

Arctic Development
Library

***Proposal To The Nwt Development
Corporation; Cumberland Sound Fisheries;
Pangnirtung, Nwt
Type of Study: Processing / Manufacturing
Fisheries, Baffin Cumberland Sound
Author: Gnwt-ed&t
Catalogue Number: 3-5-9***

FISHERIES

3-5-9

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PROPOSAL TO THE
N.W.T. DEVELOPMENT CORPORATION
CUMBERLAND SOUND FISHERIES LTD.
PANGNIRTUNG, N.W.T.
DECEMBER 1990

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Community Demographics - Pangnirtung

Population	1,087						
Population Breakdown	0-4	15%	5-14	30%	15-64	53%	65+ 2%
Annual Rate of Growth	2.9%						
Projected Population to Year 2,000 *							
Ethnic Origin	95% Inuit	5% Other					
Estimated Community Income	7,337,000						
Community Level	2						
Total Work Force	*						
Projected Labour Force to Year 2,000							835
Average Per Capita Income	15,285						
Average Rate of Unemployment	32%						
Cost of Living	60% higher than Montreal						
Income Relative to Montreal	9,171						
Average Income (Montreal)	17,281						

ECONOMIC OUTLOOK FOR THE COMMUNITY

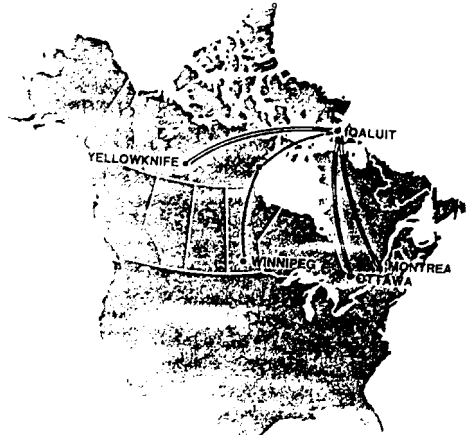
The community has few prospects for further economic development beyond that which is currently available through Arts and Crafts, tourism and fishing. Trapping and harvesting of seals is not a realistic option since both have been declining over the years. Non-renewable resource development is not evident nor is it foreseen in the future. Government is at its capacity and growth is not anticipated.

Baffin Island

Turbot

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Melts in F *mouth!*



Canada's Northern A

Mike Beedel

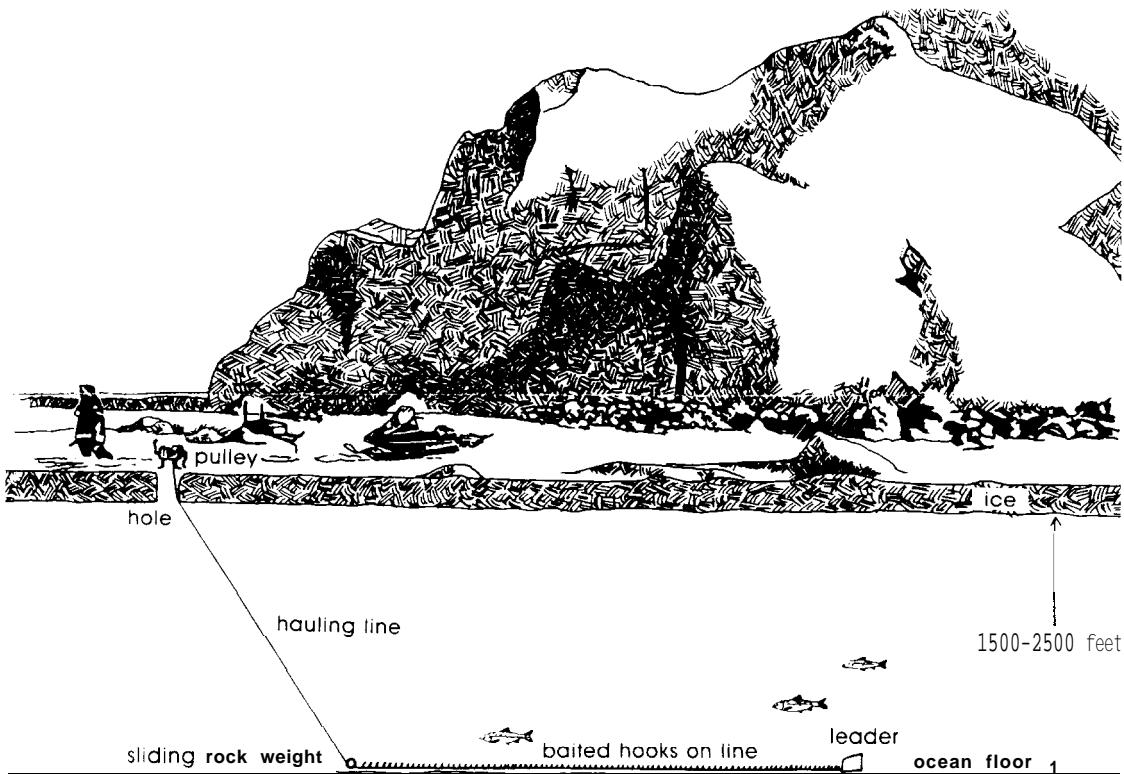
Baffin Island turbot is of the highest quality available anywhere

Introducing: Baffin Island Turbot Fishery

Using the same ingenuity that allowed their ancestors to survive for thousands of years, the Inuit of Baffin Island have developed a winter turbot fishery that blends the best of the old and the new – to bring you the best fish you can buy.

Baffin Island turbot are harvested through the ice using long-lines. The "leader" – a rectangular piece of metal – is released

from the surface, stretching the attached "bottom line" (with its 100 or more baited hooks] along the ocean floor. After a few hours, the line is retrieved using a simple hand crank device. The turbot are then placed in insulated, seawater-filled containers for transport to the community and final processing in an approved facility. Available as whole fish, steaks or fillets – fresh or frozen.



Economic Development and Tourism
C P 1000, Iqaluit, T N O tel (819) 979-5073
telecopier (819) 9796026

For information, call



Design and Production by Nortext

INTRODUCTION

Cumberland Fisheries Ltd. of Pangnirtung is a wholly owned Inuit fishing company in its third year of operation. The company's principal source of income stems from the five month winter turbot fishery. In 1989 Cumberland Sound Fisheries Ltd. realized a profit of approximately \$75,000 on sales of \$450,000. Harvesting production doubled in 1990 but CSF lost approximately \$300,000 on sales of \$940,000.

The accelerated growth of the company put enormous operational demands on the young Board of Directors and inexperienced management. Poor financial controls lead to ill-advised spending on large inventories of equipment and gear for which sales were never recorded, and unprecedented inventories of char for which no markets had been secured.

The Company requires a working capital cash injection to commence operations in 1991, and to recruit a professional plant manager. The proposed financing requirement is as follows:

<u>Application of Funds</u>		<u>Source of Funds</u>
	<u>1991</u>	
Capital improvements (see appendices)	35,000	N.W.T.
Management fees	40,000	Development
Advertising & Promotion	10,000	Corporation
Labour* (processing)	35,000	
Audit & Legal	5,000	
Supplies (plant)	6,000	
Packaging*	14,000	
Purchase of fish*	80,000	
Freight: product to market*	50,000	
Accounts Payable	<u>275,000</u>	
	\$550,000	

*Costs based on initial 100,000 lb. mixed production

	<u>1992</u>	
Working Capital	\$150,000	Business Loan Fund

The Regional Superintendent in the Baffin Region has met with the Board of Directors regarding their financing requirements and **advises that** Cumberland Sound Fisheries Ltd. are prepared to offer the NWT Development Corporation a corresponding value in preferred shares, and management control of operations until a positive rate of return is generated. The Board of Directors prefer not to divest complete ownership, or participation in decision making and future planning for the Company, so this should not be construed as a proposal to sell the Company.

The Board of Directors of CSF are requesting a financial investment of \$550,000 in order to stabilize operations and to provide for continued opportunity for planned growth and development of the inshore fishery. Accordingly, the immediate objectives of Cumberland Sound Fisheries Ltd. are as follows:

1. Stabilize management and introduce effective information and control systems.
2. Achieve optimal product mix and market prices for turbot production.
3. Develop an effective and efficient market network based on sales incentives and new market penetration.
4. Implement plan for gradual, steady growth in production of turbot and Arctic char, and assess the commercial potential of other available fish products and joint venture prospects (e.g. offshore turbot fishing with southern operator).
5. Provide sustained employment opportunities, and skills training for Pangnirtung residents.
6. Foster increased awareness of Baffin inshore fishing opportunities.
7. Introduce innovative technology to maximize production yields and profit margins.
8. Increase management and production capacity at the community level.
9. Increase Board of Directors capacity for providing and implementing sound policies for the company.
10. Review the legal structure of CSF and provide for stable community-based ownership.

The following proposal was developed from information arising out of a recently completed business plan, subsequently combined with additional information from the Department of Economic Development and Tourism.

BACKGROUND

The development of a fishing company in Pangnirtung evolved from several years of exploratory fishing in Cumberland Sound in 1986 through 1988. Test fishing determined that there was commercial potential for scallops, harvested during the summer from trawlers, and for Greenland turbot, harvested from the ice shelf during the winter months. The major impediment to developing an inshore fishery was that there was virtually no infrastructure or trained labour force in place, and the degree of market acceptance of the products was uncertain.

The establishment of a small experimental fishing operation in 1986 was abetted by the construction of a basic processing facility funded by Special ARDA. This plant was upgraded to Department of Fisheries and Ocean standards in 1987 with funding from the Department of Economic Development and Tourism, and commercial operations commenced in January, 1988.

It became clear after only one season of commercial fishing that the winter turbot fishery held the greatest potential for income, employment and profitability. Gross revenues increased from \$100,000 in 1988, to \$450,000 in 1989, to \$940,000 in 1990. Market demand for the product strengthened each year as fish distributors and consumers became more aware of product availability and quality.

Unfortunately, management systems did not keep pace with the growth in production. Insufficient Board of Directors training coupled with poor decisions regarding managers led the way to the Company sustaining considerable losses in 1990, despite record production levels.

The Board secured CAEDS funding in early September 1990 to develop a business plan for the Company which serves as the foundation for a proposal to the NWT Development Corporation (see Appendix). The Company is seeking an equity injection and management intervention from the NWT Development Corporation.

The inshore fishery in Pangnirtung is the most significant new economic opportunity to arise in the community since the decline of the sealskin harvest in 1981. In its three year history it has surpassed the tourism industry for providing new income and employment into the community (almost \$.5 million) and has contributed directly to a 25% reduction in social assistance payments paid out during the five winter months of the fishery operation.

The proposed investment is considered vital to the continuation of the Company, and to Baffin's young inshore fishery. This industry has already demonstrated that, with proper management controls in place, it can be a viable business and of source of new export income and seasonal employment for approximately 50 Pangnirtung residents.

PROJECT DESCRIPTION - PRODUCT

The chief product of CSF is Greenland turbot (*reinhardtius hippoglossoides*) which is a large flat fish, averaging 8 pounds in weight, that resembles Atlantic halibut.

The fishery usually commences in January when an ice shelf has formed on Cumberland Sound. DFO officials speculate that the turbot stocks migrate from Davis Strait to winter in Cumberland Sound. The relatively instant market acceptance of Baffin turbot stems from the fact that turbot is otherwise not available in southern markets during these months. It is not until Gaspe turbot appears on the market in May that Baffin prices begin to drop below viability. The product has gained wide market approval for the firm, parasite-free quality of the flesh.

In 1990 the turbot was shipped as fillets, steaks and whole dressed with the highest returns yielding from the whole dressed product. Further product analysis recently completed for the business plan recommends against steaked product because of the deterioration of flesh quality in transit, and stresses that whole dressed product will yield the highest return to the Company.

The trade-off between value-added processing in the community (fillets) versus operational efficiency and product margins (whole-dressed) suggests that value-added production should be introduced gradually after the company's operations have stabilized and skill levels improved. This is further supported by an analysis of filleting operations in May 1990 which demonstrated that there was a negative margin on filleted product (toward the end of the season when prices were dropping) before shipment to market, contributing in part to the losses sustained by the CSF in 1990. A report on recent market research is appended.

To increase product margin and product quality in 1991 distributors have recommended that the turbot be graded on arrival at the plant (hitherto not done) and filleted or shipped whole-dressed depending on shifting market demand, and on the size and quality of the fish. Market research has confirmed that larger turbot will command better prices. Fish grading at the plant door will result in market-driven pricing of catches from the fishermen, which until now have been informally priced regardless of size. Failing to introduce pricing to the fishermen will result in the Company continuing to absorb losses on product that is discounted at the market, such as fillets, under 7 lbs. or frozen fish. With careful grading, quality control and presentation, all marketers surveyed felt that as a fresh product, CSF whole fresh turbot should find a reliable market niche by gradually displacing sole and halibut.

*Fish 7lb. discounted \$0.10/lb; frozen \$0.20/lb. from normal rate of \$0.80/lb.

• OPERATIONS

Self-employed fishermen travel to the fishing site by skidoo and set approximately 100 baited hooks on line in water depths of 300 fathoms or more (1800 feet). In a twenty four hour period an active fisherman can catch up to 600 pounds of turbot which is headed and gutted on site and stored in sea-water-filled insulated containers hauled on kamotiks (sleds). The individual hook and line hauling of the turbot, immediate heading and bleeding on the ice, and processing fresh for daily shipment to southern markets contributes to the high quality and competitive position of the product.

The turbot is processed in a small facility in Pangnirtung which receives and washes the fish, skins, cuts, fillets and packs the fresh product for air shipment to a broker in Montreal. As a rule the product is through-putted from the fishing site to the Montreal broker in 48 hours.

Past operations have not made optimal use of labour, thus contributing to negative costs on sales. Improved plant through-put can be achieved by introducing shift work, processing incentives, and differential intake of fish from the fishermen. In the past large inventories of unprocessed fish accumulated outside of the plant awaiting processing because there was no control over the flow of fishermen's catches through the plant.

The plant requires further improvements to increase efficiency and correct problems arising from production systems but essentially, it is adequate for the present demands of the community fishing industry. A new plant should be considered if production volumes continue to increase over the next three to five years. Consideration is also being given to the acquisition of a track-truck vehicle for consolidated pickup of the turbot from the ice shelf.

The Company is harvesting less than 3% of the quota potential (considering existing unutilized offshore quotas in Davis Strait), and is selling 100% of the product. While increased production is possible at the harvesting and plant levels, there are limits to the back-haul capacity of the airlines. However, First Air has guaranteed six scheduled flights out of Pangnirtung and Iqaluit this winter and extra sections as required to accommodate fish shipments. An average daily shipment is 4,000 pounds of product.

While market price fluctuations affect in part the company's bottom line performance, money is essentially made and lost in production. Poor yields on processing, poor packing and subsequent product discounts due to poor quality, and inefficient organization of labour, all contributed to the losses sustained in 1990. All of these factors can be managed through the hiring of a professional fish plant manager who can introduce Production and shipping systems to the operation and who can improve the communication between the market and the producers.

Exploratory fishing initiatives to date have revealed that other fish species harvested may hold commercial potential in Cumberland Sound, from summer trawler operations. This includes Icelandic scallops, Arctic cod, and shrimp. While resource assessment should continue, effort to determine the feasibility of the summer inshore fishery should be controlled for one to two years, until winter operations are stabilized and the Company has retained earnings to dedicate to product diversification.

Recent test fisheries conducted by the Department of Economic Development and Tourism have indicated a growing market demand for fresh and frozen Arctic char. There is considerable potential in the Pangnirtung area to capitalize on this demand, provided exemptions can be elicited from the Freshwater Fish Marketing Corporation for shipping the char directly to eastern Canadian markets. This appears to hold the greatest immediate potential for CSF to extend their fishing operations into September, October and November of each year.

The Company purchased a smoker in 1990 in anticipation of moving into smoked fish products but operational problems delayed this development indefinitely. Nonetheless, the company is now positioned to take advantage of this demonstrated opportunity.

To facilitate tighter operational controls, the office will remain in the plant. Observation windows will be added in the office to provide for closer monitoring of plant operations while the smoker and gear will be removed to make more room. For hygienic reasons, the trailer will be used as a smoke/lunch room, with a new wall constructed to accommodate gear sales.

FACILITIES

The original processing facility was built as one of twelve generic processing plant/freezers constructed in the Baffin Region in 1986. Improvements were completed in 1988 to upgrade the facility to DFO plant standards, and two years later an expansion was completed under EDA funding to increase the production capacity of the facility. The plant receives annual inspections from DFO.

Prior to opening in 1991 the facility will require minimal upgrading to address operating problems that arose during the 1990 season. A separate submission under the Department of Economic Development and Tourism Schedule 'C' policy has been advanced.

The processing facility/freezer is equipped with the necessary cutting tables, a skinning machine, and packing tools, all of which must be upgraded or replaced as needs change and equipment deteriorates. Financial projections include a schedule for capital improvements, which are intended to improve operating efficiencies and increase product through put.

CSF rents a separate building adjacent to the plant which serves as break-room, and as dry storage and retail shop for fishing gear.

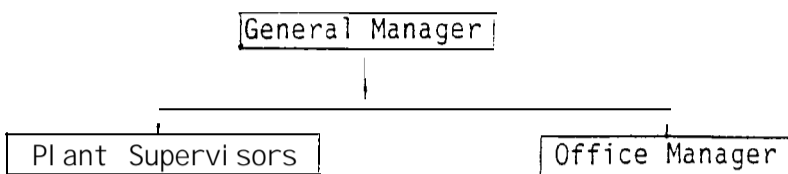
Replacement value of the plant is estimated at \$450,000.

A report on recommended plant additions was prepared in May 1990 by technical advisers from Atlantic Canada (see appendix). These improvements are scheduled to commence in 1992 in order to further expand production capacity in compliance with DFO regulations.

MANAGEMENT

The key to the success of this investment will be the installation of professional, management on a (seasonal) continuous basis.

Historical financial performance of the company suggests that sales in excess of \$1,000,000 can be achieved in 1991, providing the fishery commences by the middle of February. At these levels of sales it is recommended that the management structure of the plant be as follows:



In order to expedite hiring of a general manager for the 1991 season, a preliminary recruitment and screening was undertaken in December 1990 by Larry Simpson, Renewable Resource Supervisor with the Department of Economic Development and Tourism in Iqaluit, and a Board member from Cumberland Sound Fisheries Ltd. A short list of applicants has been prepared, with final decisions pending the outcome of the financing proposal.

At the present time, the lack of available housing in Pangnirtung limits the prospective list of managers. In previous years CSF has rented a substandard housing unit from the Co-op to house managers and this arrangement is expected to continue in 1991, as no other housing unit appear to be available. Better housing must be considered in future years to secure continuous management.

Expertise to fill both the plant and office manager positions can be recruited and trained in Pangnirtung. A trained office manager (who is the spouse of an RCMP member posted there) is available for the 1991 season. The plant supervisors can be recruited from the pool of trained processors who have worked in the plant during previous seasons.

It is recommended that the General Manager will be employed on contract by the NWT Development Corporation. The general manager will report hi-monthly to the Board of Directors of CSF for the duration of the turbot fishing season. While the Board of CSF will act in an advisory capacity during the control period (until the operation generates a positive rate of return on sales), the general manager will be expected to table major corporate decisions with the Board of CSF for the purpose of building decision-making capacity at the Board level. The general manager will work with regional representatives of the Department of Economic Development and Tourism in developing a training program for the CSF Board and assistant managers.

SCENARIO (Conservative)

CUMBERLAND SOUND FISHERIES LTD.

FOUR YEAR PROJECTED INCOME STATEMENT

	1991		1992		1993		1994		
REVENUE:									
Sales ¹	\$1,007,364	100.0%	1,158,468	100.0%	\$1,274,314	100.0%	\$1,401,745	100.0%	
Production costs ²	(781,675)	77.3%	(842,172)	72.7%	(853,790)	67.0%	(937,167)	67.0%	
Sales Commissions ³	(70,515)	7.0%	(81,093)	7.0%	(89,202)	7.0%	(98,122)	7.0%	
Gross Margin	158,174	15.7%	235,203	20.3%	331,322	26.0%	364,454	26.0%	
Other Revenue (Gov) ⁴	36,915	3.7%	34,000	2.9%	37,500	2.9%			
	<u>195,089</u>	<u>19.4%</u>	<u>269,203</u>	<u>23.2%</u>	<u>368,822</u>	<u>28.9%</u>	<u>364,454</u>	<u>26.0%</u>	
EXPENSES:									
Audit and legal	11,198	1.1%	6,350	0.5%	6,600	0.5%	6,800	0.5%	
Administration	500	0.0%	550	0.0%	600	0.0%	650	0.0%	
Advertising and promotion ⁵	14,000	1.4%	8,000	0.7%	9,000	0.7%	9,000	0.6%	
Consulting ⁶	36,915	3.7%	5,000	0.4%	6,000	0.5%	6,000	0.4%	
Maintenance and repairs	3,500	0.3%	5,000	0.4%	5,250	0.4%	5,500	0.4%	
Miscellaneous	3,000	0.3%	3,300	0.3%	3,800	0.3%	4,000	0.3%	
Rent	7,200	0.7%	7,500	0.7%	8,000	0.6%	8,000	0.6%	
Supplies	9,300	0.9%	9,800	0.8%	10,000	0.8%	11,000	0.8%	
Telephone	5,000	0.5%	5,250	0.5%	5,500	0.4%	6,000	0.4%	
Travel	5,000	0.5%	5,750	0.5%	6,000	0.5%	6,500	0.5%	
Utilities ⁷	2,200	0.2%	13,000	1.1%	13,650	1.1%	14,000	1.0%	
Interest payments (LTD) ⁸			21,272	1.8%	17,726	1.4%	13,606	1.0%	
Insurance	6,500	0.6%	6,800	0.6%	7,100	0.6%	7,500	0.5%	
Bad debts	5,500	0.5%	5,750	0.5%	6,000	0.5%	6,000	0.4%	
Bank charges	3,500	0.3%	2,000	0.2%	2,000	0.2%	2,000	0.1%	
Honorarium	1,000	0.1%	3,000	0.3%	3,000	0.2%	3,000	0.2%	
Management fees ⁹	106,000	10.5%	116,000	10.0%	28,000	10.0%	132,000	9.4%	
Vehicle expense	4,500	0.4%	4,725	0.4%	4,950	0.4%	5,000	0.4%	
Depreciation	14,913	1.5%	56,180	4.8%	68,869	5.4%	70,070	5.0%	
	<u>239,026</u>	<u>23.8%</u>	<u>285,327</u>	<u>24.6%</u>	<u>312,045</u>	<u>24.5%</u>	<u>306,626</u>	<u>21.9%</u>	
INCOME (LOSS) BEFORE INCOME TAXES	44,638	-4.4%	5,123	-1.4%	56,777	4.5%	47,828	3.4%	
INCOME TAXES	-0-		-0-		-0-		-0-		
INCOME (LOSS)	44,638	-4.4%	5,123	-1.4%	56,777	4.5%	47,828	3.4%	
RETAINED EARNINGS BEGINNING	(150,519)	-14.9%	(195,157)	-16.8%	(211,250)	-16.6%	(154,504)	-11.0%	
RETAINED EARNINGS (DEFICIENCY) ENDING	<u>(\$195,157)</u>	<u>-19.4%</u>	<u>(\$211,290)</u>	<u>-18.2%</u>	<u>(\$154,504)</u>	<u>-12.1%</u>	<u>(\$106,675)</u>	<u>-7.6%</u>	

SCENARIO - 11 (Less Conservative)

CUMBERLAND SOUND FISHERIES LTD.

FOUR YEAR PROJECTED INCOME STATEMENT

	1991		1992		1993		1994	
REVENUE:								
Sales ¹	\$1,007,364	100.0%	\$1,158,469	100.0%	\$1,332,239	100.0%	\$1,532,075	100.0%
Production costs ²	(778,675)	-77.3%	(834,097)	-72.0%	(892,600)	-67.0%	(1,026,490)	-67.0%
Sales Commissions ³	(70,515)	-7.0%	(81,093)	-7.0%	(93,257)	-7.0%	(107,245)	-7.0%
Gross Margin	158,174	15.7%	243,278	21.0%	346,382	26.0%	398,339	26.0%
Other Revenue (Govt) ⁴	36,915	3.7%	34,000	2.9%	37,500	2.8%		
	195,089	19.4%	277,278	23.9%	383,882	28.8%	398,339	26.0%
EXPENSES: ⁵	239,726	23.8%	285,327	24.6%	312,045	23.4%	316,016	20.6%
INCOME (LOSS) BEFORE TAXES	(\$44,638)	-4.4%	(\$8,048)	-0.7%	\$71,837	5.4%	\$82,323	-5.4%
INCOME TAXES								
RETAINED EARNINGS BEGINNING	(71,778)	-7.1%	(116,416)	-10.0%	(124,464)	-9.3%	(52,627)	-3.4%
RETAINED EARNINGS ENDING ⁶	(\$116,416)	-11.6%	(\$124,464)	-10.7%	(\$52,627)	-4.0%	\$29,696	1.9%

Footnotes : Conservative Scenario

1. Sales are forecast to increase to 15% from 1991 to 1992, and then 10% each year to 1994 to reflect inflation, positive results of market development, and greater volumes of production through increased production efficiencies.
2. Production costs (direct cost of sales) are projected to drop 10% to reflect lower costs for packaging (due to use of sealift), increased labour productivity in the plant, and better product yields.
3. Sales commissions for 7% to brokers who market CSF fish products.
4. 1991: Business Plan 1992: 50% of management costs
1993: 50% of management costs
5. 1991: \$14,000 is equity portion of approved EDA funding for promotion.
6. 1991: Business Plan (see revenues above)
1992-94 equity portion of costs for product/market development, design and technical studies.
7. Utilities are borne by GNWT in 1991 but are assumed to be paid by Cumberland Sound Fisheries Ltd. from 1992.
8. \$150,000 BLF assumed in 1992, amortized over 5 years.
9. Management Fees: see attached schedule. /

Footnotes: Less Conservative Scenario

1. Revenues are increased 15% each year 1992 through 1994
2. Production costs, on percentage basis, same as conservative scenario.
3. Sales Commissions same as conservative scenario.
4. Other revenues same as conservative scenario.
5. Expenses same as conservative scenario.
6. Retained Earnings Ending project positive balance by 1994 (as opposed to 1995 for conservative scenario).

CUMBERLAND SOUND FISHERIES LTD.

FOUR YEAR PROJECTED CASH FLOW STATEMENT

	1991		1992		1993		1994		
RECEIPTS									
Sales	\$1,007,364	63.2%	\$1,153,468	82.6%	\$1,274,314	97.1%	\$1,401,745	100%	
Other Revenue (Govt)	36,915	2.3%	34,000	2.4%	37,500	2.9%			
GNWT Dev Corp.	550,000	34.5%							
RLF			150,000	10.7%					
GNWT Contribution			50,000	4.3%					
Total Receipts	1,594,279	100.0%	1,402,468	100.0%	1,311,814	100.0%	1,401,745	100%	
DISBURSEMENTS:									
Accounts payable	322,740								
Cost of Sales - production	778,675		842,172		853,790		939,169		
- sales comm.	70,515		51,093		89,202		98,122		
Audit and legal	11,193		6,350		6,600		6,300		
Administration	500		550		600		650		
Advertising and promotion	14,000		3,000		9,000		9,000		
Consulting	36,915		5,000		6,000		6,000		
Maintenance and repairs	3,500		5,000		5,250		5,500		
Miscellaneous	3,000		3,300		3,800		4,000		
Rent	7,200		7,600		8,000		8,000		
Supplies	9,300		9,800		10,000		11,000		
Telephone	5,000		5,250		5,500		6,000		
Travel	5,000		5,750		6,000		6,500		
Utilities	2,200		13,000		13,650		14,000		
Prin/int payments LTD	-		43,068		43,068		43,066		
Insurance	6,500		6,800		7,100		7,500		
Bad debts	5,501		5,750		6,000		6,000		
Interest and bank charges	3,500		2,000		2,000		2,000		
Honoraria	1,000		3,000		3,000		3,000		
Management costs	106,000		115,000		123,000		132,000		
Vehicle expense	4,500		4,725		4,950		5,000		
Capital purchases (equip)	37,000		19,000		65,000				
Capital purchase (boat)	75,000		120,000						
Capital Renovations	13,000		71,000		85,000				
TOTAL DISBURSEMENTS	1,521,744		1,364,208		1,361,510		1,313,307		
NET CASH FLOW	72,535		18,260		(49,696)		88,438		
OPENING CASH	42,179		114,714		132,974		83,278		
CLOSING CASH	\$114,714		\$132,974		\$83,278		\$171,716		
	=====		=====		=====		=====		

CUMBERLAND SOUND FISHERIES LTD.

ONE YEAR PROJECTED CASH FLOW STATEMENT - 1991

	Jan	Feb	Mar	Apr	May	
REVENUE:						
Sales		\$150,000	\$200,000	\$250,000	\$407,364	\$1,007,364
Other Revenue (Govt)		36,915				36,915
GNWT Dev Corp.		550,000				550,000
BLF						
GNWT Contribution						
<hr/>						
Total Receipts		736,915	200,000	250,000	407,364	1,574,277
<hr/>						
DISBURSEMENTS:						
Accounts payable		275,000	47,740			322,740
Cost of Sales - production		115,950	154,600	193,350	314,775	778,675
- sales comm.		10,500	14,000	17,500	28,515	70,515
Audit and legal		5,000			6,198	11,198
Administration		500				500
Advertising and promotion		10,000	4,000			14,000
Consulting		36,915				36,915
Maintenance and repairs		2,000	500	500	500	3,500
Miscellaneous		2,000	400	300	300	3,000
Rent		3,600	1,200	1,200	1,200	7,200
Supplies		6,000	1,300	1,000	1,000	9,300
Telephone		2,000	1,000	1,000	1,000	5,000
Travel		2,000	3,000			5,000
Utilities		1,300	300	300	300	2,200
Principal payments (LTD)						
Insurance		6,500				6,500
Bad debts		2,501	1,000	1,000	1,000	5,501
Interest and bank charges		1,500	1,000	1,000		3,500
Honorariums		250	250	250	250	1,000
Management fees		25,000	25,000	28,000	28,000	106,000
Vehicle expense		2,500	1,000	500	500	4,500
Capital purchases		25,000	10,000	2,000		37,000
				25,000	50,000	75,000
Plant expansion		10,000	3,000			13,000
<hr/>						
TOTAL DISBURSEMENTS		546,016	269,290	272,900	433,538	1,521,744
<hr/>						
NET CASH FLOW		190,897	(69,290)	(22,900)	(26,174)	72,535
<hr/>						
OPENING CASH		42,179	233,078	163,788	140,888	
<hr/>						
CLOSING CASH		\$42,179	\$233,078	\$163,788	\$140,888	\$114,714
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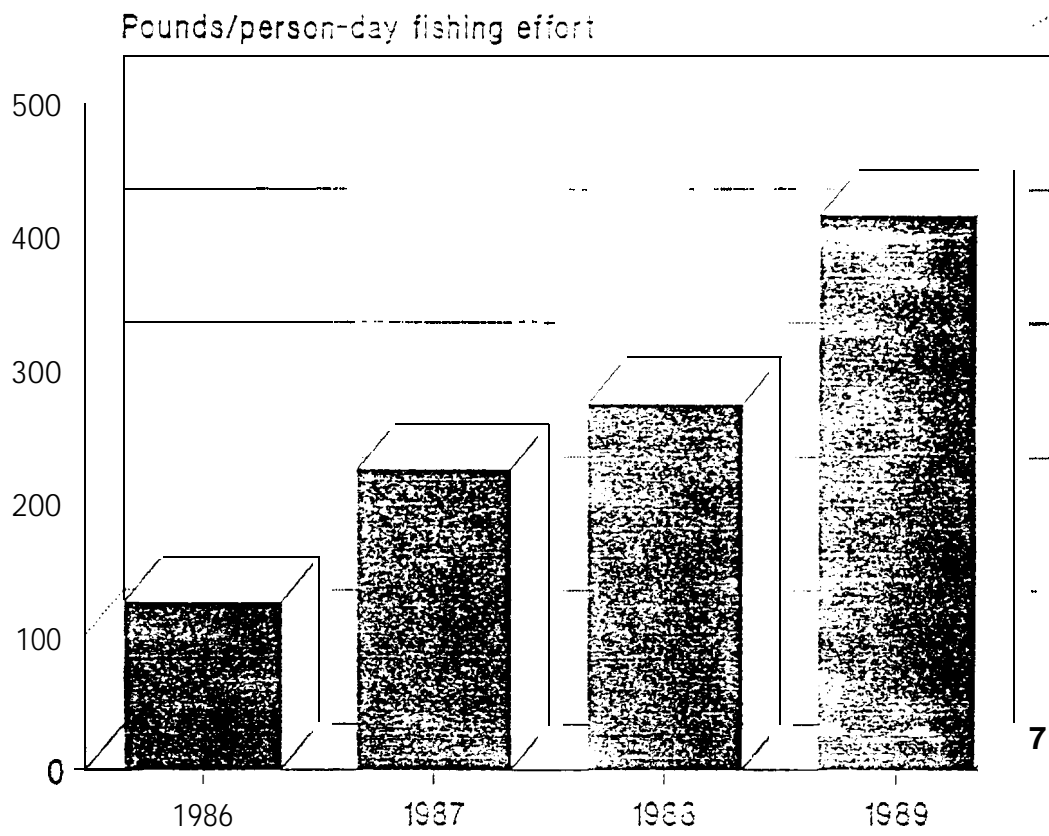
CUMBERLAND SOUND FISHERIES LTD.

DEPRECIATION SCHEDULE

	1991	1992	1993	1994
Building	20,442 13,000	31,770 71,000	92,493 85,000	159,744
less 10%	<u>33,442</u> (1,572)	<u>102,770</u> (10,277)	<u>177,493</u> (17,749)	<u>159,744</u> (28,960)
	<u>31,770</u>	<u>92,493</u>	<u>159,744</u>	<u>130,784</u>
Equipment	37,851 37,000	67,366 19,000	69,093 85,000	107,274
less 20%	<u>74,851</u> (7,485)	<u>86,366</u> (17,273)	<u>134,093</u> (26,519)	<u>107,274</u> (20,496)
	<u>67,366</u>	<u>69,093</u>	<u>107,274</u>	<u>86,778</u>
Vehicle	873	744	521	364
less 30%	<u>(131)</u>	<u>(223)</u>	<u>(156)</u>	<u>(90)</u>
	<u>744</u>	<u>521</u>	<u>364</u>	<u>274</u>
boat	75,000	69,375 120,000	160,969	136,823
less 15%	<u>75,000</u> (5,625)	<u>189,375</u> (28,406)	<u>160,969</u> (24,145)	<u>136,823</u> (20,524)
	<u>69,375</u>	<u>160,969</u>	<u>136,823</u>	<u>116,300</u>
Current Year Totals	14,913	56,130	68,869	0 70,070

Figure 1

Catch Rate Improvements Pangnirtung Winter Turbot Fishery



• projected catch results if each 2-person team
fished lines of 100 hooks.

Cost of Sales (per lb. of end product)

	<u>Whole Dressed</u>	<u>Steak</u>	<u>Fillets</u>
Fish purchases	.80	.90	2.35
Processing	.30	.40	.50
Packaging	.20	.35	.35
Shrinkage	.10	.10	.10
Freight (after subsidy)	<u>.40</u>	<u>.45</u>	<u>.45</u>
	\$1.80	\$2.20	\$3.75
Selling price	\$2.40	\$2.90	\$4.25
Cost of prod./sales:	75%	76%	88%

Turbot Volumes & Product Mix

<u>Whole Dressed (70%)</u>	<u>Steaks (10%)</u>	<u>Fillets (20%)</u>	<u>Totals</u>
315,000 lb. x .9 yield	45,000 lb. x .8 yield	90,000 lb. x .4 yield	
= 283,500 x \$2.40/lb.	= 36,000 lb. x \$2.90/lb.	= 36,000 lb. x \$4.25/lb.	
= \$680,400 sales	= \$104,400	= \$153,000	\$937,800
cost @ 75% = \$510,300	Cost @ 76% = \$79,344	Cost @ 88% = \$134,640	\$724,284

Total Production: Sales & Costs

	<u>Turbot</u>	<u>Char</u>	<u>Gear</u>	<u>Total</u>
Sales	\$937,800	\$42,000	\$27,564	\$1,007,364
Cost of Sales	\$724,284	\$32,340	\$22,051	\$ 778,675

Schedule of Management Costs

	<u>1991</u>	<u>1992</u>	<u>1993</u>
Manager	\$ 40,000.1	\$ 50,000.5	\$ 55,000.
Office Manager	16,000.2	18,000.	20,000.
Plant Supervisors (2)	31,900.3	38,000.6	42,000.8
Office Management Trainees (2)	18,000.4	20,000.	22,000.
Subsidy	<u> </u>	(10,000.)7	(11,000.)
	\$106,000.	\$116,000.	\$128,000.

Footnotes

1. Salary 4.5 mo. @ \$7,000. = \$31,500.
benefits (housing & re-
moval) 8,500.
\$40,000.
2. \$20/hr. x 40 hrs./wk. x 18 weeks + 12% wage burden.
3. 2 people x 44 hrs. x \$15/hr. x 16 wks. plus 10 hrs. overtime
each @ 1.5 x \$15/hr.
4. 2 x 40 hrs. x \$13,50/hr. x 15 wks. + 12%
5. 1 month more work + production.
6. 2 weeks more work + production bonus
7. 50% training subsidy - 2 trainees
8. 10% wage increase plus bonus

Capital & Special Items

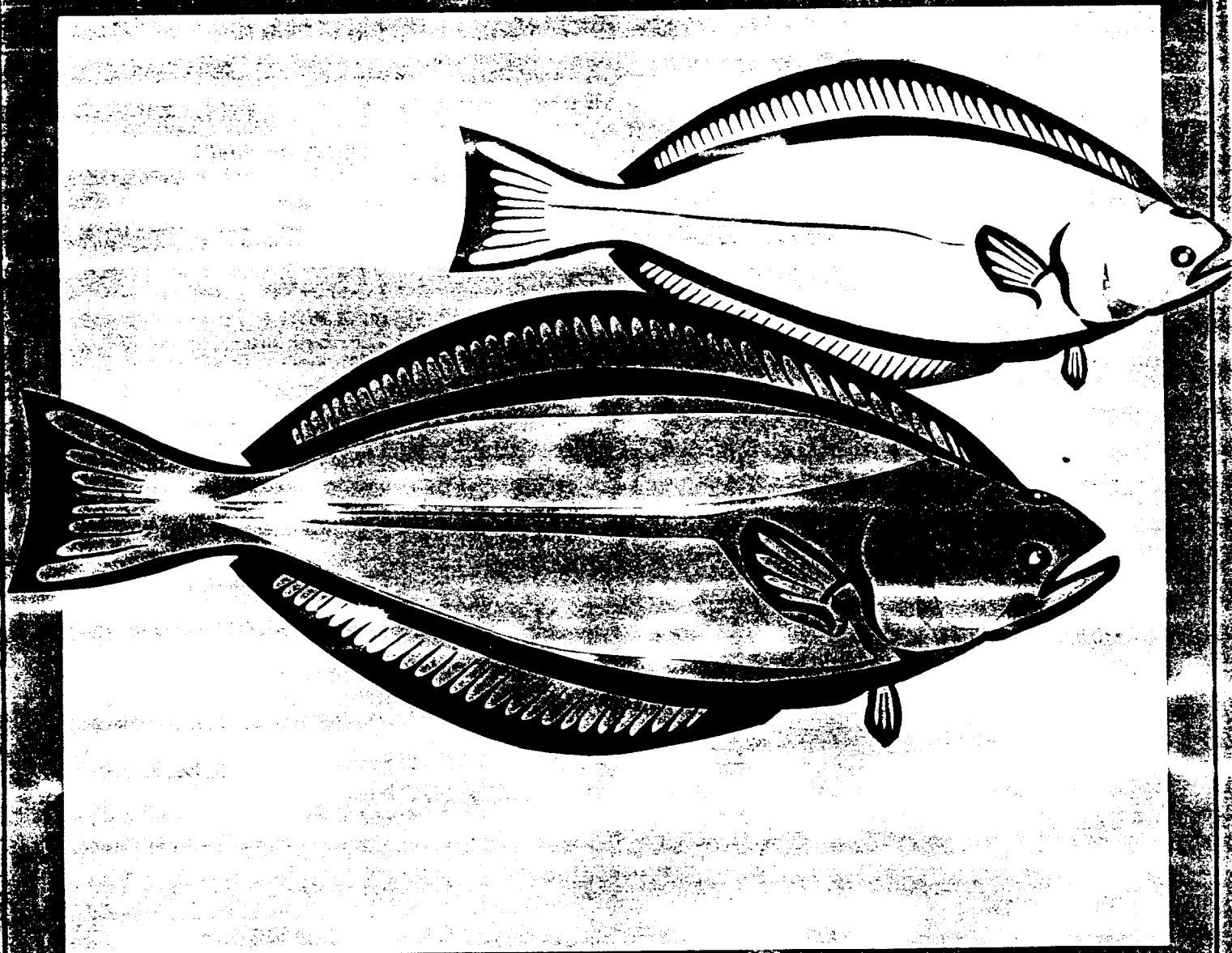
<u>Capital Equipment</u>	91	92	93
Storage (Shipping Containers)	\$ 5,000	\$ 5,000	\$ 5,000
Ice Machine	9,000		
High Pressure Washer			
Insulated Boxes			5,000
Transportation Equipment	3,000	3,000	15,000
Vacuum Sealer	10,000		
Cutting Tables		2,000	5,000
Weigh Scales	5,000		
Processors Platforms		5,000	7,000
Boxing Table	500		
Smoker House			30,000
Fireproof Safe	1,000		
Seawater Feasibility		4,000	
Chlorinator			2,000
Hand Truck	500		1,000
Ski nning Machine	3,000		
 <u>Capital Renovations</u>			
Landi ng Ramp/Ext. Door	7,000		
Office	1,000		
Water Tank Bldg.		5,000	
Shi ppi ng Room (Cool ed)	5,000		55,000
Receivi ng Room		60,000	
Freezer Renovations		6,000	30,000
	-----	-----	-----
	\$50,000	\$90,000	\$150,000

Fisheries, Pêches
and Oceans et Océans



Underwater World

Turbot (Greenland Halibut)



Canada

CUMBERLAND SOUND FISHERIES

TURBOT MARKET ASSESSMENT & RECOMMENDATIONS

Review of Marketers

Group de la Mer:

I have met with Mr. Tassy Katsoulis to discuss operations and concerns of both Cumberland Sound and his company during the 1990 season. He was somewhat offended that there should be any question as to his rights to exclusivity in the marketing of CSF products, particularly in consideration of his claimed \$250,000.00 loss on last years operations because of his substantial promotional efforts. I pointed out that CSF had also lost money and the purpose of our meeting was to find some means to turn that situation around.

The principal complaints related to a lack of adequate communication between the producers and La Mer, and an inconsistency of quality. I recommended that a comprehensive product specification description be produced for each product form that he would like to see produced and asked for his help to prepare such. He seemed to agree that this would be appropriate, but also suggested that he could send his own people to run the show in Pang. I asked if he would prepare this idea in a comprehensive proposal format.

Our discussions were rather general and we agreed to meet again prior to my reporting. Unfortunately he has been unavailable for further meetings, and has not apparently prepared any more detailed suggestions at this time.

La Mer operate 5 retail stores in the Montreal area, operate their own restaurant, act as wholesale distributors to some restaurants and stores in the Montreal area, act as brokers and distributors in Toronto through Van Horn and Booth's Fisheries, and provides all fresh fish products to Loblaws stores in Ontario on a commission basis. The company deals in hundreds of various seafood products from across the globe. Tassy, as president is responsible for all of these operations. Unfortunately, he seems to be the only one in his organization who is directly involved in the relationship with CSF. One can't help wondering if he can possibly pay adequate attention to the relationship, given his other considerable responsibilities.

Agence Bernard Dupont Inc.

I have met with both Bernard Dupont and Bob Robillard of this firm on two occasions to discuss CSF marketing. The firm acts principally as brokers of fresh and frozen products for about 10 -15 specific producers of seafood products, including fresh turbot sales on behalf of Royal Greenland AP. This is very much a hands on organization that distribute the product in accordance to the producers preference. For example, some products they invoice and collect on behalf of the producer, some they purchase on their own account for resale, some products are on a consignment commission basis, while some are not.

I asked them for handling and product specification (appendix #1). They are prepared to develop with the producers a more comprehensive product specification description, as a quality control tool.

We discussed the prospect of Agence Dupont being one part of a distribution network made up of other brokers and distributors, and their comments and discussions were very positive,

The firm is small and adaptable, and appears completely flexible in distribution approach, with fairness to themselves, their clients, and the producers as the only caveat,

Capital Fish Markets Ltd.

This firm is principally a wholesale distributor in the Ottawa area that has been moving product for CSF since Turbot were first made available for export to the south. They are also interested in helping to develop product specs, so that a consistency of quality and grade can be established.

Because this firm is close to the end users, they have been helpful in the analysis of who is using the CSF products, and what products displace them or are displaced by them. They are also prepared to work as one element of a network, and located in Ottawa are well placed to handle inspection of the product when it arrives south (on an as required basis).

Export Packers:

Export Packers are a broker distributor with a reliable reputation, working out of Toronto. While I have not met with them personally to discuss the marketing of CSF products, their President, David Rubinstein and I have reviewed their participation by telephone.

Both Capital Fish and Bernard Dupont recognize Export Packers as competitors with whom they would not feel uncomfortable in a marketing network of CSF products. Although Mr Rubenstein is unfamiliar with the CSF product specifically, he is also satisfied with the judgement of Capital and Dupont and would be interested in distributing the product to his own customers.

Medina Foods:

This firm is not involved directly in the marketing of any food products, but is rather a third party organization that endorses various food products as to quality and nutritional benefit. They are familiar as the developers of "Nutri Cuisine" that is served on request on a number of airlines including Air Canada. In addition they endorse all food products for Hilton International, and the Canadian Coaches association.

The firm is about to join in a joint venture with some native organizations to develop a similar endorsement and promotion program for native country foods.

I met with the company president, Danielle Medina to discuss this project as it might relate to CSF products. As she described, the Medina "seal of approval" represents a value added to the product, as an independent third party endorsement of the quality and nutritional properties of a particular product. In addition, it can be an educational tool for the producers, as a complete and precise definition as to their quality requirements.

Ms. Medina was very interested in CSF production and would perhaps like to be able to follow it within her developing native country foods program.

Target Markets

current Prices 15/12/90

Fresh Fillets:

Cod	\$ 2.25/ lb.
Haddock	\$ 4.45/ lb.
Sole	\$ 3.65/ lb.
Cusk	\$ 2.15/ lb.
Greenland Halibut (200-700gm)	\$ 4.75/ lb.

Frozen Fillets:

Turbot (layer pack) 2-4 oz.	\$ 2.90/ lb.
" " " 4-8 oz.	\$ 3.30/ lb.
" " " 8-16 oz.	\$ 3.45/ lb.
" (cello pack)	\$ 2.45/ lb.

Whole Fresh:

Atlantic Halibut	Not Available
Pacific Halibut	Not Available
Greenland Halibut	Not Available

Whole Frozen:

Atlantic Halibut	Not Available
Pacific Halibut	\$ 3.45/ lb.
Greenland Halibut (in Europe)	Dkr.16/ kg. i.e. \$ 1.46/ lb.

Historical Winter Market (March 1989)

Fresh	1 0/3/89	16/3/89	23/3/89
Cod fillets	\$2.25	\$2.35	\$2.15
Haddock fillets	N/A	\$3.25	\$3.15
Sole fillets	\$3.95	\$5.95	N/A
CSF fillets	N/A	\$3.60	\$3.60
CSF whole	N/A	\$1.75	\$1.75

The above tables suggest that during the winter months turbot fillets are consumed as an alternative to sole. In Canada the winter supply of fresh flat fish from the Atlantic provinces is very sporadic, with weather and ice conditions effecting the harvest, and foreign exchange conditions directing the fish to and from the American market. These combine to cause volatile supply and price fluctuations. Recognizing this, CSF should attempt to monitor the flatfish market and harvest conditions,

*in order to have their fillet products available to fill the void when other flatfish such as sole are unavailable or highly priced. This will help to establish a reputation of supply consistency in CSF products, and may in time help to make CSF turbot fillets the species of choice amongst regular consumers.

Even better prospects would appear possible for whole fresh, turbot that has been headed, gutted, and trimmed of fins. Fresh atlantic halibut is only occasionally available as a bycatch product from other groundfisheries. Only frozen pacific halibut is available, but this a product has a fairly reliable market demand. With careful grading, quality, and presentation, all marketers consulted felt that as a fresh product, CSF whole fresh turbot should be able to find its own reliable market nich. This would clearly be assisted with an identification such as "Baffin Halibut".

Because quality is of paramount importance, size grading should be done immediately when the fish arrives at the plant door. From these, the largest whole fish, as the easiest and best market prospect in the south, should be checked for condition and packed in size grades of 7-10 lb. and 10-20 lb. or larger size.

The smaller fish that are to be filleted should be cut to consistent portion sizes of 6-8 oz. and 8-10 oz., and packed in 10 lb. styrofoam boxes. All products should be labelled with catch date, packing date, skipping date, and package number. This will provide proof of handling to the end user, and a means to isolate and solve problems that might occur in production.

If larger fish are to be filleted, they should also be portioned into loin cut fillets of 6-8 oz., and 8-10 oz. There is no point in steaking any fish for the southern market. Cutting the fish into steaks exposes a high proportion of the flesh to air, and greatly speeds the spoilage rate. For this reason southern buyers prefer to buy whole fish and do the steaking immediately before presentation to the end user and will therefore discount steaked fish rather than pay a premium for it.

It would appear that in previous years, concentration in the plant was on filleting, and bottlenecks and congestion caused by this had an adverse influence on all products. Since quality is paramount, all marketers have recommended that concentration should be on the whole fish market. This will be the easiest to process, most easily achieve the required quality standards, and help to establish a high expectation for CSF products in the market place. These standards will help to ensure a reliable market with the highest potential returns,

Marketing Proposal

in the past CSF have sold their products directly to southern operators, but have had no way of determining that they were getting the best marketing or price. Distances between parties in this relationship breeds suspicion and misunderstanding both in the north and the south. The marketing scheme must recognize this and be constructed in such a way as to encourage co-operation and inter reliance.

This proposal recommends the establishment of a marketing network, made up of three distributors; one in each of Toronto, Ottawa, and Montreal. This will give represented exposure to CSF products in each of these major centres. Because each market has different seafood buying habits, the local knowledge of the individual distributors will help to accommodate the product mix to local market fluctuations. Agence Bernard Dupont, Capital Fish, and Export Packers have all agreed to co-operate with one another and CSF in this type of Network.

Representatives of these three organizations should meet in early to mid January with the general manager of CFS, and a representative of First Air (as the shipper). Together they should finalize detailed and comprehensive specifications on each product to be shipped south. These criteria should be sufficiently accurate that inspection only requires the ability to read, see, feel, and smell. By this means, reasons for rejection of product or price discounting are established before the first shipment takes place, and the distributor has a tool with which to sell the CSF quality to his customers.

If the product is sold by the distribution network on a commission basis of 7%, CSF can become a more participatory member in the marketing function. The distributors will be trying to get the highest price possible, and would be prepared to share with CSF information about competing products and prices in their local markets. Because three individual distributors in three individual markets are available to sell the product, CSF can compare the sales prices and volumes of the three to be satisfied of. Fish being done. If there is discrepancy as to quality, there are other southern opinions available to consult.

The effectiveness of this or any marketing strategy is wholly dependent upon proper communication between the producers and the distributors. This will require not only timely information about the market place being supplied by the distributors, but also timely information being provided by CSF about production volume, shipping schedules, product forms, and production problems. The protocols for this communication must be clearly established and followed,

From these frequent communications prices can be set prior to shipping, and pro-forma invoices sent by fax to each of the three distributors according to their order, payable net of the 7% commission within 15 days of receipt of the shipment.

While all of this may seem rather involved and complex, much of it, will be essential in any effective marketing system, whether distribution is through a single customer buying the product, or a larger network is envisioned.

Promotion and Market Feedback

As the CSF business plan suggests, efforts should be made to tie CSF products to the Arctic to give it a distinctiveness. For this reason efforts should be continued to permit the use of Baffin Halibut as a legitimate identifying name.

A program could also be developed to solicit feedback, while at the same time encouraging purchase and consumption as a distinctive Arctic product. To encourage feedback, point-of-sale handouts can include a mail-in comment portion. The consumer can be encouraged to buy the product and then return the comment card if doing so makes them eligible for a prize. That prize could be a piece of Inuit art or a trip to the north, tying the product in the consumers mind to its Arctic origins, with other recognizable and distinctive examples of northern quality,

Separate prizes could be offered to different market places such as retail stores and restaurants, and additional competitions could be developed to encourage innovation with the product. This could include competition between chefs for differing recipes, or the same for household consumers.

This type of program involves very little additional expense to what is already being spent on printed materials, but provides the distributors with effective sales tools. At the same time it provides feedback to the producer and distributors as to their effectiveness, and strongly develops customer identification of the product with the Arctic.