVALUATION OF THE EXISTING AND POTENTIAL LATVIAN CANNED FISH EXPORT MARKETS

JURIS HĀZNERS, INGŪNA GULBE

Latvian State Institute of Agrarian Economics
Struktoru 14, LV-1039 Riga, Latvia
juris@lvaei.lv

ABSTRACT - Evaluation of the existing and potential Latvian canned fish export markets
Latvia traditionally has been a major canned fish exporter. About 90% of domestic canned fish output had been exported. The share of canned fish in total Latvian processed foods export value stands at 15%. Declining Baltic Sea fish population and reduced quotas for fish catch creates a shortage of raw material for canning industry, as products are almost entirely produced from Baltic Sea species. As consumers in the export markets are becoming more affluent, a demand for quality products from ocean fish species increases. A restructuring of the canning industry output is necessary to maintain the production and export volumes. Traditionally, bulk of exports is shipped to five major markets - Russia, Estonia, Lithuania, Ukraine and USA. These countries altogether account for nearly 70% of total canned fish exports. Exports to other, mainly landlocked, countries are marginal. Even in periods with depressed demand from major export destinations, efforts to diversify and increase export geography have failed. Therefore, only five major markets are worthwhile to provide exports strategy analysis. An evaluation of strategies in the export markets would be crucial in the restructuring process. The use of GE/McKinsey matrix would provide an appropriate mapping of the present and proposed future performance of Latvian canned fish products in the principal export markets. Albeit being a strategy management tool used for the assessment of the business unit's performance in the various markets, the GE/McKinsey matrix can be successfully applied for the estimation of the given country's industry sector's export performance in export regions or countries. To adapt the matrix for the sector mapping, business unit performance is replaced by product competitiveness. Factors that are selected for characterizing the competitive advantages of sector and market attractiveness are modified accordingly. After the evaluation of the competitiveness of the products in particular markets, portraying of the markets on the matrix would allow for the assessment of the possible future strategies in the export markets.

Keywords: canned fish, Latvia, exports, markets, GE/McKinsey matrix

INTRODUCTION

Canned fish traditionally has been an important Latvian export product. While production volumes lately have been stable at about 63 thousand tons, domestic consumption of canned fish reaches mere 6 thousand tons. The most important products are smoked sprats in oil and sprats in tomato sauce. These products account for about 80% of total canned fish output. About 90% of canned fish output is exported. Latvian canned fish products are almost exclusively produced from Baltic sea catch, including sprats, herring and Baltic herring. As Baltic fish population declines, annual fishing quotas are continuously reduced by authorities. This, in turn, leads to a necessity to restructure production accordingly by increasing the share of canned ocean fish in total output. At the same time, consumers in export markets are increasingly becoming more affluent and health conscious. An evaluation of strategies in existing and potential export markets is crucial for maintaining the production and export volumes.

The main export markets for Latvian canned fish are Russia, Ukraine, USA, Estonia and Lithuania. The hypothesis of the study proposes to continue the operations in all these markets. The objective of the study is to identify the best possible export strategies in every market.

MATERIAL AND METHOD

Latvian exports of canned fish lately has been stable at about 50 thousand tons. The most important market is Russia. Direct exports to Russia makes about 30-40% of total export volume. Moreover, almost all exports to Estonia are re-exported to Russia. Total annual export volumes to Russia can reach 25 thousand tons. Exports to the USA fluctuates from 4 thousand tons to 8 thousand tons. Exports to Lithuania usually stands below 3 thousand tons. Other export destinations (Czech Republic, Germany, Belarus, Kazakhstan) do not have important share in total exports. Exports to each of these countries does not exceed 1 thousand tons. Exports to these countries is unstable with volumes varying on year.

Total size of the global canned fish market is about 16 million tons. The annual growth rate of the global canned fish market is marked at 10-15% (MÖLLER, 2009).

The size of the Russian market of canned fish is about 300 thousand tons. Market size in terms of value stands at about US$ 800 million (USDA, 2009). Traditionally, one third of supply in domestic market is covered by imports. The share of Baltic states (mainly Latvia and Estonia) reaches more than 60% in import structure by origin. The demand for canned fish in Russia gradually changes, and canned sardines, tuna and other ocean species gain market share at the expense of sprats and mackerel. The customs duties for canned fish is set at the 15% rate. Exports to Russia is restricted by Russian Federal Veterinary Office which sets rather high standards with respect to product quality and processing technologies. Latvian products have good customer awareness in the market. Nevertheless, sometimes product sales are hindered by negative social attitude caused by political aspects. Products predominantly are directed towards large Moscow and Saint-Petersburg metropolitan area markets.

The USA is the most important market for the processed fish. However, the share of fresh and frozen fish in the human consumption continuously slightly increases (NATIONAL INSTITUTE OF OCEANOGRAPHY AND ATMOSPHERE, 2008). The demand for dried and smoked fish is stable. At the same time, consumption of canned fish is on the decline. The size of the USA market of canned fish is about 545 thousand tons. Market size in terms of value stands at about US$ 3 billion. Imports of canned fish increases. Imports covers more than 80% of total domestic demand. Of total canned fish consumption, tuna has about 70% share. However, the demand for canned tuna declines, while consumption of fresh tuna grows. The consumption of canned salmon having 8% share of total canned fish consumption slightly declines, too. The demand for canned crustaceans and molluscs is stable. These products have 10% share in total canned fish market. The consumption of canned sardines and other species slightly grows, reaching 13% of total consumption. Customs duties for canned tuna imports are set at 35% rate for the countries without preferential trade agreements with the USA. Customs duties for canned salmon and mackerel are set at 6% and 4% rate respectively. Canned sardines and sprats have zero import duties. Importing procedures are rather simple and requirements are easy to meet. The main consumers of Latvian canned fish are immigrants from CIS countries.

The Ukrainian market of canned fish grows at 3-5% annually. The size of the Ukrainian market of canned fish is about 150 thousand tons (USDA, 2009). Market size in terms of value stands at about US$ 300 million. About 40% of domestic demand is met by imports. "Traditional" canned herring, sardines and sprats dominate in consumption structure having more then 70% share of total canned fish market. The increased output by domestic processors may lead to decline in imports, as domestic supply increases at the 4-7% annual rate. The demand for imports almost entirely is met by Baltic states and Russia. Latvian products have good customer awareness in the market. The distribution of imported products is provided by a few large-sized importers. The customs duties for canned fish are set at the 10% rate. Above that level, imported products are taxed with 20% VAT rate, currency conversion expenses, pension fund tax at the 1% rate and banking duty at the 0.7% rate. Ukraine is not a member of WTO and validity of product export certificates is not approved by State Veterinary Department. All product checks are provided by domestic veterinary labs. Costs of checks and lab tests vary upon the type of product and size of the product lot.

The size of the Estonian market of canned fish is about 2.5 thousand tons. Customer demand for canned fish is stable. As customers are becoming more affluent, canned ocean fish, crustaceans and molluscs imported from Scandinavian countries are gaining market share. Latvian products have 30% share in Estonian canned fish market.

The size of the Lithuanian market of canned fish is about 5 thousand tons. Canned surimi products supplied by domestic processors dominate in the consumption structure. Import volumes are relatively small. Latvian products have 20% share in Lithuanian canned fish market.

GE/McKinsey matrix is a strategic management tool developed in the 1970's by Mc Kinsey & Company in consulting engagements with General Electric. The matrix itself is a nine-cell portfolio matrix designed for screening large product portfolio performance of strategic business units (MCKINSEY & COMPANY, 2010). The matrix portrays strategic business units on a grid of the industry sector attractiveness and position of the strategic business unit in the industry sector. Industry attractiveness and business unit strength are calculated by first identifying criteria for each, assigning the value of each parameter in the criteria, and multiplying that value by a weighting factor. Industry attractiveness is determined by such factors as market growth rate, market size, customer demand, profitability, competition, macro-environmental factors. Factors that determine business strength include market share, growth in market share, distribution, brand awareness, quality, product adaptation. The result is a quantitative measure of industry sector's attractiveness and strategic business unit's strength relative to competitors within the industry sector. Each business unit is mapped as a circle plotted on the matrix. Market size is represented by the size of the circle. Market share is shown by using the circle as a pie chart. The expected future position of the circle is shown by the arrow.

GE/McKinsey matrix has proved to be an excellent framework for portfolio decisions in selected agroindustrial sectors. Export markets or regions can be investigated for products where the country has high competitiveness and favorable export markets can be chosen.

To evaluate the Latvian canned fish exports GE/McKinsey matrix is modified as follows: horizontal axis is used to indicate the position in selected markets and vertical axis is used to indicate the attractiveness of the region / market.

RESULTS

At first, the competitive advantages of Latvian products in major export markets are assessed. The quantitative assessment of the competitive advantages is provided in *table 1*. Latvian canned fish has important share in the Russian market. In the Estonian market the share is rather high. In the Lithuanian market the share is somewhat lower. The share in the Ukrainian market is small. The share in the USA market is unimportant. In all export markets, bar Russia, the growth in the market share of the Latvian products is slow. Exporter knowledge of the Russian, Estonian and Lithuanian markets is the best. The knowledge of the Ukrainian market is somewhat lower. The knowledge of the USA market is insufficient. Latvian products are well adapted to Ukrainian and Estonian markets. As for the Russian and Lithuanian markets, product adaptation is sufficient. The price level of Latvian products is adequate to customer demand in Russia, USA and Estonia. In Lithuania, the price level of similar products is slightly lower. In Ukraine, Latvian products are priced at the upper end of the price spectrum. The financial benefits of exporting in all markets, bar Ukraine are below the desired level. As imports to the Ukrainian market are provided by domestic importers, problems with the settlement of the accounts are rare. Production costs are the lowest for the products designed for the Russian market. Distribution in the Russian, Estonian and Lithuanian markets is rather efficient. Sales in the USA and Ukrainian markets are less predictable, as importers are free to position imported products in the market. Marketing activities and sales promotion in Russian market are adequate. Promotion in Estonian and Lithuanian markets is satisfactory. Promotion in the USA market is insufficient.

Table 1: The evaluation of the parameters for the Latvian canned fish competitiveness in selected export markets

Competitive advantages	Weighting	RU	EE	LT	UA	US
Market share	13%	8	6	4	2	1
Market share growth	13%	4	2	2	2	2
Market knowledge	13%	8	8	7	6	3
Product adaptation	13%	6	8	6	8	4
Price level	13%	7	7	6	4	7
Quality	13%	6	7	7	8	4
Financial benefits	8%	3	3	3	5	3
Sales and promotion	8%	6	7	7	2	2
Marketing	4%	5	4	4	3	2
Production costs	4%	5	3	3	4	3
Total	100%	145	141	123	111	78
Mapping position		6.0	5.9	5.1	4.6	3.3

Source: own calculation

The attractiveness of the main canned fish export markets vary. The quantitative assessment of the competitive advantages is provided in *table 2*. The USA market has maximum size. Russia is the second largest single market. Ukrainian market size is large, too. Lithuanian and Estonian markets are rather small. Russian market growth is the fastest. Ukrainian market growth also is marked. The size of the USA, Lithuanian and Estonian markets is rather stagnant. As Lithuania and Estonia along with Latvia are

EU member states, no obstacles to entry and operate in these markets do exist. Russian and Ukrainian markets traditionally are protected in cases when imports create problems for domestic processors. Moreover, customs tariffs and other duties make entry to these markets more difficult. The entry in the USA market is rather convenient and customs duties are relatively low. The price awareness in Russian and Ukrainian markets is rather high. Lithuanian consumers, on the average, also prefer lower priced products. In the USA and Estonian markets price is not an important factor behind the consumers' choice. Thus, these markets are the most attractive with respect to possible returns. Customer attitude towards Latvian products in the USA, Ukrainian, Lithuanian and Estonian markets is rather positive. In Russia, consumer attitude frequently is influenced by political rows between two countries, enhanced by media. In Russia and Ukraine, consumers with lower purchasing power have less opportunities to substitute canned fish with other sources of protein. In other markets products can easily be substituted. The USA has the most developed infrastructure. In Lithuania and Estonia, infrastructure is sufficiently developed. In Russia, infrastructure is unsatisfactory. The underdevelopment of the infrastructure in Ukraine sometimes create problems for the product distribution. As the Ukrainian economics is unstable, sometimes export volumes and assortment are difficult to plan.

Table 2: The evaluation of the parameters for the attractiveness of the selected export markets for Latvian canned fish

Market attractiveness	Weighting	RU	US	EE	LT	UA
Market growth	14%	8	3	2	2	6
Competition	14%	7	3	3	3	7
Market size	14%	8	9	3	4	6
Market protection	14%	3	7	9	9	3
Price trends	9%	6	7	8	6	2
Possible returns	9%	5	7	7	5	3
Consumer attitude	9%	4	7	8	8	7
Substitution opportunities	9%	7	4	3	4	7
Infrastructure	5%	3	8	6	6	2
Demand fluctuations	5%	6	7	6	6	3
Total	100%	131	131	115	112	109
Mapping position		6.0	6.0	5.2	5.1	5.0

Source: own calculation

After the calculation of the parameter values for the competitive advantages and market attractiveness, circles with respective market sizes and market shares are mapped on the McKinsey matrix grid shown in *figure 1*.

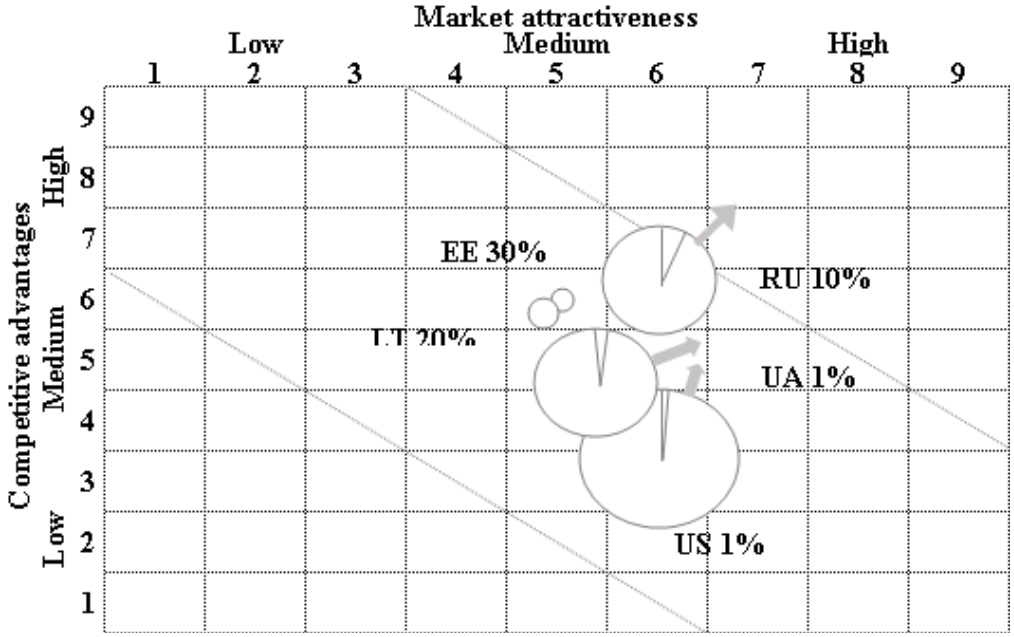

Figure 6: GE/McKinsey matrix for main Latvian canned fish export markets

Source: own calculation

CONCLUSIONS

The positions of the all five major markets on the matrix grid are located in the medium segment. This indicates the opportunity to maintain or strengthen the presence in the market.

Russia is the most important single market with the highest attractiveness and Latvian products has the best competitiveness in this market. Considering the size of the market, market growth rate and share of the Latvian products, the proposed strategy in this market enclose the maintaining and increasing the share of the traditional products, as well as the increase in the supply of more expensive products from ocean fish species. The market will become even more attractive, and Latvian products should have increased competitiveness in the market.

USA is the largest single global market with the attractiveness only slightly lower than Russia has. However, Latvian products are not competitive in the market as the whole. Considering the size of the market and market growth rate, the proposed strategy in this market enclose the maintaining the share of the traditional products, as well as the increase in the supply of more expensive products from ocean fish species, especially salmon and tuna. The market attractiveness will remain the same, and Latvian products should have increased competitiveness in the market.

Ukraine is the third most important market. Market attractiveness lags the ratios of the USA and Russia. The competitiveness of Latvian products, albeit exceeding the ratio of the USA, is lower than in Russia. Market attractiveness will grow faster than the competitiveness of Latvian products in the market because of increasing competition by domestic processors. The proposed strategy in this market would be maintaining the existing positions of cheaper staple products, as well as the market entry of the more expensive products for the emerging segment of up-market consumers.

The competitiveness of Latvian products in small markets of neighboring Estonia and Lithuania with the unchanging attractiveness would not allow either the increase in product volumes or product diversification. The proposed strategy in these markets would be the maintaining of the existing positions for the same product range.

REFERENCES

MCKINSEY & COMPANY (2010): " Enduring Ideas: The GE–McKinsey nine-box matrix" http://www.mckinseyquarterly.com/Enduring_ideas_The_GE-McKinsey_nine-box_matrix_2198, accessed 2010.12.02

MÖLLER A. B. (2009): "Seafood processing. Opportunities and challenges of fisheries globalization - local sources, global markets" http://www.oecd.org/dataoecd/20/25/38484834pdf, accessed 2010.12.02

NATIONAL INSTITUTE OF OCEANOGRAPHY AND ATMOSPHERE (2008): "Fisheries of the United States 2008" http://www.st.nmfs.noaa.gov.st1/fus/fus08/08_perita2008.pdf, accessed 2009.12.02

USDA FOREIGN AGRICULTURAL SERVICE (2009): "Ukraine Fishery Products Robust Market Growth Continues to Boost US Exports 2009" http://www.fas.usda.gov/gainfiles/200807/146291871.doc, accessed 2010.11.06

USDA FOREIGN AGRICULTURAL SERVICE (2009): "Russian Federation Fishery Products Fish and Seafood Market Update 2009". http://www.fas.usda.gov/gainfiles/200808/146295389.doc, accessed 2010.11.06