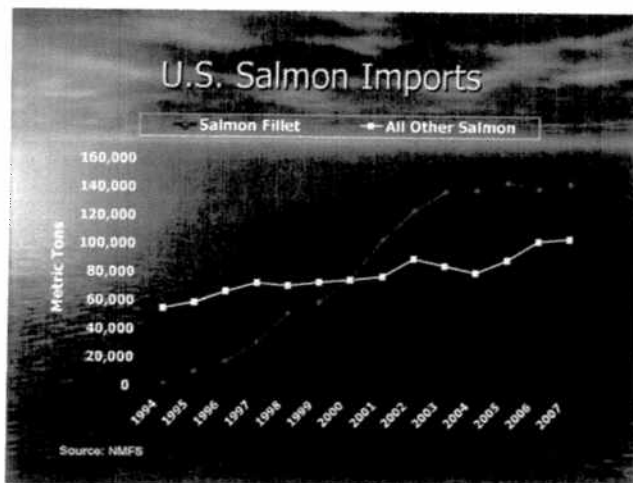


Why Marketing?

An Example from the Alaska Salmon Industry

Salmon Makes a Great Example

- Good data for Ex-vessel and First Wholesale salmon values
- Salmon accounts for 58 percent of all commercial permits fished in Alaska
- Most active salmon fishermen (75%) are Alaska residents and spend earnings all over the state. 600 just in Anchorage and Mat-Su
- Salmon Fisheries are highly visible to public and policy makers



In 1991, the Alaska salmon industry suffered from a huge influx of imported farmed salmon in consumer-friendly forms.

From 1991 to 2002, the value of Alaska salmon continued to drop as the import of farmed salmon continued to rise.

As the demand for Alaska salmon fell, so did the funds used to market Alaska salmon through the Alaska Seafood Marketing Institute (ASMI). ASMI is funded based on a percent tax on the industry.

As the value of the fishery declined, the marketing funds desperately needed to pull the industry out of the tail-spin were also declining, furthering the downward trend.

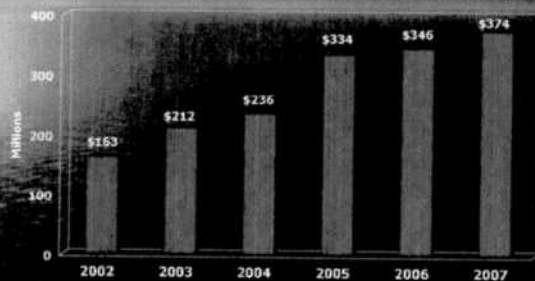
During this time, approximately two-thirds of the fishermen and processing companies went out of business across Alaska.

In 2002, the Alaska salmon industry hit the lowest point of profitability in history.

Definitions

- Ex-vessel Value, \$1.6 billion in 2007
 - Payment to Harvesters
 - Most common measure, basis for taxation, captures activity of harvest sector only
- First Wholesale Value, Est. \$3.6 billion
 - First sale by a processor to a buyer outside their affiliate network
 - Not commonly used, but captures the full spectrum of economic activity

Alaska Salmon Ex-Vessel Value



Source: ADF&G

Value Growth Drivers

- Biology
 - Strong sockeye harvest
 - Record and near-record pink & chum harvest
- Salmon Product-form Shifts
 - Pink salmon
 - Fillet production
- Market Activity
 - Production & consumption growth
 - Market receptive to AK seafood core messages
 - Effective Differentiation

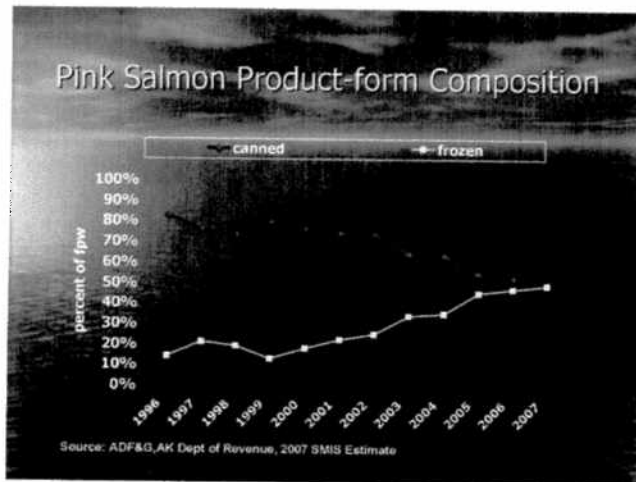
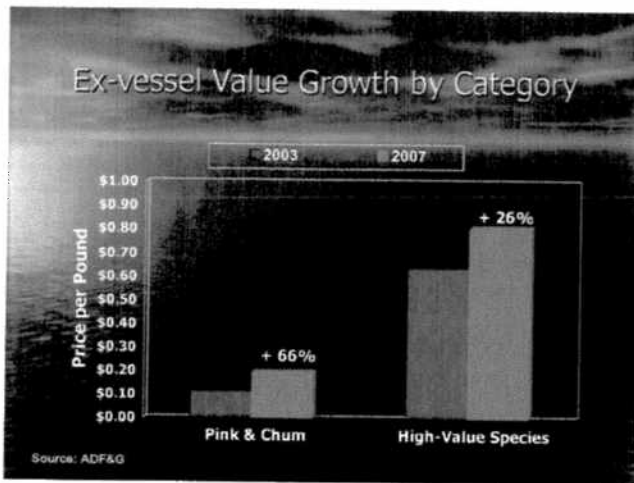
Also in 2002, Governor Frank Murkowski and his Salmon Cabinet designed and implemented the Alaska Salmon Revitalization Plan, funded with approximately \$40 million, plus an equal amount of matching funds from private industry.

At this same time, Senator Ted Stevens created the Alaska Fisheries Marketing Board (AFMB) out of frustration in trying to meet the intent of Congress to use 60% of the Promote & Develop Fisheries Account funds to “promote and develop fisheries products.” AFMB is considered a pilot project to the current proposed National Seafood Marketing Fund.

The AFMB was funded with \$36 million between 2002 and 2007.

The combination of these funds, over \$116 million, was used for marketing, product development and infrastructure with an emphasis on the failing salmon industry.

The positive results of these investments are significant.



- ### Impacts of Product-form Shift
- Sustains demand growth for frozen in emerging markets
 - Reduced chronic surplus of canned salmon, restoring balance of supply and demand
 - Full utilization of harvestable surplus

Results of Investments in Marketing:

--Increased quality on vessels and in processing plants.

--Increased the number of new product forms, such as fillets, portions, and consumer-ready products.

--Decreased the number of old product forms, such as canned and headed-and-gutted salmon.

--Changed from focusing on the primary processing industry to the secondary processing industry.

--Changed from focusing on the salmon market to focusing on the food market.

--Changed from a commodity-driven market to a consumer-driven market.

--Brought fishermen, processors, wholesalers and government agencies to the table to determine what was needed as market conditions were dynamically changing.

First Wholesale: The Full Measure of Salmon Value

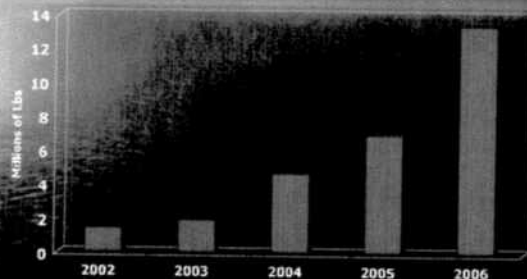
- Payment to harvesters
- Processors' profits
- Expenditures on goods and services associated with production in Alaska

Average First Wholesale Value Primary Pink Salmon Products

	Froz H&G	48-tall case
• CY 2003	\$.41	\$35.57
• CY 2004	\$.52	\$36.94
• CY 2005	\$.62	\$41.00
• CY 2006	\$.82	\$46.12
• Jan-Sep 2007	\$.75	\$57.70

Source: AK Dept of Revenue

Alaska Sockeye Fillet Production



Source: AK Dept of Revenue

As a result of the investments in marketing (quality, product development, infrastructure and advertisement), the value of Alaska salmon began to rise almost immediately.

From 2002 to 2007, the ex-vessel values increased from \$163 million to \$374 million, an increase of 130%.

The first wholesale value of salmon increased from approximately \$550 million to \$850 million.

The price of canned pink salmon rose from \$35.57 to \$57.70 per case.

The amount of sockeye fillets produced continued to rise from approximately 2 millions pounds to almost 14 million pounds.

Many of the costs for processors are fixed. Therefore, as profitability began to rise, the percentage of profits that could be shared with fishermen also rose. The price paid to fishermen, as a percentage of the first wholesale value, increased from 29% to 40%.

Potential Value Growth Inhibitors

- Continuous growth of farmed salmon production
- Record harvest volumes of AK salmon
- Product-form Shifts
 - Capital, market development costs
 - Value added = cost added
- Recent processing sector consolidation

Market Activity

- Despite factors that normally erode value, Alaska salmon value shows strong growth. Per-pound wholesale value is up, driven by several factors including marketing activity.
- Processing has a high fixed cost load, so wholesale value growth beyond the fixed-cost "tipping point" translates largely into profit
- Profitability increases ex-vessel value and stimulates product-form shifts that position Alaska products for further value growth

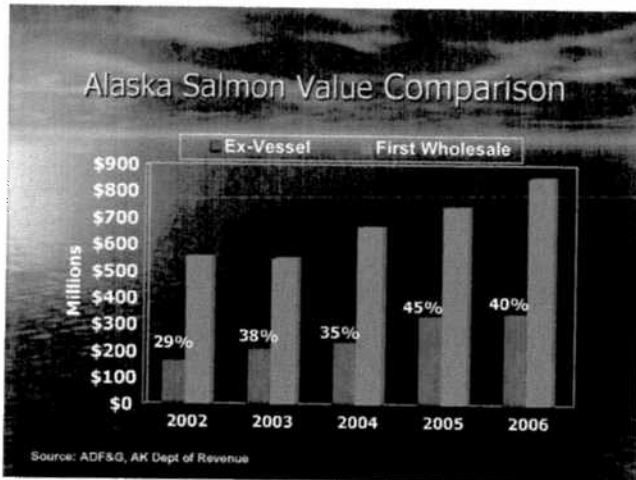
Market Activity

- Marketplace remains very receptive to core messages of Alaska Seafood and Alaska Salmon
- Increased coordination between industry and state marketing efforts
- Increased financial support of private and public marketing efforts
- Ongoing product and market development efforts

The rise in value of Alaska salmon continued even in the face of increased production of farmed salmon, record harvests of Alaska salmon, increased competition from other sources of seafood, and increased marketing efforts from foreign countries. For example, Norwegian salmon companies have budgeted \$15 million for marketing in the U.S. for 2010.

The Alaska Seafood Marketing Institute (ASMI) continues to receive funding for marketing from taxes assessed on the industry. ASMI's budget from assessments is between \$5 million and \$10 million per year to market *all* Alaska Seafood. These assessments allow ASMI to leverage a variety of grants.

Since 2007, the influx of \$116 million in marketing funds is no longer available. However, the ex-vessel value of salmon continues to rise. In 2008, ex-vessel values of Alaska salmon rose to \$452 million, an increase of 177% over 2002 ex-vessel values.

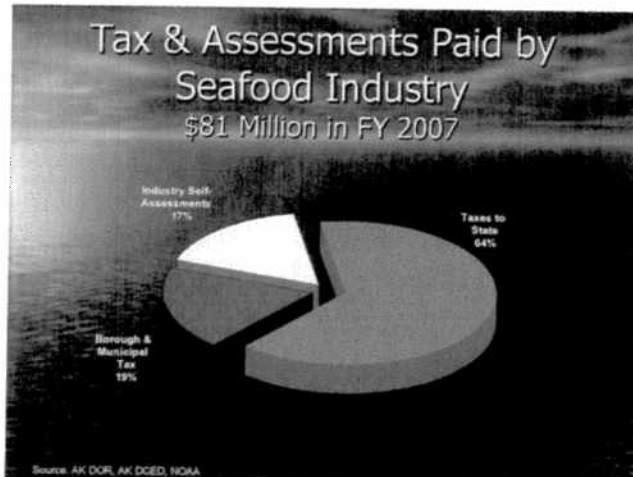


These marketing investments in the Alaska salmon industry were pure economic development.

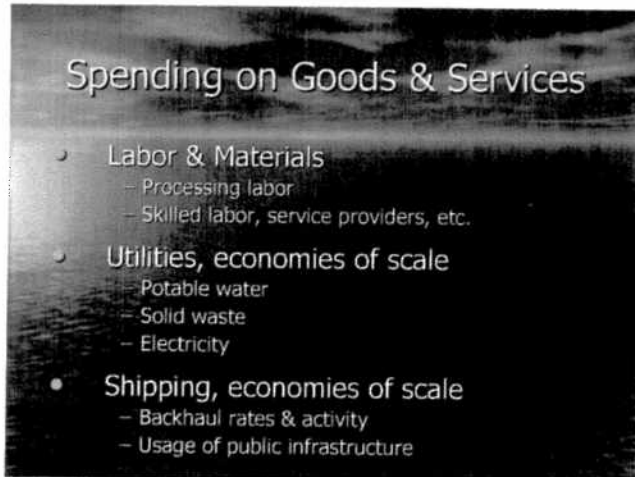
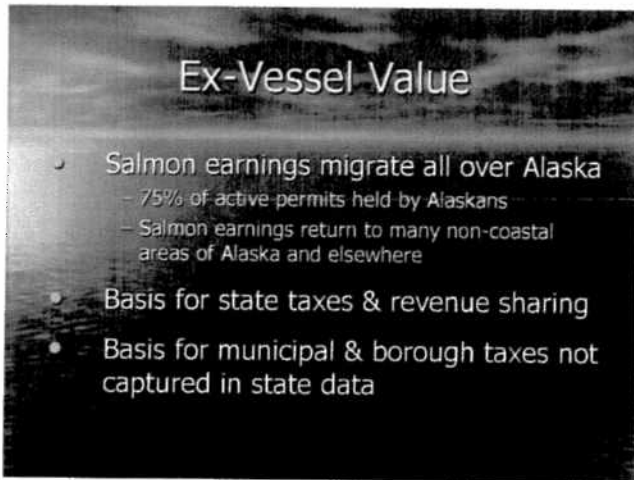
As the value of the industry increased, economic activity also increased from rural areas of Alaska to urban centers, and even extending to other states which support the industry.

- ### Impacts of Value Growth
- Drives economic activity into remote areas of the state
 - Maintains critical mass for transportation infrastructure
 - Increased participation in salmon fisheries, especially for AK residents

For example, as the industry began to be profitable again, upgrades were made in both the processing and harvesting sectors. Airlines invested in additional cargo capacity as more fillets and high quality salmon were shipped by air. Freight and trucking companies invested in upgrades as distribution lines changed.



Quality improvements and product development meant investments in equipment and machinery (i.e. ice machines, flash freezers and fillet machines) purchased through supply companies all over the country.



As the salmon industry increased in value, the tax revenue from the industry also increased. Salmon industry taxes support the continued marketing of Alaska seafood, the enhancement of the industry, state activities and municipal activities, such as schools and harbors.

This chain of economic impact continues to trickle down and is seen on local, regional, state and federal levels.

The investment in marketing Alaska salmon is a success story; it is also an example of what marketing can do for any product and the value of aggressive and continued marketing support, such as a *National Seafood Marketing Fund*.

*Note: Slides are excerpts from the McDowell Group's presentations to the Alaska Fisheries Marketing Board (Jan. 21, 2008) titled, "Alaska Salmon Industry: Value Growth Drivers, Secondary Impacts" & to the Alaska Seafood Marketing Institute (Feb. 21, 2008) titled "Value of the Alaska Fishing Industry to the State of Alaska".