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Regional Development in Yorkshire and the Humber (B)

As a result of Yorkshire Forward screening exercise, several more specific clusters within the food and drink industry, including seafood, were selected for cluster development projects.

The Humber Seafood Cluster

The Humber estuary cuts into the northeastern coast of England. At its end is Immingham, one of the largest ports in UK, handling large amounts of container traffic annually.

The seafood industry is centered in Hull on the north side of the estuary and Grimsby on the south. Together, the Humber area processes 70% of the seafood eaten in the UK.

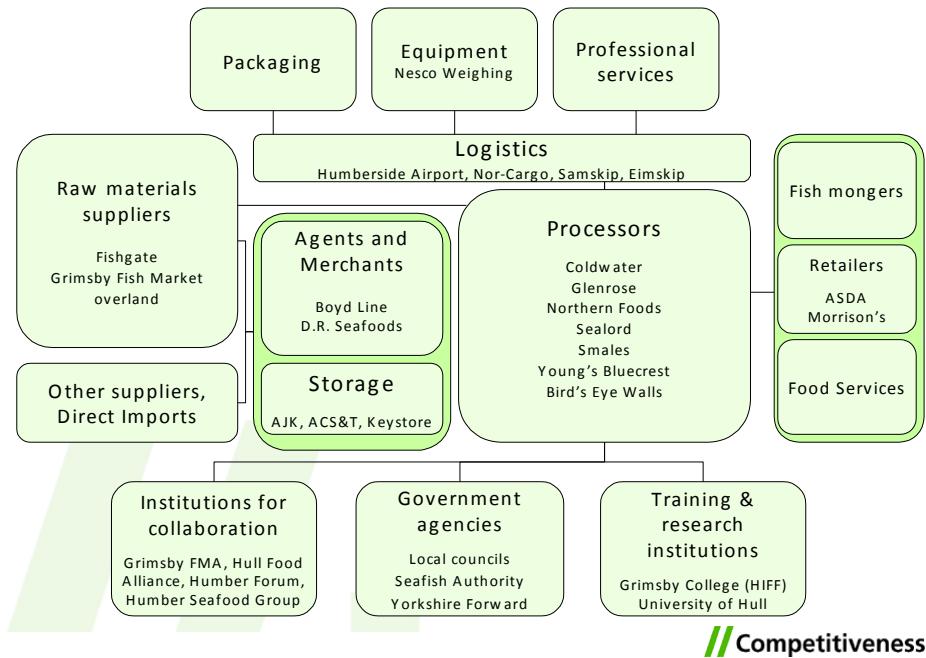
In response to depleting stocks, EU quotas have reduced the amount of fish that can be legally caught. Consequently, the catching sector in the Humber region has declined substantially, as it has throughout Europe. Catching firms are not major employers and most of the crews of fishing vessels are self-employed. Local catchers provide only a small fraction of the raw material for processors; most is imported.

The cluster is dominated by manufacturing and some of the largest UK (and European) food processing companies are located there, including Young's Bluecrest, Northern Foods, Hazlewood Foods, YBS, Rank Hovis, Bird's Eye, Walls, and Nestle.

This case was prepared by Amy Cogan Wares on 2011 based on a real experience at the Yorkshire and the Humber Region (England), as the basis for class discussion rather than to illustrate the effective or ineffective handling of an administrative situation. Some situations, characters and companies have been disguised to preserve confidentiality.
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Humber Seafood Cluster



Two auctions serve the region: Grimsby Fishmarket and Fishgate in Hull. Both have been renovated and upgraded, with support from the European Union. The Grimsby Fishmarket completed renovations in 1996 after £15 million of investment, including £10 million of ERDF funds. More recently, the renovated Fishgate in Hull reopened in 2001 as one of the most technologically sophisticated markets in the world. It now offers temperature control throughout, an automated quality grading system, full traceability and an electronic auction theatre.

There is no government port authority in the Humber region. Through a privatization programme that occurred in the 1980s, all the land on the banks of the Humber is commercially owned and all port-related services are provided privately.

The challenge facing the seafood industry

In 1990, 80% of Humber fish was sold frozen to large retailers. There was little competition from overseas and nearly all processing was done locally. Fifteen years later, the frozen fish market was languishing and the seafood industry was in decline.

Decreased transportation costs, improved on-board processing capacity and reductions in tariffs have expanded the number of potential suppliers for processors. Reduced catching quotas due to depleting fish stocks and demand from retailers for larger volumes of gutted and filleted product are further driving processors to seek new sources. Increasingly, fish is coming from the developing world, even from China.

As secondary processors¹ are sourcing semi-processed product from around the world, small primary processors in the U.K. are increasingly going out of business. Employment in primary processing has dropped 42% since the mid-1990s.

The processing sector has undergone considerable restructuring since the mid-1990s. Consolidation has been greatest among firms engaged in secondary processing – the number of firms declined 25%, while the size of firms grew 50% and employment increased 15%. Increasingly, Icelandic investors are entering the UK seafood industry.

Historically, most Humber fish was sold frozen, but growth in this segment has stagnated. Demand for fresh fish, on the other hand, has grown rapidly as consumers become more health conscience and improved logistics allow for more fresh fish options in supermarkets. The consequences of this shift in market demand have dramatic consequences for Humber processors. Frozen fish and fresh fish are less variations of one product than two entirely different products.

With a shelf life of months, frozen fish resembles a commodity product. Already small margins are being squeezed more as retailers take greater control over supply chains for their own brands. Staying profitable producing frozen fish requires highly efficient processes and economies of scale. High wage, low volume Yorkshire and Humber cannot compete on price with developing economies. More and more, even fish that is caught in the North Sea is sent to China for primary processing and then shipped back. Furthermore, processors have little market power relative to the highly concentrated retail sector. The top five retailers account for almost 70% of the UK food retail market.

The market for fresh fish is more encouraging. Demand is increasing rapidly and the perception of higher quality commands a premium price. Retailers are offering more choices to consumers, including more exotic varieties. The increased demand is being met by distant sources, such as the Indian and Pacific Oceans. Quick distribution is essential so retailers tend to work with only a small number of suppliers to ensure quality and to facilitate new product development. Since fresh fish is so perishable, the sophisticated logistics required to get it to market quickly is a significant barrier to entry.

In order to survive, the seafood industry in Yorkshire and Humber must switch from supplying frozen fish to fresh fish and invest in logistics to meet quality and traceability requirements. Long-term competitiveness will require innovation in logistics and new product development for fresh fish, such as ready meals.

¹¹ Primary processing includes cutting, filleting, pickling, peeling, washing, chilling, packaging, heading and gutting. Secondary processing includes brining, smoking, cooking, freezing, canning, deboning, breading, battering, vacuum and controlled packaging, and producing ready meals.

Questions for discussion

Please prepare the answer to the following questions with your group, and be ready to discuss them with the rest of the teams:

- Why the fresh business has a higher margin than the frozen business?
- How to shift the seafood industry from a bad business (frozen) to a better business (fresh)? Prepare a short presentation to the industry.
- Who should lead that effort? The RDA? Consultants? With what resources?
- What is the role of the other cluster agents (markets, processors, fishermen, importers...)?