Changing Business Models for Lobstermen
Trade Adjustment Assistance

Changing Business Models
Intensive Workshop

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Objectives

- Explain why business models are important for your long-term success
- Discuss the differences among ownership structures
- Highlight two business models that may work well for the lobster industry:
  - Cooperatives
  - Community-supported fisheries

Chapter 1: What is a Business Model? (And why should you care?)
Answer: A business model is the plan a company uses to generate revenue and make a profit!

Business model terminology 101

- **Value proposition** – What “problem” is your product (lobster) addressing?
- **Market segment** – Which customers are you targeting?
- **Value chain structure** – What is your firm’s position in the value chain?
Terminology, cont’d

- **Revenue generation and margins**—How are you making/or going to make money?
- **Position in value network**—Who are your competitors? Who might help deliver more value to customers?
- **Competitive strategy**—How can you develop a competitive advantage?

Business Best Practices

- Processes, techniques or methods that have been proven over time to be effective for accomplishing specific business objectives
  - Learn from others’ experiences
  - Compare your business with others
Best Practices: Benefiting Customers

- Product freshness and value
- Convenient delivery (location, day, time)
- Customer service and support
  - Notification
  - Website
  - Problem-solving

Best Practices: Benefiting Marine Ecosystems

- Use of sustainable fishing practices
- Participation in collaborative research projects
- Capture of fishermen’s local ecological knowledge
  - Observations about oceanographic conditions
  - Observations about predator-prey relationships
  - Observations about effects of shoreside and marine development on the fisheries
Best Practices: Benefiting Fishermen

- Economic benefit to participating fishermen (more money for their product)
- Additional economic benefit for any additional services to the organization
- Trust and support building between customers and fishermen
- Fishermen’s participation in decision-making process of the organization

Ownership structures

- Sole proprietorship
- Partnership or,
  - Limited Liability Partnership (LLP)
- Corporation
  - C
  - S
- Limited Liability Company (LLC)
Ownership structure: Sole proprietorship

Sole proprietorship is a business with one owner who is self-employed and who has not formed a separate business entity.

Sole Proprietor-cont’d

- **Business management** decisions are solely under the control of the fisherman
- **Resources** for the operation are limited to that available to the owner
- **Liability**: Personal and business assets of the owner are both at risk in the operation
- **Taxation**: Taxed at personal rate; self employment taxes paid on net earnings
Ownership structure: Partnerships

- **Management**: decisions are shared by partners
- **Resources**: increase with additional partners
- **Liability**: Each partner is fully responsible for the business’s debts and for actions of all partners, except in an LLP
- **Taxes**: Files a partnership return but pays taxes on personal return
  - self-employment tax

The more partners, the greater the risk

Ownership structure: Corporations

- A corporation is a legal entity
  - Requires paperwork and filing with the state to form
  - Annual reports
  - A corporation can be organized to exist perpetually or for a term of years.
- **Management** and control of a corporation are shared among the stockholders, the board of directors, and the officers
- **Resources**: Individuals combine their funds to operate the business
- **Liability**: Stockholders are usually not personally liable for actions of the corporation
- **Taxation**: Files corporate income tax (C Corp, but not S Corp); pays employment tax on employees’ wages; earnings taxable to owner
Ownership structure:
C corporations

- Benefits large operations with numerous employees
- Used to raise large amounts of capital
- But, there may be a “double taxation” problem
  - The corporation pays income tax on its earnings
  - Shareholders who are employees of the corporation pay tax on their salaries
  - Shareholders also pay income tax on their dividends

Ownership structure:
S Corporation

- Shareholders applied for and received S Corp status from the IRS (formerly referred to as Subchapter S)
- Authorized in 1958 for small businesses
- Limited liability (same as C Corp, LLC and LLP)

- **Taxation** is as a partnership (unlike C Corp)
  - Taxes reported and paid by shareholders
  - Form 2553 must be filed with IRS to certify S Corp’s tax status by a fairly short deadline
S Corp, cont’d

- Limited to 100 shareholders
- Shareholders must be individuals
  - Exceptions for banks, some trusts, non-profits
- Massachusetts (as of April 2011)
  - Filing fee is $275
  - Annual corporate excise tax is a minimum of $456
  - Annual report fee is $100 (electronic filing)

Ownership structure:
LLC

- LLC or Limited Liability Company
  - **Liability**: Owners have limited liability (like corporations)
  - **Taxation**: similar to partnership
    - Profits passed to owners and taxed on their personal income tax returns
    - Debt may be part of the tax basis
    - May elect to be treated as a C Corp for tax purposes

*Port Clyde Lobster, Maine LLC*  
*Calendar Islands Maine Lobster LLC*
LLC (Limited Liability Corporation), cont’d

- Unlimited numbers of member/owners
- Members may be individuals or other entities
- Massachusetts (as of April 2011)
  - Filing fee is $500
  - Annual report is $500
  - No corporate excise tax

Business Models

- Cooperatives
  - Since 1947

- Community-Supported Fisheries
  - Since 2007
Business model: Cooperative

- Lobstermen work together to open new markets, create locally-controlled processing, and pool purchasing power, thus increasing:
  - Product quality
  - Bargaining and purchase power
  - Market access
  - Profitability

Profile: Pemaquid Coop

- In 1947, Dealers were paying 25 cents/pound for lobster
  - Considered an unfair price
- No discount for bait and supplies
  - But feared losing access to bait until the Coop was given first priority to alewife streams.

- Challenges:
  - Capital
    - Lobstermen did not have a lot of extra money
  - Inexperience
  - Conflict between members
Business model: Community Supported Fisheries

- Consumers pay in advance for seafood
- Fishermen provide weekly share to consumers
- Benefits:
  - Environmental stewardship
  - Boosts local economies
  - Strengthens ties between coastal communities and inland communities

Chapter 2: Cooperatives
Why form a coop?

- Prices for fuel, bait and other necessities are increasing
- Lobster is an undifferentiated product
  - Few value-added products
  - Prices have dropped due to imports and other factors
- Lack of direct connection to the market

*Cooperatives can help lobstermen overcome these challenges*
How can a coop help?

- Increase bargaining power
- Add value to goods
- Gain access to new markets
- Reduce risk associated with starting new enterprise
- Purchase in bulk at lower prices
A business run by the people, for the people

- Owned and democratically controlled by:
  - the people who use the coop’s services
  - buy its goods
- Board of directors elected from membership
- Surplus revenues return to members
  - proportionate to their use of the cooperative
  - not based on “investment” or ownership share

Cooperative basics, cont’d

- Focus on service to meet their members’ needs or affordable and high quality goods or services
- Pays taxes on income kept within the coop for investment and reserves
- Surplus revenues from the co-op are returned to individual members who pay taxes on that income
Cooperative Values

- Self-responsibility
- Democracy
- Equality
- Honesty
- Social responsibility

Cooperative Principles

- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and independence
- Education, training and information
- Co-operation among Co-operatives
- Concern for Community
Voluntary and Open Membership

- **Co-operatives are voluntary organizations**
  - Open to all persons able to use their services and willing to accept the responsibilities of membership
  - without gender, social, racial, political or religious discrimination.

Democratic Member Control

- **Co-operatives are democratic organizations controlled by their members**
  - Members help set policies and make decisions.
  - Representatives are accountable to the membership.
  - In primary co-operatives, one member has one vote
  - Co-operatives at other levels are also organized in a democratic manner.
Member Economic Participation

- Members pay a fee to join a coop and participate in deciding how the coop’s money is used
  - (That is, they contribute equitably to, and democratically control, the capital of their co-operative.)
  - Part of the capital is common property of the coop
  - Surpluses may be used for:
    - developing the co-operative
    - benefiting members (according to their use of the coop)
    - supporting other activities approved by the membership.

Autonomy and Independence

- Co-operatives are autonomous, self-help organizations controlled by their members.
  - If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
Education, Training and Information

- Co-operatives provide education and training
  - for their members
  - elected representatives
  - managers, and
  - employees
  - So they can contribute effectively to the development of their co-operatives.

- Inform the general public about the nature and benefits of co-operation.

Support other Co-operatives

- Co-operatives serve their members
- Strengthen the co-operative movement
- Work together through local, national, regional and international structures.
Concern for community

- Co-operatives work for the sustainable development of their communities through policies approved by their members

Lobster Industry Cooperatives

- Purchasing & Shared Service Cooperatives
- Producer Cooperatives

In practice, the line between these blurs
Maine Coops: Selling Covenants to Ensure Waterfront Access

ME’s Working Waterfront Access Pilot Program, funds from Land for Maine’s Future Board

Port Clyde: wharfage, landing access and access to fuel, bait and parking

Bremen: removal of derelict schooner, installation of a recirculating cold water tank system for lobster storage

Vinalhaven: construction of a large freezer and cold storage building for lobster bait

Friendship Heritage: replacement of the 100+ year old bait shed with a new building (refrigeration and freezer) and forklift accessibility. The wharf repair.

Purchasing and Shared Service Cooperatives

- Businesses join to improve their performance and competitiveness
  - Compete with large retailers
  - Adapt quickly to changing economic conditions
  - Lower their operating costs by pooling purchasing power for goods and services

Example: Southern Maine Lobstermen’s Association
Purchasing and Shared Service Cooperatives

- Services:
  - Shared Power
    - negotiating prices with vendors (e.g., fuel, pots)
    - purchasing of supplies or inputs (e.g., buy in bulk)
    - contracting for services on behalf of members
    - providing common reservation or scheduling services
    - providing or contracting for insurance, health care, or other benefits (Though not a co-op, Massachusetts Lobstermen’s Association does this; other benefits may also be possible)

Purchasing and Shared Service Coops—cont’d

- Shared Resources:
  - private labeling or branding of products (e.g., whale-safe bands of Massachusetts)
  - purchasing items for resale
  - common billing services
  - joint delivery services for products
  - warehousing products for members
Purchasing and Shared Service Coops—cont’d

- Shared Development
  - joint advertising and marketing
  - training and educational activities
  - consulting and business planning services
  - providing management services for members

Vinalhaven Fishermen’s Cooperative

Purchasing and Shared Service Cooperatives

- Members invest money (capital) in the corporation

- Operating budgets:
  - Expected income exceeds operating costs.
  - Earnings=
    - Ownership capital
    - Patronage funds: refunded to members based on their use of the cooperative

- Familiar examples outside of fishing industry:
  - Best Western
  - ACE
  - True Value
Producer (Marketing) Cooperatives

- Most often used for agriculture and fishing
- Organize for better pricing

“Can’t rely on somebody else to keep your best interest in mind, you need to take some responsibility for yourself.”

- Vertical Integration:
  - Processing
  - Marketing
- Returns patronage dividends

New Generation or Hybrid Cooperatives

- When are traditional co-operatives problematic?
  - Usually, when the coop wants/needs more money!

That is, when:
- Growth is desired, but there is not enough equity or enough members’ capital to fund.
- Debt capital needed
- Existing members want to obtain capital gain on their shares
- Value adding is based on addition of capital, but the additional returns are distributed according to patronage
New Generation Cooperative

- Value-added processing
  - Freezing
  - Oven-ready products for retail market
  - Requires a large investment
- Links delivery rights to investment
  - Assumes processing capacity is limited
  - Producer-members will pay to guarantee access to processing
  - Obligation to deliver

Profile: Calendar Islands Maine Lobster Company

- Producer-owned, vertically-integrated business
  - The company manages the entire process, from hauling the lobsters to distributing gourmet meals
  - Owned and operated by lobstermen and gourmets
    - Culinary experts help develop the meals
  - Thirty-nine boats

http://mainelobstergourmet.com/
What are some pros and cons of New Generation cooperatives?

- High capital requirements may be daunting to new members.
- Money needed to finance growth may be difficult to find.
- How should shares be valued?

But, there are tax incentives such as flexibility in deciding how and when to pay taxes on retained earnings; deferral of capital gains, etc.

Summary: What makes a Coop different from other business models?

- Dependence on member-owners
  - Need volume from member-owners to cover operating expenses
  - Responsive to member-owners’ needs
  - Training and information to members

- Raising capital may be challenging
  - Benefits/profits are distributed based on use (not investment)
  - Outside investors’ dividends are restricted to 8%
Coops’ differences, cont’d

- Government programs and benefits
  - Separate tax regime
  - Exemption from some antitrust laws
  - Benefit from a variety of government loan and grant programs aimed solely at assisting cooperatives

- Cooperative network
  - Cooperatives are supposed to help other cooperatives
  - Cooperatives promote the cooperative model
  - National organizations of cooperatives
  - Can be effective grassroots organizations

What does a Coop need to succeed?

- Effective leadership
- Strong management
  - Board establishes policy
  - Manager implements it

- Time, energy, and technical resources

- Common need

- Active participation

- Initial investment for start-up costs
## Summary

### Success
- Provides needed goods and services
- Sufficient financing by members
- Use of at least 75% of major fixed assets
- Members do majority of business with cooperative
- Low overhead and administrative costs
- Strong communication
- Quality management team
- Cooperative education
- Adaptability

### Failure
- Poor team
- Members bypass use of cooperative for gain elsewhere
- Lack of responsibility
- Too few people creating policies
- Lack of education about the coop
- Lack of risk capital
- Special interest groups
- Lack of transparency
- Credit errors
- Management errors

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## What do Coops in the Seafood Industry Do?

### The Vinalhaven Fisherman's Co-op
- Owned and operated by lobstermen of Vinalhaven Island, Maine.
- The Co-op supplies the lobstermen with bait and fuel
- Distributes their lobsters to customers throughout the world

### Yankee Fisherman’s Cooperative, New Hampshire
- Sixty-one members consist of day-boat ground-fishermen, lobstermen, tuna fishermen, and shrimpers. Quality and sustainability emphasized, processing (fillets).
- CSF, too

### Pigeon Cove Fisherman’s Cooperative, Massachusetts
- Affordable working waterfront access for fishermen
- Market
Maine has 24 lobster coops

Beals-Jonesport Lobster Co-Op
Bremen Lobster Pound Coop
Corea Lobster Cooperative
Cranberry Isles Fishermen's Co-op
Dropping Springs Lobster co
Fishermen's Heritage Lobster Coop
Friendship Lobster Coop
Georgetown Fishermen's Coop
Interstate Lobster Coop
Isle au Haut Lobstermen's Assoc
Lobstermen's Co-op
New Harbor Fishermen's Coop
North End Lobster Coop
Pemaquid Fishermen's Coop
Pine Point Fisherman's Coop
Port Clyde Fisherman's Coop
South Maine Lobstermen's Association
South Bristol Fishermen's Co-op
Spruce Head Fishermen's Coop
Stonington Lobster Cooperative
Swan's Island Fishermen's Co-op
Vinalhaven Fishermen's Coop
Winter Harbor Lobster Cooperative,

Reasons to Start a Seafood Coop

- Gain access to high value markets
  - Increased volume interests buyers
  - Manager or employee searches for new markets
  - Promote seafood (work to increase demand)
More benefits of a seafood co-op

- Greater purchasing power
  - Bulk purchasing power for members
  - Negotiation with suppliers for fuel/bait
  - Processing equipment

- Accountability to members and community
  - Member-owners each have an equal vote

Other Benefits of Co-ops

- Stability
  - Co-ops tend to grow more slowly and carefully plan
  - More member-owners reduce individual’s financial risk

- Sustainability
  - Producer-owners interested in sustainability of the resource and community
Benefits, cont’d

- Strengthening communities*
  - Producer coops are small, locally-owned businesses
  - Tend to have more labor intensive practices; spend money locally; education and training offered to members
- Flexibility (of business objectives)

North End Lobster Coop, Westport, ME

Not necessarily only for profit to owners (contrast with corp.)

What are the potential drawbacks?

- Need to work cooperatively
  - Consensus-building
  - Communication
  - Conflict resolution
- Complicated start-up
- Securing a market
- Cost of start-up
  - USDA provides some grants and loans for co-ops
- Professional management needed.
Steps for starting a Coop

- Develop core support
- Identify expanded group of potential members
- Gather information
  - For marketing, for example:
    - How many pounds are each member landing?
    - What are they getting paid
    - What do they expect a coop to do for them
  - For purchasing, for example:
    - What supplies do members buy?
    - What volume?
    - Could the cooperative provide the supplies at lower cost?

Starting a coop, cont’d

- Choose available business name
- Create business plan
- File entity formation documents (e.g., articles of incorporation)
- Appoint or elect a board of directors
- Set up an accounting system
- Register with the IRS
  - Obtain a business license and employer ID number
- Draft membership agreement
- Hire management team
Creating a Business Plan

- Identify opportunity
  - Target customer
  - Market analysis
  - Competition
  - Competitive advantage
- Determine Product and Service
  - Product description
  - Expansion plan
  - Business model
  - Value propositions
- Strategy
  - Marketing strategy
  - Sales strategy
  - Pricing
- Organization and team
  - Founders
  - Employees
- Financial Plan
  - General assumptions
  - Financial analysis

Managing a Coop

- Democratically run
- Emphasis on profit
- Consensus driven
  - Build consensus
- Need sufficient operating capital
- Calculate the cost of member-volunteer’s work
- Hire a manager [http://www.youtube.com/watch?v=wnCTlGPpH1Q](http://www.youtube.com/watch?v=wnCTlGPpH1Q)

“It’s fisherman-owned business. Nineteen of us work together in order to secure a better price for our lobster.”
What about taxes?

- The profits or surplus earnings are taxed once
  - Like LLCs
  - But, under IRS Code, Subchapter T
    - Must have a 521 Exemption (Form 1028 submitted to IRS)
      - Business must operate on an at-cost basis and limit dividends its members receive on investment to 8%
  - Patronage refunds usually taxed as part of individual member’s income
    - Schedule C for commercial fishermen
    - Schedule F for shellfish farmers

Chapter 3: Community Supported Fisheries
Business model: Community Supported Fisheries

- Consumers pay in advance for seafood
- Fishermen provide weekly share to consumers
- Provides fresh local seafood to consumers
- Gives fishermen better prices on catch
- Other Benefits:
  - Environmental stewardship
  - Boosts local economies
  - Strengthens ties between coastal communities and inland communities
Profile: Port Clyde Fresh Catch

- First Community Supported Fishery program in New England
- HAACP-certified processing facility
- Eight distribution sites
- Maine shrimp in winter; groundfish in summer
- Environmentally sustainable fishing methods
  - reduce by-catch, habitat impact and fossil-fuel consumption

http://www.portclydefreshcatch.com/productcart/pf/home.asp
http://namanet.org/csf/port-clyde-fresh-catch

Profile: Cape Ann Fresh Catch

- Who benefits?
  - local fishermen—new, more sustainable, markets
  - the environment—less distance traveled, lower carbon footprint
  - local economy—community-based economy prospers
  - CAFC members—freshest and highest quality seafood available.

http://www.capeannfreshcatch.org/
CAFC

- Multiple delivery options
  - 16 sites for pickup
- Product options
  - Whole fish
  - Fillets
  - Alternating weeks and alternating whole or filleted available

Before starting a CSF:

- Investigate potential demand
- Decide if lobster will be the only product offered and the frequency of distribution
  - A variety of products may make the CSF more appealing
- Selection of delivery sites will be determined in part by local Public Health departments’ rules
- Share size
  - Two sizes: for a couple; for a family
Starting a CSF, cont’d

• Prices
  • Consider retail price and boat price, choose something in between (but cover your costs)
  • Payments due either prior to the season, or divided up into set time frames

• Numbers of shareholders
  • Consider support potentially needed including: permitted dealer, bagger, distributor, truck, bookkeeper
  • Decide how many distribution points can be handled
  • Easier to maintain supply with multiple boats

Starting a CSF, cont’d

• Cancellation policies
• Missed delivery policies
  • If you are unable to deliver
  • If a share owner misses a pick-up

• Permits, licenses and reporting

• Sanitation and inspections
  • Food safety guidelines
  • Oversight by someone HACCP certified
Marketing a CSF

- Signup times at gathering places and times
  - Churches
  - Farmer’s Markets
- Advertise
  - Flyers
  - Talks at Rotary Clubs, health food stores, etc.
- Communicate with shareholders in season
- Be accessible!

CSF Responsibilities

- Team
- General manager
- Accountant
- Operating manager
- Quality manager
- Marketing manager
- Wharf
- Processing/packing
What is expected of the CSF Team?

- Collaboration on increasing sales; pricing and product development.
- Planning
  - (Prep for next season should start during the second half of the prior season)
  - Determine share costs
  - Identifying sites (4 months in advance)
  - Logistics of scheduling deliveries
  - Marketing

General Manager

- Maintains smooth, effective and efficient processes and operations
- Organizes tasks, time, resources, and people
- Primary objective: direct and coordinate all operations of CAFC; oversee hiring and training of personnel
Accountant

- Responsible for financial records; tracking financial performance, tax payments
- Revenue growth
- Cash flow
- Profitability
- Money to fishermen
- Other

Operations Manager

- Responsible for overseeing and facilitating day-to-day operation of CAFC
- Principal data manager
- Principal email contact for customers
- Distribution oversight
Quality manager

- Manage interactions with wharf/buyer
- Explore potential for new markets such as schools and hospitals

Marketing manager

- Coordinates market research and develops marketing, advertising and public relations strategies
- Outreach
**Wharf**

- Buy the product
- Keep track of the vessels and how much bought from each.
- Distribute the premium from sales to the CSF

**Processing, packing**

- Pack product for different shares
- Process/value-added
- Provide truck, fuel
Innovative Marketing

- Your community might want to be involved
- The Northeast Sea Grant College Programs
- Northwest Atlantic Marine Alliance (NAMA)
  - [http://namanet.org/](http://namanet.org/)
  - Website for your CSF
  - Organize Seafood Throwdowns
  - Sample contracts
  - Advice

CSF Help for you!

Website for your CSF
Organize Seafood Throwdowns
Sample contracts
Advice
Acknowledgement & References

Much of the technical information about cooperatives was drawn from:

Haight, G., A. Crow and H. Geier. Developing Cooperatives for the Alaska Seafood Industry. Alaska Sea Grant Program

Helped kick-off the development of this presentation:

Michele Shkedi, Wellesley College

Check the Internet for almost any term and any company name—you can learn about other companies’ histories, plans, what they are doing and compare this with your hopes . . . .