

SALMONTE OCEAN



Fuente. Frimufilms en Freepik, s/f.

2-SP31-11-218

This problem situation was written by José Javier Cázares Sánchez (javier.cazarez@tec.mx) and Luis Felipe Zapata Upegui (lfzapata@tec.mx), with the purpose of serving as discussion material in the classroom; it does not intend to illustrate good or bad administrative practices. The story on this document is based on different people's experiences; some data has been modified at the request of the people and institutions involved.

All Rights Reserved © Instituto Tecnológico y de Estudios Superiores de Monterrey; Av. General Ramón Corona No. 2514 Col. Nuevo México, Zapopan, Jalisco 45138, México. ITESM forbids any type of reproduction, storage, or transmission in whole or in part of this work, without written consent.

The Salmon Industry

In recent years, salmon has positioned itself as one of the preferred animal proteins of consumers worldwide, since its meat is healthy as it contains low proportions of saturated fat and calories, and it also provides unsaturated fatty acids such as Omega-3. Salmon are anadromous fish as they spend most of their lives in the sea, but they enter freshwater to breed (Mowi, 2022).

Salmon farming is characterized for being one of the most efficient on the planet due to its low resource requirement, as well as for its low carbon footprint. Salmon has a favorable feed conversion factor of 1.2 to 1.5, a level similar to that of chicken production, whereas, 10 kg of feed to produce a kilo of beef are required.

Today salmon is the second export product of Chile, in addition, this country has managed to produce and export 25% of the demand for salmon worldwide, positioning itself as the second producer and marketer of this fish (Salmon Council, 2023).



Source. Melanie Andersen en Unsplash, 2021.

The origins

It was in 1959 that Mr. José Montenegro, together with three friends, began the adventure of founding an oyster production farm to cultivate and sell oysters. They called the company La Perla Austral, managing to produce and sell 1.5 tons of oysters in that year.

Due to the low price of oysters in the Chilean market and taking advantage of the knowledge and resources gained in their initial activity, the four friends reconverted their company in 1964 to start farming salmon at sea, beginning with a production of 25 tons.

In 1970, José bought the shares of the company from two of his partners and renamed it SALMONTE Ocean. At that time, they were already producing and selling 73 tons of salmon; by 1975, this company had become the second largest salmon production and marketing company in Chile, with 140 tons.

At the beginning of the eighties, they were already producing 300 tons of salmon and José made the decision to buy the shares of his other friend, becoming the sole owner. He then established that the vision of the company would be: "To become, in the next five years, the company that produces and markets the highest quality salmon for the Chilean and South American markets". In 1985, he inaugurated a salmon processing center, at that time the largest in Chile, with the capacity to process up to 20 tons of salmon per day.

In 1990 SALMONTE Ocean carried out a vertical integration and created its own brand of fish feed, which strengthened its value chain, achieving a production of 3,500 tons per year. To this end, it expanded its processing center from 20 to 50 tons/day and began construction of a second site further south in the country, where it would process up to 100 tons/day.

The New Millennium and the New Generation

Through a long bureaucratic process before government entities, in 2000, SALMONTE Ocean was approved to operate five new breeding sites in the inland sea of the Los Lagos region and the channels and fjords of Aysén. With this, they managed to produce 10,500 tons at the end of that year (tripling the value of 10 years before), and having a payroll of 1,000 employees, 90% of them in the areas of breeding, processing, packaging, storage, and transportation.

At the beginning of 2007, SALMONTE Ocean lost 20,000 tons of salmon, because of the ISA virus outbreak, having to lay off 50% of its employees (in 2006 they had produced 40,000 tons of salmon).

By the year 2010 and having overcome the ISA virus crisis, José decided to pass the baton of the business to his three children, granting each 33.33% of the company's shares: Santiago, Alicia, and Luis, 26, 29, and 32 years old, respectively. Santiago had started working at the company while he was studying Business Administration, undertaking the purchases of raw materials, and taking them to his salmon farms. Upon graduating as an administrator, he started distributing and marketing the product throughout the country.

Alicia is an economist, and she finished her PhD in Aquaculture at the University of Chile. She has engaged in research on salmon genetics, the use of antibiotics, optimization of their farming, disruptive salmon farming models in the sea, effects on human health, and in minimizing the impact of salmon droppings in the sea. For all this, she has managed to get her father to allow her to do all these tests in a specific place and with salmon that will not be commercialized.

Luis studied a bachelor's degree in international business and since he finished his degree, he has overseen the Exports area at SALMONTE bound for Brazil, Peru, Ecuador, Colombia, Mexico, the United States, Spain, Italy, Portugal, Greece, France, Japan, and Korea.

Upon taking the reins of the business over, the three siblings consider that it is necessary to accelerate its growth and they plan to achieve growth in 10 years, equal to that achieved in the last 50 years. To do this, they want to get foreign investors, so Santiago will prospect in the east coast of Canada, Alicia will head towards Scotland and the Faroe Islands, and Luis will stay in Chile in charge of the local business seeking to increase the local and regional market.



Source. NOAA en Unsplash, 2019.

With the new management team SALMONTE Ocean grew 55% in the first five years, however, the three siblings want the company to grow even more, aware that the industry is increasingly competitive and with large players, so they have set themselves the goal of being in the top 10 companies with the most sales in the world (currently they are number 14). At the beginning of 2020, they received a visit from the president of the largest salmon company in the world, who gave them a formal proposal to accept the sale of their company in exchange for being shareholders with 12% participation. This company has a presence throughout the world and sells about 450 metric tons of salmon.

However, because of the COVID pandemic in March 2020, China made accusations against Chilean salmon for allegedly finding the COVID-19 virus in a shipment. This led several countries to limit the entry of salmon into their territories, causing a 20% decrease in sales, which resulted in the conversations with the interested company being suspended. (BBC News World)

The Present

With a future full of uncertainty, a very competitive industry, international competitors interested in buying the company, as well as the constant expansion to other markets, the family carried out a reorganization and decided to have the following structure: Luis Montenegro will be in the General Management, in charge of 30 people; Alicia Montenegro will be in R&D, Marketing and Scotland, managing 60 people; Santiago Montenegro will be in the management of Supply Chain and Canada, in charge of 170 people; Bárbara Mantilla will lead the People Management department, being in charge of 30 people; Edgar Román will be in the Legal department handling 15 people; Lorena Ramírez will be in Production Management in charge of 3,350 people; Julio Martínez will be in Process Management, in charge of 45 people; Francisco Keith will be in the Administration and Finance department leading 30 people, and finally Sofía Tanaka will be in the Business Development department in charge of 20 people. Santiago, Alicia, and Luis agree that all decisions will be discussed by the three of them and in case of not reaching a consensus, Luis' decision will be final (this was decided because he is the eldest of the siblings and the one who has been in the family the longest).

In the world, the consumption of salmon went from 1,800 tons in 2012 to 2,610 tons in 2021, in turn, said consumption represented an increase in sales from 7.2 billion euros in 2012 to 15.8 billion in 2021. This means that while the volume of salmon increased 45%, money value increased 120% in the same period. With data from 2021, it is estimated that the salmon market presents the following information on consumption and production expressed in tons (Mowi, 2022).

Table. Global Salmon Consumption/Production.

Region	Consumption	Production
Europe	1'319,000	1'726,000
North America	646,000	145,000
Latin America	190,000	646,000
Asia	385,000	0
Oceania	70,000	79,000

Source. Adapted from Mowi, 2022.

One of the Big Four, Ernst & Young, in its study of megatrends in the aquaculture sector, considers that there will be major logistical problems because of the interventionism of certain governments, the disruptions of trade agreements, and armed conflicts, among others. On the other hand, the growth in fish consumption will continue until 2040, therefore, fattening licenses will increase significantly, and mergers and acquisitions will continue to be a fast and highly profitable alternative for salmon companies when internationalizing (EY, 2023). Along the same lines, Abrahamsen (2013) states that in the fish industry there will be fewer and fewer companies, but they will be increasingly larger. The EAT-Lancet Commission recommends a higher consumption of fish, dried beans, and nuts as sustainable and healthy protein sources. The life expectancy of the population in the world has been increasing, as well as the middle-class population, which allows the healthy eating trend that is so important in adults to be rich in different types of nutritious proteins such as fish, meat, and eggs (Willett et al, 2019).



Source. Datingscout en Unsplash, 2022.

Not everything is positive, in the salmon industry there is strong criticism for the excessive use of antibiotics in fish; for generating anaerobic conditions in the water due to fish overpopulation, that is, for consuming the oxygen available, affecting the existence of other forms of life, and for extending over pristine areas considered important refuges for marine biodiversity in the world (Carrere, 2019).

In addition, to combat the diseases caused by overcrowding, antibiotics and chemical products are used excessively, as well as herbicides to prevent the proliferation of microalgae that cause red tide. In turn, the diseases are spread to other fish that do not have the necessary antibodies to protect themselves. (Jara, 2021).

In the context of the Chilean salmon industry, key performance indicators (KPIs) provide valuable information to address concerns about production and income improvement, as well as the level of performance of the entire industry.

The most relevant KPIs may be production volume (total weight of salmon produced each year), export earnings (total value of salmon meat exports), market share (percentage of world salmon production that comes from Chile), as well as the feed conversion factor. (Molina, M.F. 2009)

Other relevant measurements, but in terms of sustainability, are the levels of nutrient inputs (phosphorus and nitrogen) to bodies of water, as well as the accumulation of organic waste, the determination of the maximum biomass allowed, the aerobic conditions of the water in the production farms, the kilos of antibiotics used per kilos of meat produced, and the integral human development of the communities surrounding the production areas, among other measurable aspects. (Molina, MF, 2009)

Scotland and Norway have development policies with a medium and long-term strategic vision, with institutions that coordinate and enable the cooperation of relevant stakeholders and citizens, and with the widely accepted goal of substantially increasing production in the medium term, a vision that has not yet been developed in Chile. (Silva R, H., July 2022)

In the worldwide salmon production industry, an increase in the size of production centers stands out, through the concentration of producers in increasingly larger companies from several countries, leading to economies of scale, increases in productivity and efficiency, as well as to a greater relevance of sanitary management and sustainable practices. (Silva R, H., July 2022)

The Challenges of Salmonte Ocean

Once the reorganization process was completed, the management team determined that it was necessary to carry out a formal strategic foresight process, so that the organization would be better prepared for the challenges it faces and the opportunities that the future will bring.

The objective of this managerial effort is to design a strategic vision for the company, evaluating the main strategic variables, building future scenarios for the industry, including prospecting for changes in the environment and value creation opportunities for both current and future customers, and based on this vision, design the right strategies in such a way that a better organizational performance is promoted. Likewise, it is necessary to design an administrative control system, data analysis, KPIs, evaluation systems, and compensation schemes, which will allow the achievement of the organization's objectives.

References

Abrahamsen, M. H. (2013). Norwegian salmon exporters and the changing structure of Japanese seafood distribution. <https://okonomiskfiskeriforskning.no/wp-content/uploads/sites/4/2014/05/MA-Norwegian-salmon-exporters-and-the-changing-structure-of-Japanese-seafood-distribution.pdf>

BBC News Mundo (17 junio 2020). Coronavirus en China: por qué las autoridades de Pekín culpan al salmón del nuevo brote de covid-19. <https://www.bbc.com/mundo/noticias-internacional-53081174>

Carrere, M. (25 de mayo de 2019). Salmones en Chile: historias de una industria polémica y millonaria. Mongabay periodismo ambiental independiente en latinoamérica <https://es.mongabay.com/2019/04/salmones-en-chile-denuncias-ambientales/>

Consejo del Salmón (18 de mayo de 2023). Historia de la industria en Chile. <https://www.consejodelsalmon.cl/historia-de-la-industria-en-chile/>

E.Y Consulting (27 de junio de 2023). "Key megatrends exposed in aquaculture and fishing industry" .https://www.ey.com/en_no/strategy-transactions/key-megatrends-exposed-in-aquaculture-and-fishing-industry

Jara Vergara, B. A. (2021). Fate and impact of antibiotics and pesticides used in marine aquaculture: An emergent threat to the coastal ocean= Destino e impacto de antibióticos y pesticidas utilizados en acuicultura marina: potencial amenaza para el océano costero. <http://repositorio.udec.cl/jspui/handle/11594/8892>

Molina, M.F. (2009). Diseño de un Modelo de Gestión Estratégica Basado en Balanced Scorecard en Empresa Salmonicultora [Tesis para obtener el grado de Magister en Gestión y Dirección de Empresas]. Facultad de Ciencias Físicas y Matemáticas, Universidad de Chile. Recuperado de: <https://docplayer.es/8911037-Universidad-de-chile-facultad-de-ciencias-fisicas-y-matematicas-departamento-de-ingenieria-industrial.html>

MOWI,(2022). Salmon Farming Industry Handbook 22. <https://mowi.com/wp-content/uploads/2022/07/2022-Salmon-Industry-Handbook-1.pdf>.

Silva, H. (julio 2022). Externalidades y Regulación de la Industria del Salmón en Chile y el resto del mundo. Instituto de Economía Pontificia Universidad Católica de Chile. <https://www.consejodelsalmon.cl/wp-content/uploads/2022/07/Estudio-PUC-Informe-Final-Julio-2022.pdf>

Willett, W., Rockström, J., Loken, B., Springmann, M., Lang, T., Vermeulen, S., ... & Murray, C. J. (2019). Food in the Anthropocene: the EAT–Lancet Commission on healthy diets from sustainable food systems. *The Lancet*, 393(10170), 447-492. [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(18\)31788-4/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(18)31788-4/fulltext)