

## MERGERS AND INVESTMENT SESSION

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*Chairman - H. O. STURGIS, Yarmouth, Maine*

### **Comments on Economic and Financial Aspects of the Gulf Fisheries**

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This is a time of fantastically large demand for use of available funds in our nation's economy, now approaching one trillion dollars in size. You in the shrimp and menhaden business are among those who use funds, who allocate them to specific purposes, who seek more funds for new needs, who wonder how best to get funds for the needs. It is timely to review the economic aspects of your industries which can have a pronounced influence on your financial progress.

We know that the health of your firms is affected by the economic climate for them. If the climate is hostile, with demand inadequate, production declining, costs mounting, funds short, credit hard to get, the very survival of individual firms or even industries, comes into question. Economics is called the dismal science; its analyses and finds can be pretty unsettling at times. Yet in historical perspective, the economic history of our remarkable capitalistic society reveals that firms and industries have responded to economic realities with quite fruitful results for our nation's people as measured in overall economic growth and well-being. You have the challenge of adjusting your business operations to sustain your firms and industry to benefit consumers.

As managers, you realize that the economic climate cannot be your only point of interest. You seek increased knowledge about the biological factors affecting your production. You look also for research findings on a wide variety of problems relating to your work; you have problems encompassing engineering concepts, nautical matters, legal affairs, insurance coverage, rules, regulations, legislation and management practices.

While obtaining information in these fields may be vital and even crucial for the life of your shrimp and menhaden businesses – and often the technical possibilities and impossibilities determine financial success or failure – it is clear that given sound technology, the economic relationships for your firms greatly influence your profits.

My focus in this brief period with you will be on the general economic situation I observe for the shrimp and menhaden industries. I will also consider the pressures you probably feel for adjusting your businesses to cope with economic trends and developments, especially adjustments which may involve

mergers of operations and firms. Sometimes the modifications you plan require more funds, or at least a change in the application of funds you can control. In this connection, I shall make a few comments on the general availability of funds in the economy.

## ECONOMIC CLIMATE FOR SHRIMP AND MENHADEN INDUSTRIES

The Gulf fisheries industry faces the happy situation of a strong demand for its products and a growing market for them. Shrimp, of course, is used directly in many food dishes enjoyed by Americans. Menhaden, in the form of fish meal used in poultry and animal feeds, ends up as "fried chicken" and other poultry and meat products so well liked by consumers. These products are highly favored by consumers in the United States and are foods more and more in demand. This salutary market situation clearly is a boon to the Gulf fishermen.

Shrimp consumption per capita has been in a persistent up-trend for 20 years at least. Moreover, reflecting the high favor Americans have for shrimp, consumer spending on it has advanced at a much sharper pace than the total spending on food. This powerful market situation for Gulf shrimp fishermen is reflected in the increasing share of the world shrimp catch being marketed in the United States, by far the largest market for shrimp. At present, about one third of the world catch is sold in our country, compared with about a fourth in the mid-1950's. United States shrimp production is valued at about \$115 million, and most of it occurs in the Gulf area.

In large measure, the shrimp market has developed nationwide as better refrigeration services became available. Technological advances in preparation of shrimp have also boosted sales. These are two potent aids in marketing shrimp far from major production areas in the Gulf of Mexico. Having now the capability of freezing and storing shrimp and holding them for more favorable prices when the relatively short shrimp fishing season is ended, processing plants in the Gulf area gain added economic punch.

Food consumption trends also favor items produced by utilizing products of the menhaden. American consumers have used increasing quantities of poultry in the past three decades. Chicken usage rose from 14 pounds per person in 1940, to about 36 pounds at present. Turkey consumption went from 2 pounds per person to 8 pounds. Consumers have held their consumption of pork at a relatively high level of 65 to 75 pounds per person. Feeds used to produce these meat products include fish meal as a significant ingredient and the tonnage of feed mixes continues to increase each year.

Reflecting the growing mixed feed market in the United States and abroad, world trade in fish meal expands apace. Fish meal importing nations purchased 2.8 million tons in 1968, more than double the purchases in 1961. Menhaden producers in the United States, however, have not been able to share fully in the expanding market. Output of the United States industry grew steadily until the early 1960's when a sharp down-trend developed. Fish meal production which had risen to 248 thousand tons in 1961, declined to 143 thousand tons in 1968. Production of fish solubles also declined dramatically in the 1961-68 period.

These aggregate movements in output mask the shift in fish meal production areas in the United States. Fish meal output declined sharply along the Pacific and Atlantic coasts, while it increased along the Gulf coast. Taken generally, however, American fish meal producers have been unable to capitalize on the growing national market in recent years. Yet, the market potential remains a

strong, positive element in the economic climate for the fish meal industry.

Price trends for both shrimp and menhaden products have also been a boon for the Gulf fisheries. Retail prices for shrimp have been trending rather steadily upward in recent years. Prices now are almost double those prevailing in 1964. Wholesale prices have moved higher over the years, although there are marked seasonal fluctuations each year. Prices for fish meal have been more erratic, moving down through the 1950's then up sharply in 1966. In the next few years they declined somewhat and then moved to a peak of \$200 a ton in late 1969. Prices have moved lower again, but they still stand well above their 1960 level. With demand for the meal at a high level and generally inelastic, fluctuations in available supplies bring wide swings in prices. Fish oil prices, on the other hand, have been in a fairly steady down-trend since the mid-1950's.

We see from what I have said that the economic climate for the Gulf fisheries provides a strong underlying demand for the products and a generally favorable price situation. Yet, fishermen who land shrimp and menhaden are not sharing in the growing market to the degree an observer like me might think possible. Both groups of fishermen are providing a smaller and smaller share of the nation's supplies. Imports from other nations are providing most of the added volume needed to satisfy our national market.

### PRESSURES FOR MODIFYING FISHING BUSINESSES

What is the reason for the lagging market share for the Gulf fisheries? The question seems straightforward and simple, but the answer you will agree is complex, and the remedies no doubt must be quite varied. Price and cost relationships in the fishing operations acutely affect the situation and often some positive action by managers is required to gain some economic ground. Relative costs of catching the fish and producing the products induce variations in competitiveness; availability of the fish varies by areas, and fishing techniques and intensity may be inadequate to consistently obtain large catches.

Investment capital and operating funds, of course, may fall short of needs for some firms. Government rules and regulations concerning fishing and fish preservation may be inadequate for some phases and too exacting for others. Perhaps research on technology and other industry needs and on biological aspects of fish production does not meet requirements. Possibly some company managements need revitalization to provide leadership for expanding catches and reducing costs. A highly significant adverse factor is the extremely short supply of skilled labor to man the boats.

Undoubtedly these factors influence your business operations in some degree. Whether sole reliance on increased capital investments and use of more operating funds in particular firms and for particular company operations can reverse the fundamental trends in the industry and capture a larger share of a growing market appears questionable to me. Some rather penetrating efforts along a broad front could be the more likely need.

Gains in economic performance of the shrimp and menhaden fishing industries will be sought through several points of leverage, it seems to me. Most important is preservation of the strong consumer demand. Second, assembling production resources and combining them effectively for output will benefit operators. The emphasis here is on providing suitable modernized vessels, well equipped and well manned; the vessels will do best when they serve plants that are modern, efficient, capable of processing and marketing the catch, and well

located for low cost operations.

A persistent short labor supply for the shrimp industry is a fundamental and formidable obstacle. More crew members are needed to expand the fishing effort and utilize new vessels effectively. Capital investments in modernized far-ranging boats probably are required in some firms, but without crews for the boats, it will be hard to increase the fishing effort and enlarge the shrimp catch.

Similarly in the menhaden industry, modernized far-ranging boats adequately crewed can enhance the catch. Even so, improved techniques for finding the fish and increasing production can be an equally important factor.

No doubt the operators of vessels and plants who will do best are those who use them at fullest capacity. Fishing must be intensive, processing must be rapid and technologically sound, storage and distribution of products must be geared to market needs and conditions. Not least in this pattern is the firm control of quality by operators to insure highly saleable products. These products should reach consumers in a timely manner and in desired form; customers at distant places also want assurance that the products they demand flow regularly to them. Often the consumers need assistance or guidance in using the products. You can appreciate that effective channels of distribution are quite important to the fisheries industry. Finally, a healthy operation requires that owners obtain enough returns for their services to consumers to pay the workers, earn salaries, and obtain adequate earnings on capital invested.

These organizational efforts are no less important to you in the shrimp and menhaden industries than in any other industry. Yet they are difficult to achieve, especially in a fragmented industry such as the shrimp industry, and in an industry battling severe foreign competition and declining production such as the menhaden industry.

#### MERGER FOR ECONOMIC BENEFIT

Will mergers of units and firms help segments of the industry gain more leverage in the economic spheres I have noted? Some observers feel that mergers would be appropriate and helpful. And in some cases, given favorable conditions, they might. We should all agree at this point, however, that mergers of business units must grow from sound economic bases to gain income and profits. As a generalization, we can say positively that pooling weaknesses or losses will not create stronger and more profitable units.

Having acknowledged this fact of life for mergers, we can speculate that mergers may be attractive to some firms under present conditions in the shrimp and menhaden industries. Mergers may bring consolidations helpful in fighting competition. At bottom, a merger can enable some firms to better perform the economic functions for consumers who collectively are the ultimate authority in our economic system. Capital may become more productive, raw materials more ample, marketing arrangements more fruitful.

We recognize at the same time that difficult analytical effort is usually required to judge whether a merger will benefit particular firms or producers. The question "Why merge?" is typically evaluated by measuring the pertinent reasons given for merging against the economic bases found in a specific industry. If the bases are sturdy and broad, then one or more of the reasons for merger can assume sufficient weight to bring the action.

Why merge? Several points are offered as crucial elements by a person who thinks through the proposition. He ponders whether he can gain a broader

product base through diversification of products made and sold. These may minimize impacts from seasonal fluctuations and changed market conditions. Possibly the merger of successful firms will, in fact, bring fast growth in size and sales and increase profits rapidly, much more rapidly perhaps than waiting on the long pull with an independent firm.

The person considering a merger also inquires whether he can gain efficiencies in operations and spread his risks. He considers a broader use of capital, perhaps through the merger obtaining working capital for product development, or realizing tax advantages, or using fully some idle capital he might have in hand. The merger also may be an economical means for acquiring skilled management or providing management continuity for a family business or a single proprietorship.

A merger can bring to the buying firm new market outlets without incurring start-up costs, and rapid acquisition of technology without burdensome costs for uncertain research and development. It may even be effective in assuring plentiful and low cost supplies of raw materials under some circumstances. Possibly that reason for merger would have much weight in the shrimp and menhaden industries where the search for an assured and large supply of raw material is intensive and never ending.

Whatever your individual response to such analytical probings in regard to a merger, it is clear that buyers and sellers of firms look for one or more of several positive elements in the unit being evaluated -- competent management, a record of growth, a sound financial position, satisfactory earnings, complementary products or lines, and a whole that is greater than the sum of the parts. What we come to in the end, is a more limited scope for the merger route than many interested persons might initially envision.

#### VIEW OF THE FINANCIAL SCENE

You shrimp and menhaden operators undoubtedly will make capital investments soon for a variety of needs. You require investment funds for increasing your efficiency, combating rising costs for labor, and applying technological improvements. You may need modernized vessels, larger vessels, better equipment, desirable modifications to plants and investments for increased quality control. Your cash requirements for general operations and working capital purposes and the carrying of inventories of fish products and supplies also are on the rise. Day to day, you use funds for stocking your vessels, paying your expenses and living through slack periods. All told, I can confidently say that few, if any, shrimp and menhaden firms will be able to reduce their financial requirements very much.

Traditionally you have obtained funds for the varied purposes from your own resources -- from the cash flow generated by your sales, from your retained earnings -- and from creditors such as your suppliers and your processors and financial institutions. No significant change in these patterns is in prospect in my opinion. You will continue using short term credit for operational needs, such as outfitting boats and processing, warehousing and marketing the catch. You will finance equipment and technical innovations from funds already in hand or borrowed on medium terms of perhaps 3 to 5 years. Probably you will finance investments in plant facilities and major production systems with long-term funds.

Operators have the difficult problem of deciding how best to apply their

limited funds, obtainable at relatively high interest rates, to uses that will pay off. Is modern equipment the paramount need? Should expensive long-term funds be sunk in a new plant at a new location, or can that investment be postponed until capital markets are more favorable? Under present conditions, should all available funds be applied to maintain operations at present levels while awaiting more favorable investment opportunities? No one of these decisions is lightly or easily made, and emphasis given the choices will vary among firms.

The problem is general. Other groups pressed by needs for advancement and improvement seek funds in the money markets. Many industries in our nation must adjust to changed production needs and market conditions. Additional major competitors for the available money are the numerous local and state governments that are pressed to provide essential services for communities. The federal government remains a principal bidder for money.

We have no assurance that all needs can be met under current conditions. Firms with top credit ratings may fare reasonably well, though at relatively high rates. Those in less solid financial condition may obtain funds, but at a somewhat higher rate. Firms and operators without financial leverage probably will have difficulty locating creditors unless special relationships exist or unusual arrangements are established.

I base this rather cloudy financial outlook on the continuing imbalance in our inflation - gorged economy, and the persistent huge appetite for capital in the United States. The American economy in its current state, fueled by the innovative nature of its people, their exploration, inquisitiveness, practicality, engineering capability, management skill and their insatiable wants for goods and services, is generating an immense demand for capital. Not all needs can be met simultaneously. Choices must be made. The necessary rationing of funds to particular firms and particular uses, of course, directly affects firms in the shrimp and menhaden fishing industries.

In the competitive market for funds in the United States, industry struggles against industry. In the end, comparative advantage in the use of resources to provide what consumers want forces the play. The industry in the best economic position relative to the demands for its products, to its location and raw material base, to its labor productivity and supply, will be able to bid more for the money available. It can bid more because it can afford to pay a higher rate of interest.

It is against this backdrop of economic struggle that we find the shrimp and menhaden industries in a squeeze. They are squeezed by competition for capital and labor, by inadequate production and uncertain supplies of fish, and by competition from foreign suppliers. Not every adverse element in the economic situation can be effectively met in every firm with an injection of funds. But prudent investments undoubtedly can help particular firms compete more adequately. In the capital rationing process, firms that can use the funds profitably, probably will obtain them.