

# Global Supply, Demand and Markets for Lobster

## Updates on Current Lobster Market

- John Sackton    [Seafood.com](http://Seafood.com)
- Lobster Academy    St. Andrews, NB  
Sept 23, 2010

# World Lobster Species

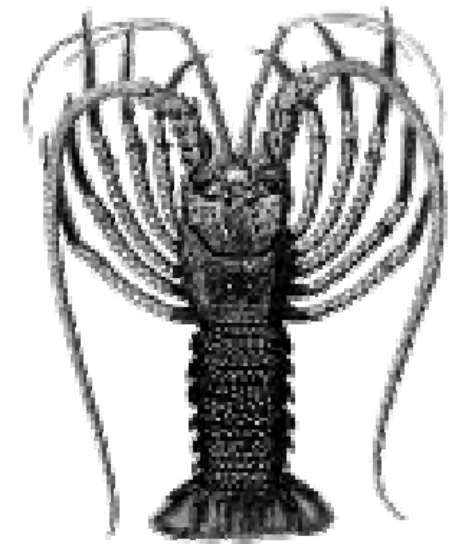
Homarus (Europe)



Homarus (N. America)



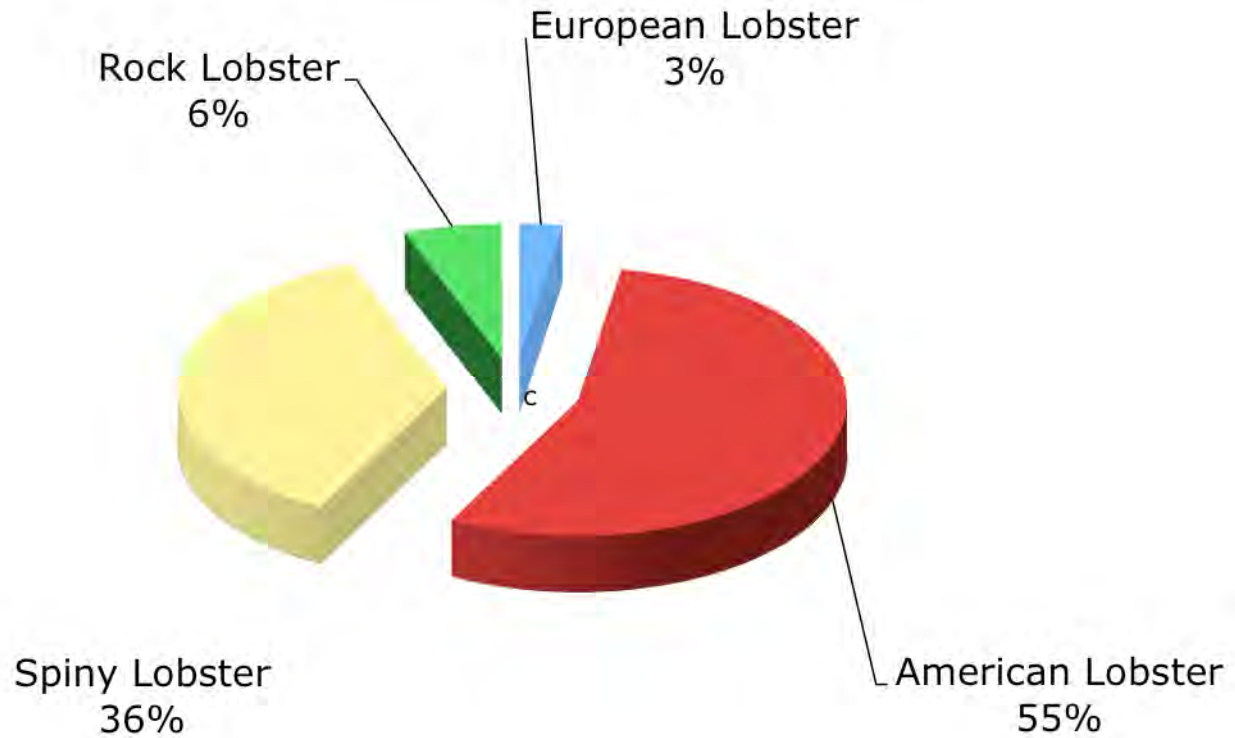
Panulirus spp (Brazil, Australia)



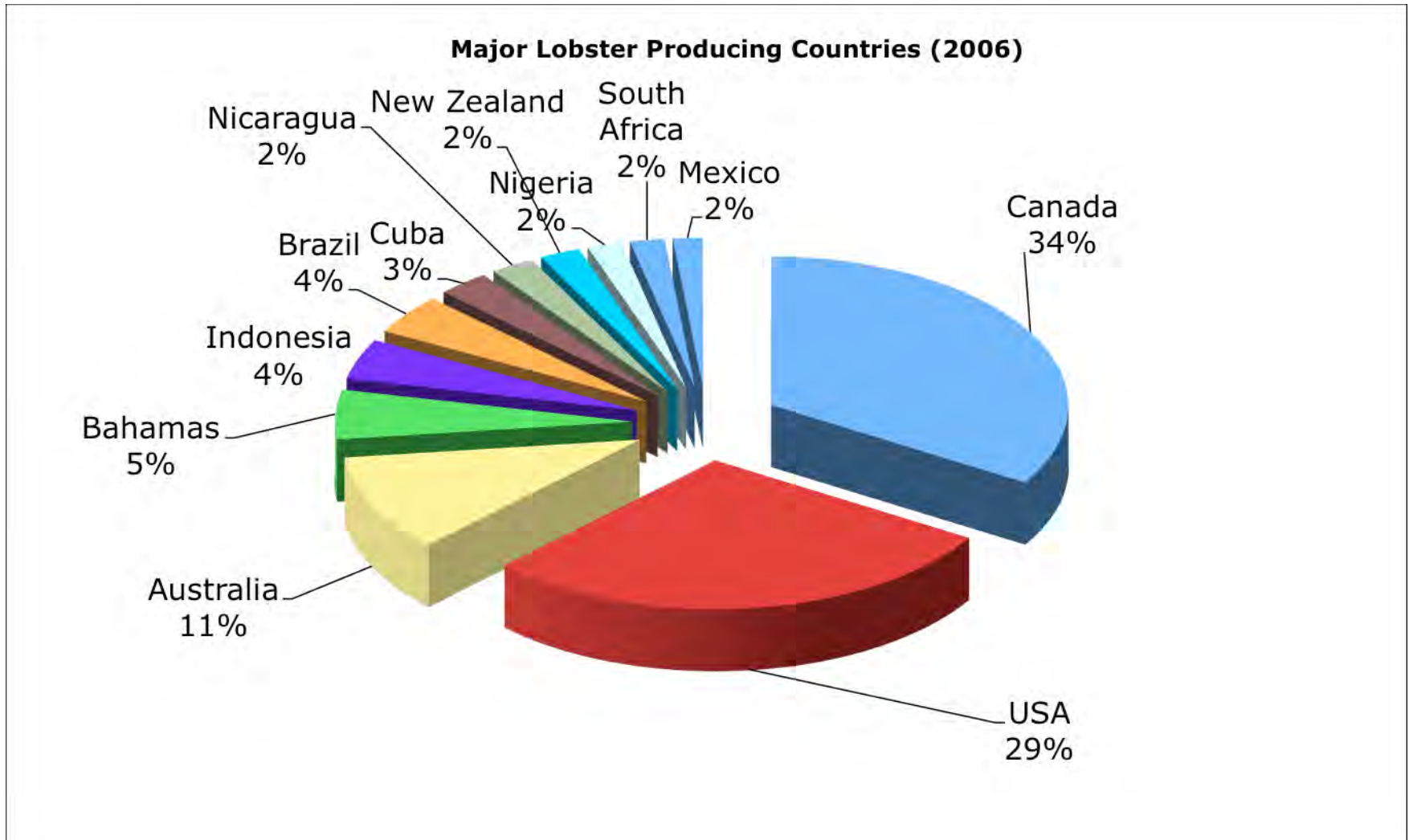
Jasus spp (S. Africa, Australia)

# Overview of Global Supply of Lobster

**World Lobster Production 2008**



# Major Lobster Producing Countries



The US and Canada produce 63% of world's lobster

# Price relationships among lobster types in U.S.

- Cold water lobsters command highest price
- Warm water spiny lobsters, sold as frozen tails, often higher priced than North American frozen lobster tails, but this has changed in the recession.
- North American lobster has most variation in both product form and price

# Cold water lobster tails

- Used almost entirely in foodservice
- Considered best tasting by many chefs
- This preference is what justifies higher price



## Warm water lobster tails

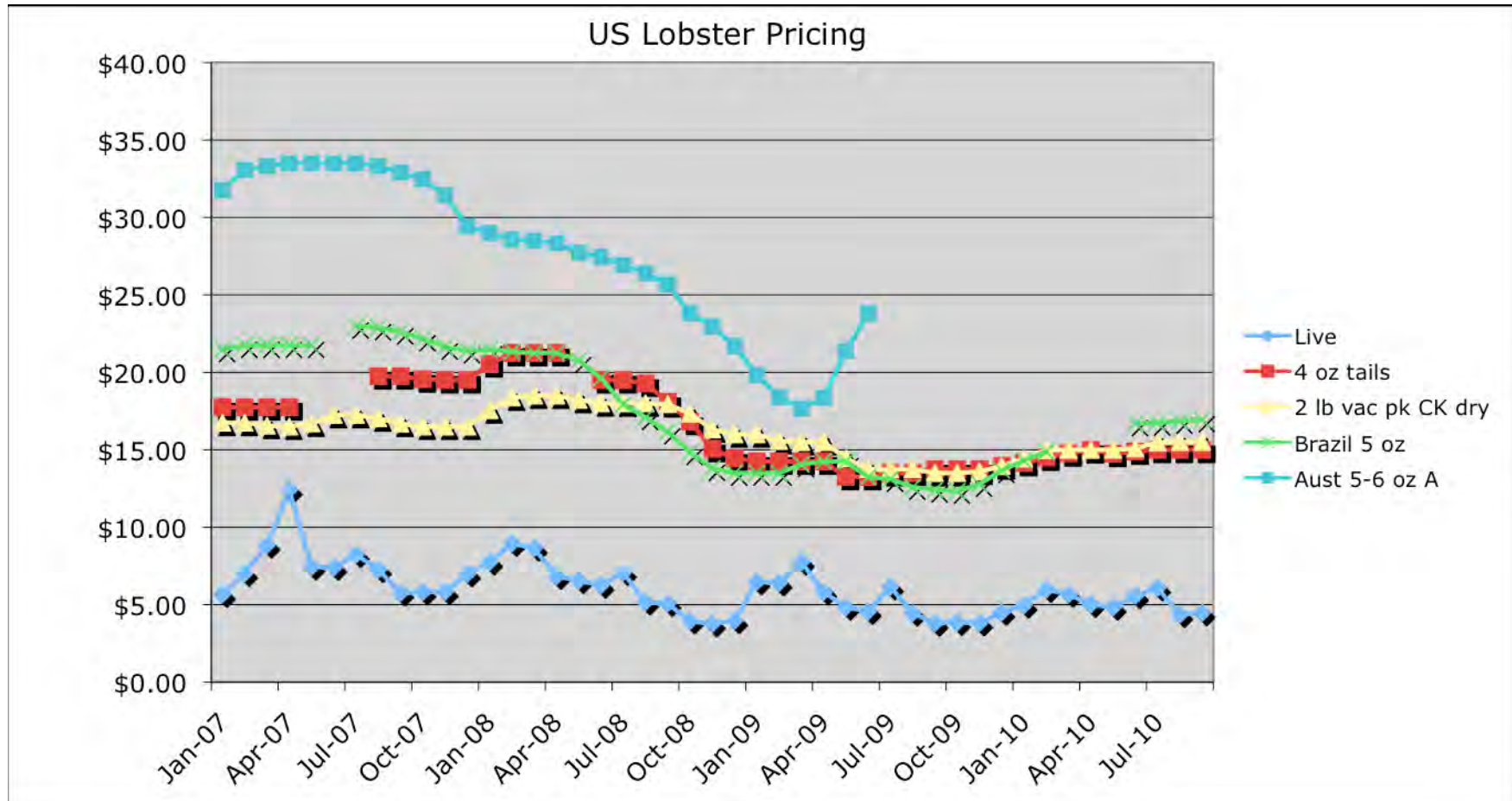
- Sources: Brazil, Central America, Caribbean
- Some regional preferences, in California and Florida where local lobster is spiny lobster
- Some live spiny lobster imported from Mexico



Legal Seafoods and Gorton's frozen tail meat (N. American Lobster)



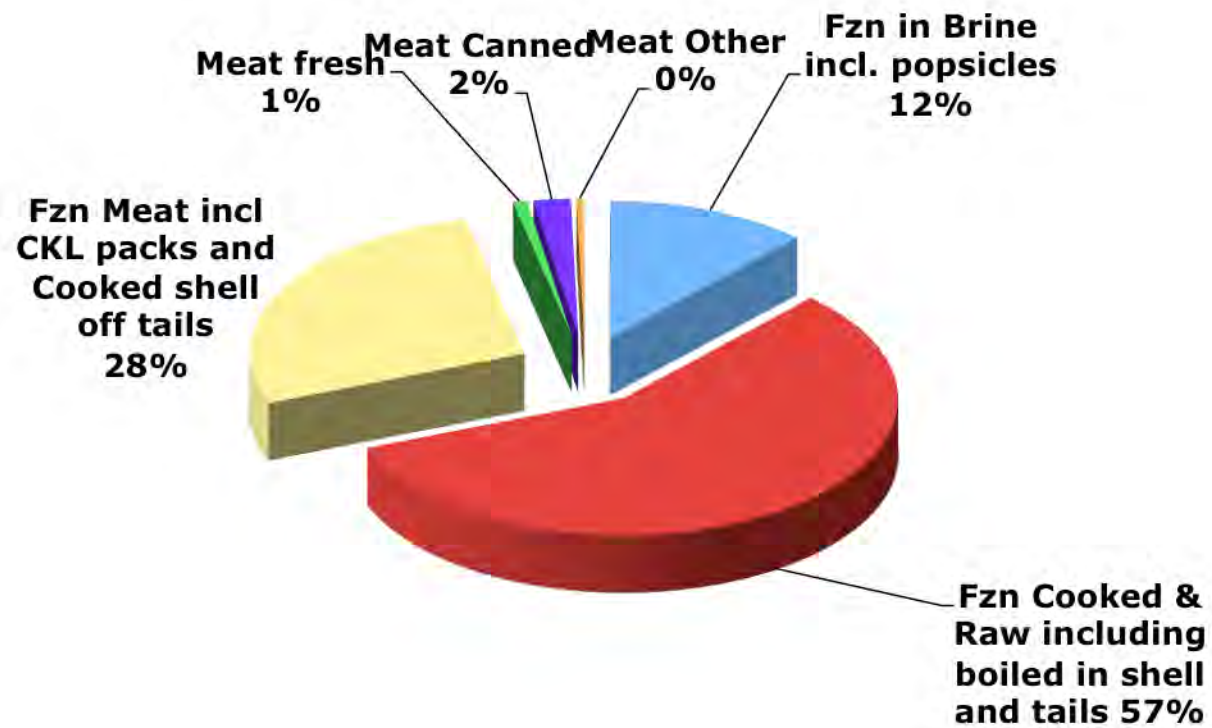
## Relative Pricing of Major lobster Products (US Market)



# Major Lobster Product Forms

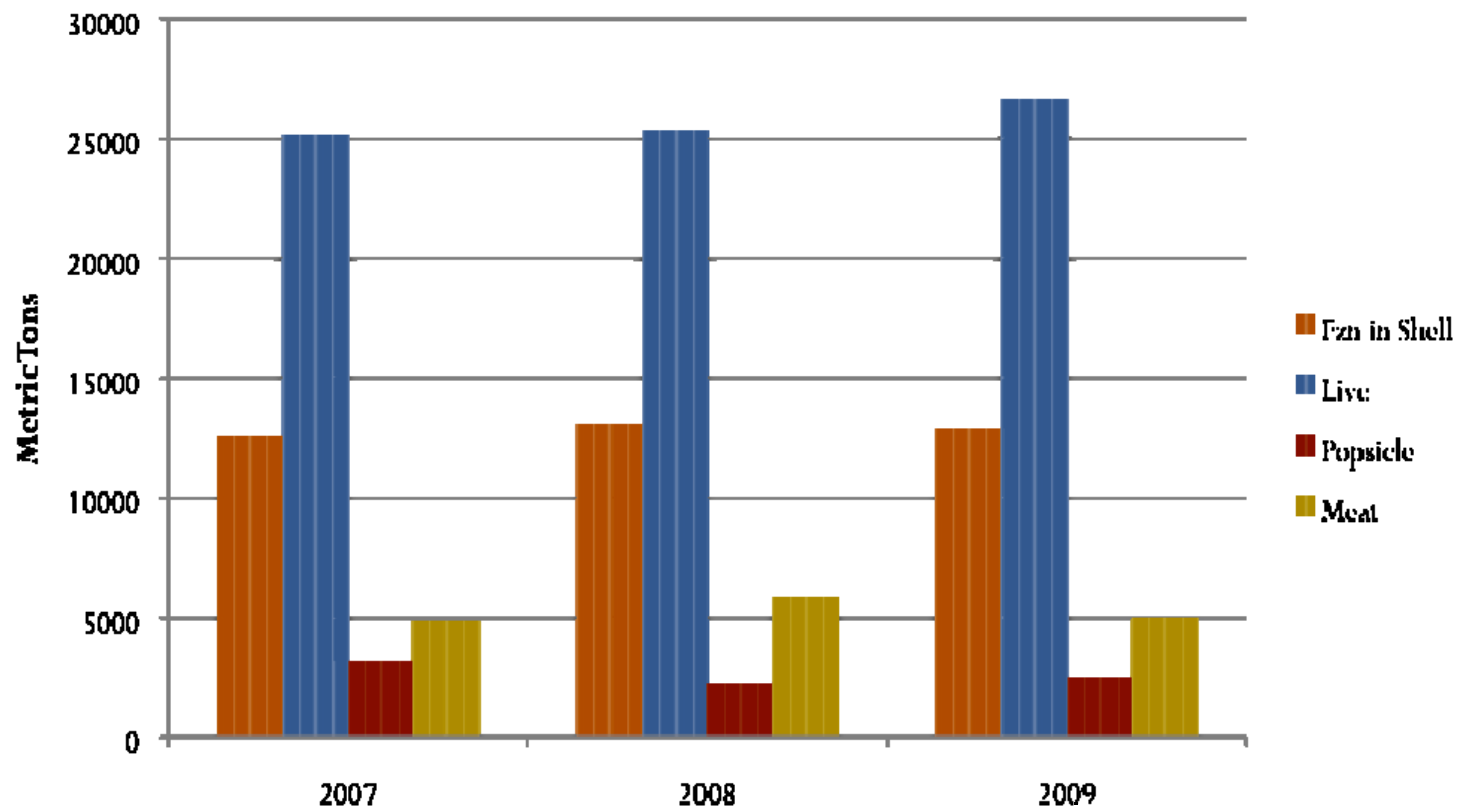
- Live
  - Whole cooks
  - Popsicle
  - Tails
  - Meat
- Cannot talk about a single market for lobster
  - Different Product Forms have their own supply / demand dynamic

# Breakdown of Canadian processed lobster products (2008 data)



# Snapshot of Canadian lobster exports

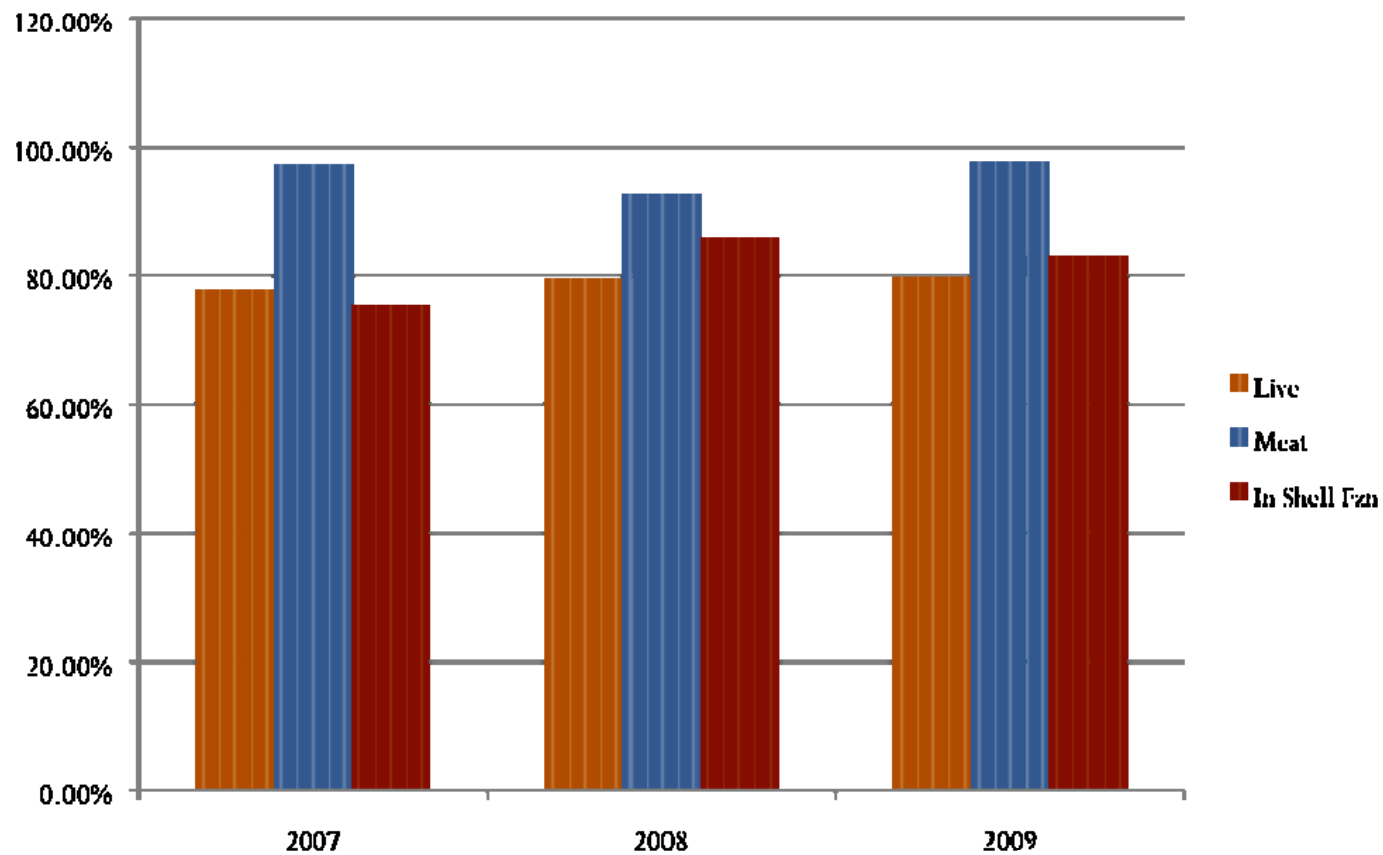
## Total Canadian Exports



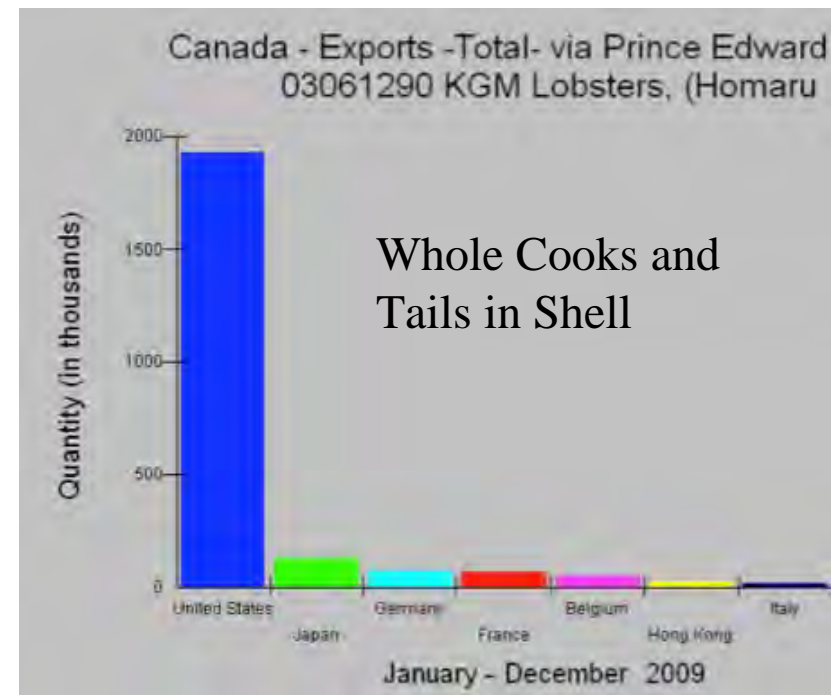
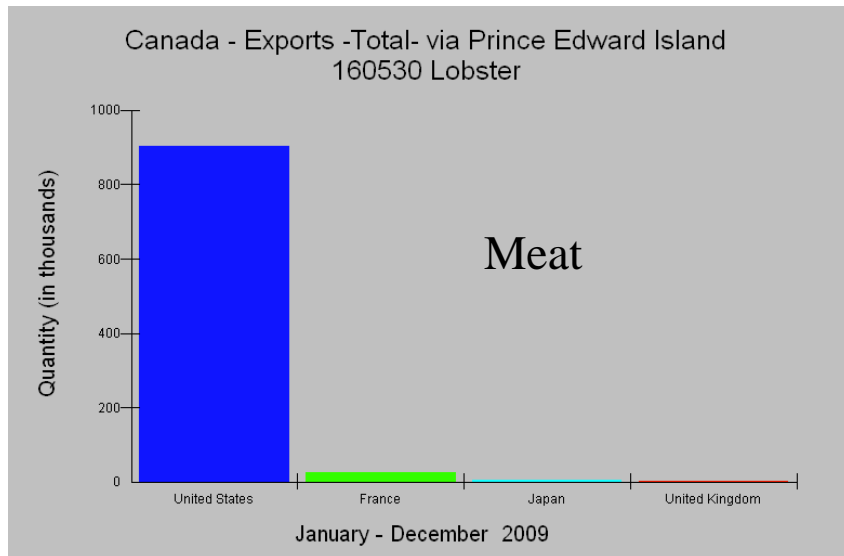
**Live exports dominate in total weight**

US is primary market for all products except popsicles; some live products re-exported

### US Market Share



# US market is most important for meat, whole cooks



# Production issues drive product supply

- Up to 40% of markets in some seasons too weak for shipping, go to processing (imports from Maine)
- Production of tails means also production of meat – claw, knuckle, leg meat
- Sometimes volume means it is necessary to produce products that have minimal handling, labor due to capacity issues
  - Whole cooks, popsicles
  - Break tails, freeze fronts for later processing
- Therefore marketing has to take account of all lobster products, not just one type of product

# Yield is key to understanding processed lobster



Live - 100%

Whole Cooked - 86%  
(average cook loss, can be reduced about 5% with STP)

Claw knuckle leg meat:  
9% to 13%

Tail - 20-24%

Yield issues make it important to  
“sell the shell”



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Frozen Tails

Frozen raw split lobster body and tail

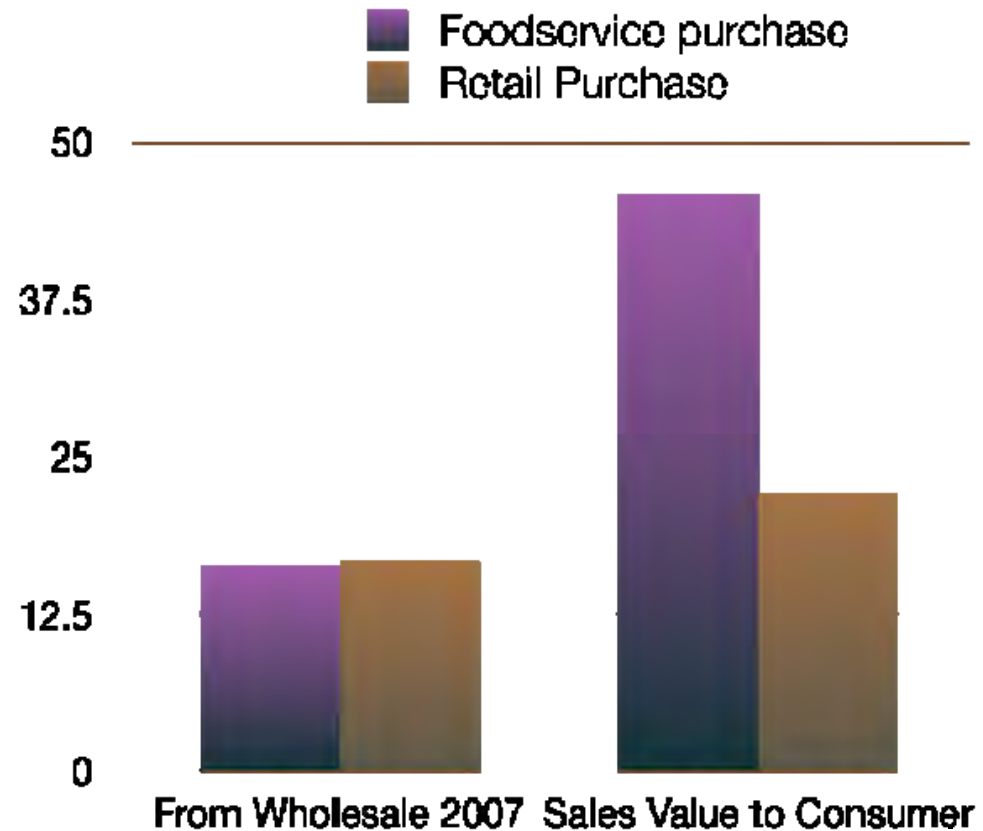
## Lobster and all seafood sells to two primary types of markets: Retail and Foodservice

- Food service: Higher overall value; uses more processed product forms
- Retail: lower price point, uses least expensive product forms; has highest volume

# Retail and foodservice purchase of seafood

Packers, wholesalers, importers and traders sell equal amounts to foodservice and retail : 50/50

Foodservice adds more value in meal preparation, leading to a larger share of total consumer seafood dollar: 67% Foodservice



Data from U.S. NMFS 2007

# Seafood at retail

## Shelf space

40% shrimp

15% Club Label boxed meals

15% fillets

15% breaded

15% Crab/Lobster tails

## Seasonality of sales

# Seafood at retail

## Margins

Fresh 25%-30%

Frozen 35%-40%

Ads Front page Cost-10%

Inside 10%-20%



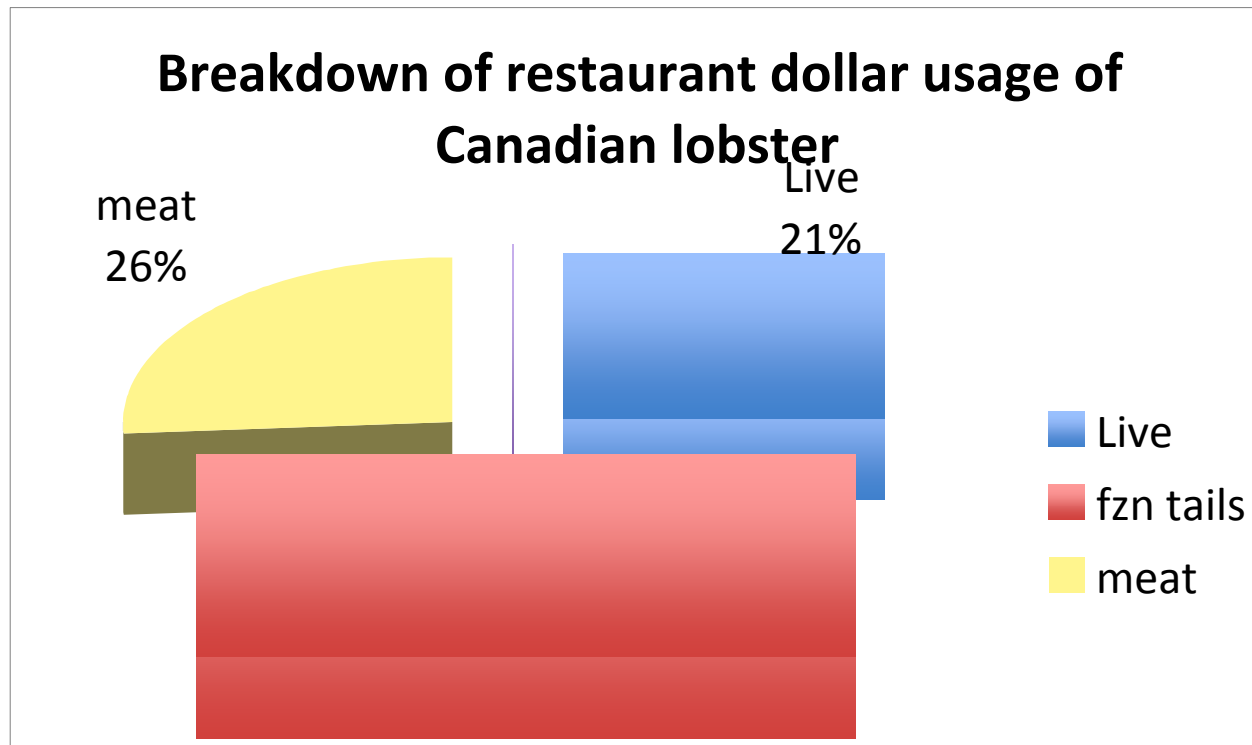
All shellfish products (crab lobster etc.) represent only about 15% of retail seafood



# Retail and Foodservice use different lobster products

- Retail
  - Retail is over 90% live product
- Foodservice
  - Approximately 50% restaurant lobster sales volume is tails; 21% is live, and 26% is meat

# Foodservice use of CA lobster by value



# What the data tells us

- Live lobster is the most important product for retail markets
- Live lobster represents only 20% of restaurant lobster sales volume; 80% of volume is tails and meat
- Tails and meat markets are more important to foodservice buyers

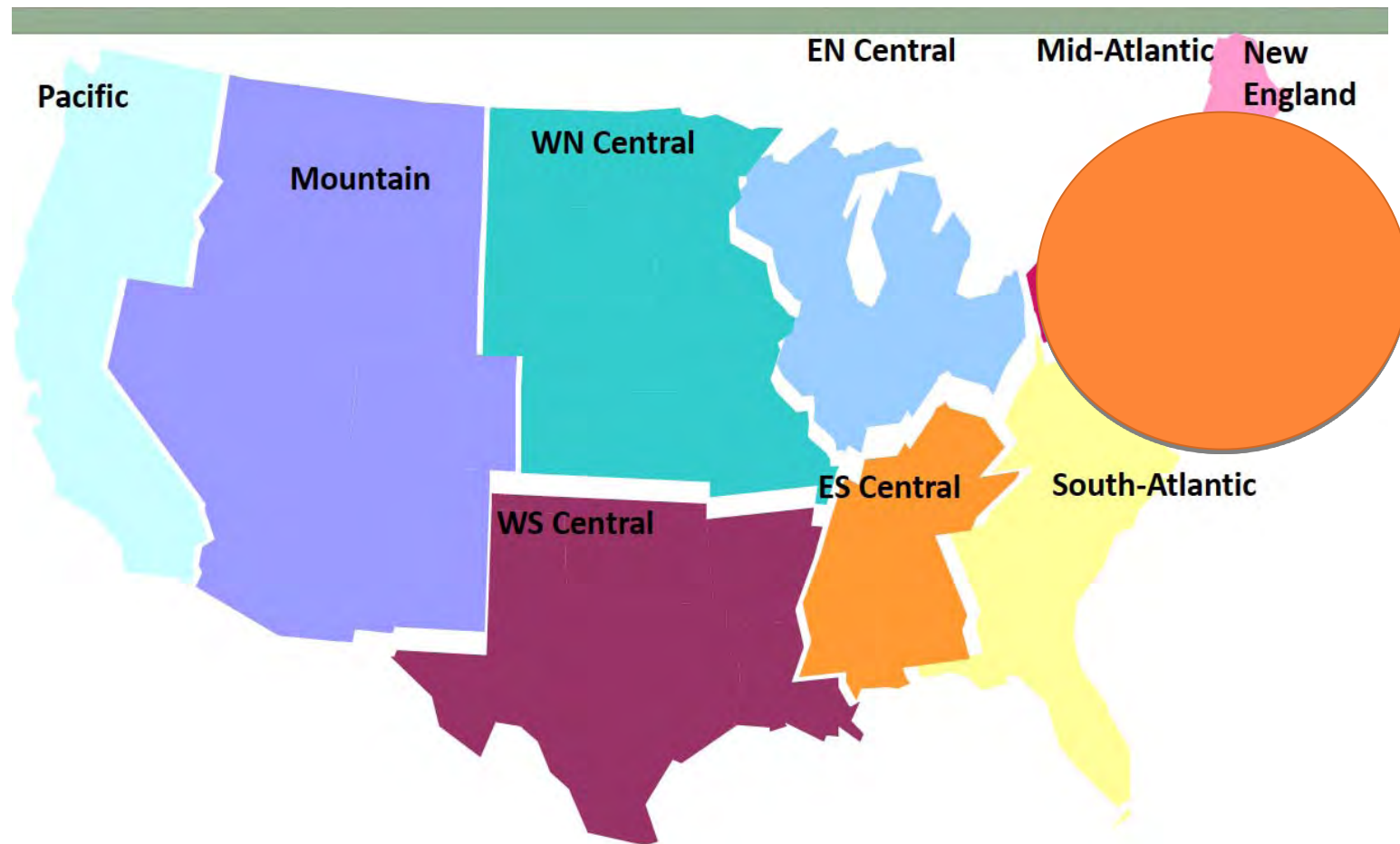
# Characteristics of Retail Seafood

- Retailers move most volume on promotion
- Volume is highly price sensitive
- Promotional lead time is generally less than 12 weeks
- Retailers have opportunity to take advantage of value pricing
- This is what they have done since summer 2008 and 2009 for lobsters.

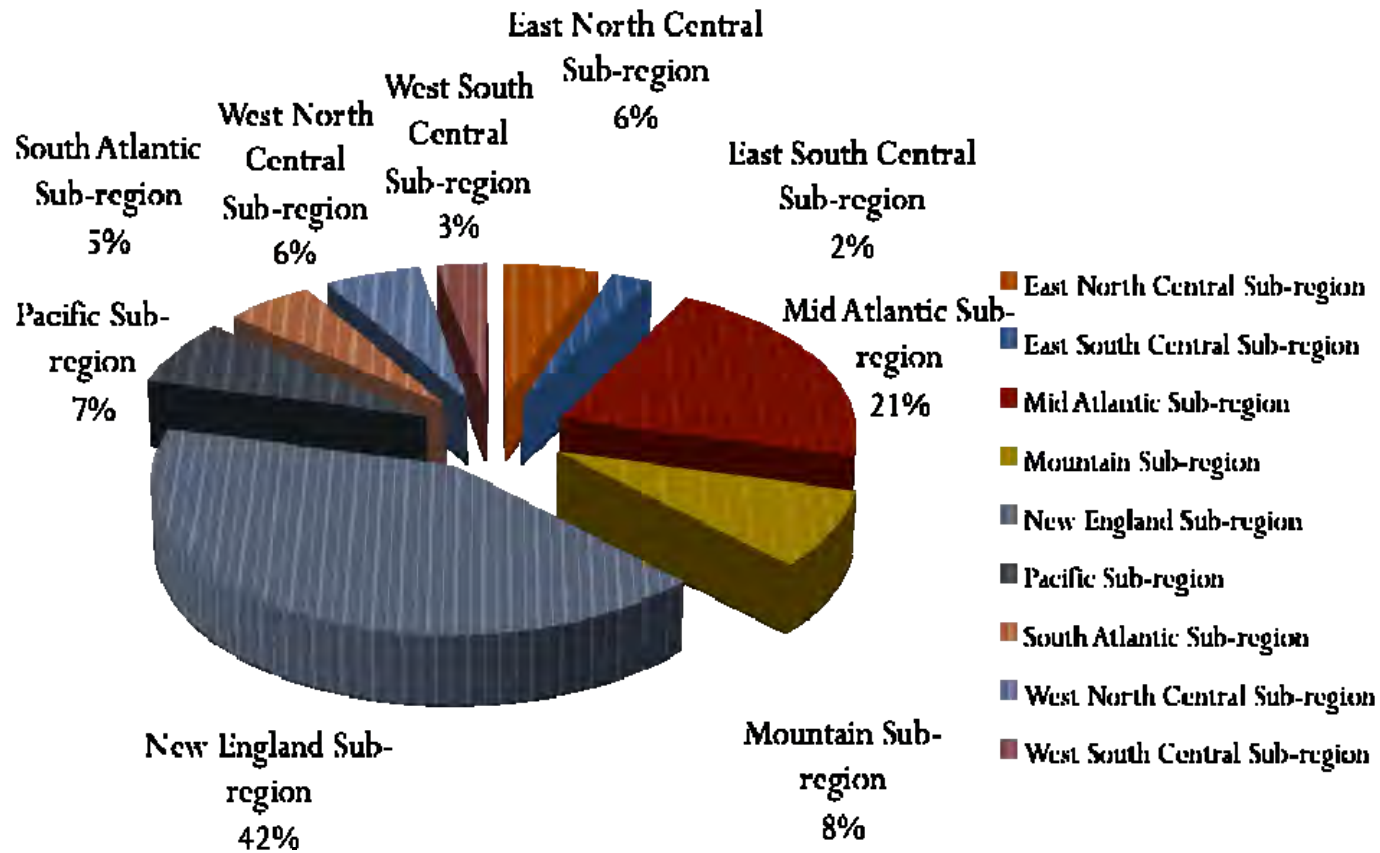
# Retailers not equipped to expand sales of meat or tails

- Live lobster is most cost effective purchase for consumer at retail – least expensive way to get lobster
- Because meat and tail price points are significantly higher than whole lobster, little opportunity for retail promotion; as these items are too expensive.

US Lobster consumption is highly regionalized:



# 63% of all retail lobster consumed in New England, NY, PA, NJ



## 3<sup>rd</sup> highest region is Las Vegas

- Mountain region ( Las Vegas, Phoenix, Denver) consume more lobster than Pacific region (California, Washington, Oregon)
- Mountain and Pacific combined represent only 15% of U.S. consumption

## Foodservice consumption is also regionalized, but to a lesser degree

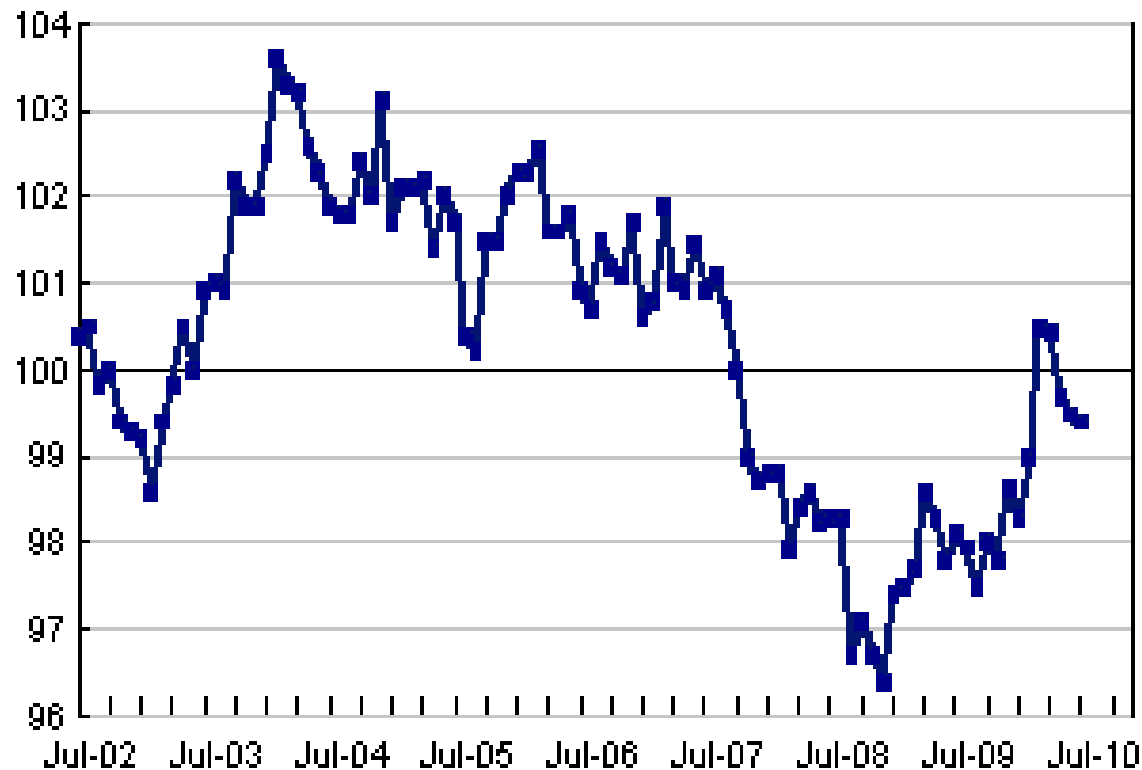
- Use of lobster by national chains, along with national advertising, breaks down regional differences over time.
- Overall improving restaurant climate has led to increased demand for both live and processed lobster products.

# Darden's Promotion



But after 2<sup>nd</sup> quarter, sentiment deteriorated among restaurant operators

**National Restaurant Association's Restaurant Performance Index**  
*Values Greater than 100 = Expansion; Values Less than 100 = Contraction*



Source: National Restaurant Association

## Increased demand has led to higher prices

- Live 1 ¼ lb lobster Sept 2010: \$4.55 vs \$3.95 in 2009
- Lobster meat (2 lb ck dry) Sept 2010: \$15.75 vs. 13.75 in Sept. 2009

# Long term effect of higher price

- Initially boosts margins as buyers accept prices and place orders (this is where we are today)
- Creates incentives for more production
- But higher prices also cause reduction in purchase volume
- Future increases in supply set stage for decline in prices; with falling prices, margins shrink
- Price stability can help maintain higher margins

# Price Stability Difficult to Achieve in Seafood Industry

- Salmon has exhibited commodity cycle despite careful production planning
- Shrimp was thought to be immune from supply problems in recent years
  - Aquaculture production does not eliminate commodity price cycles
- Crab will be short about 15% in U.S. this year, more so in Japan. This is key factor driving price
- Lobster: overall supply seems stable, but price volatility is high due to timing and seasonality.

# This year the seafood industry has been subject to external shocks

- Magnify the impact of price movements, up or down
- Dramatically increases cost of doing business- either to fulfill commitments, or find new sources for products

# Icelandic volcano air traffic disruption

- Salmon: cutback in shipments from Norway in tight market led to price spikes for spot deliveries.
- Lobster: inability to ship live to Europe led to some inventory backup
- Even though dramatic, impact was temporary

# Gulf Oil Spill is long term problem

- Spill has changed patterns of seafood consumption
  - Made a minority of consumers more suspicious of seafood
  - Led to strong price jumps on shrimp, as buyers reacted to uncertainty and developing shortages of some sizes
  - Caused shortages, price hikes for oysters
  - Did not have direct impact on lobster

# Most of current seafood price increases are due to supply issues

- Salmon: shortfall from Chile
- Shrimp: lack of production in Asia
- Crab: Cutbacks in wild supply, less poaching
- Lobster, however, is seeing increased pricing due to growing demand; supplies are stable or higher than in 2009.

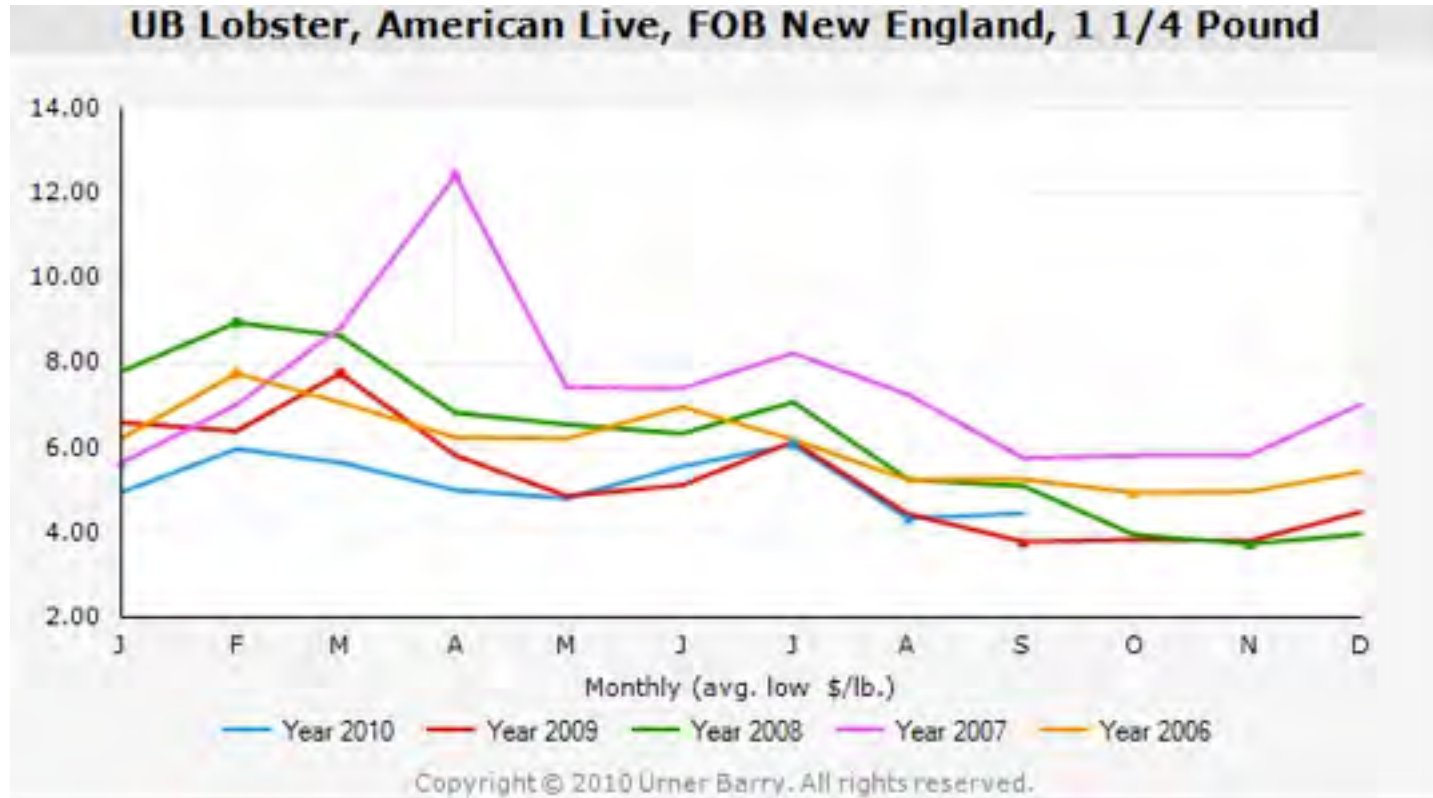
# Strengthening Demand is allowing higher prices to stick

- Foodservice business is recovering after two years of decline
- Retailers were very successful promoting seafood in 2009 – maintained strong margins, which is allowing them to continue successful promotional strategies on crab and lobster.

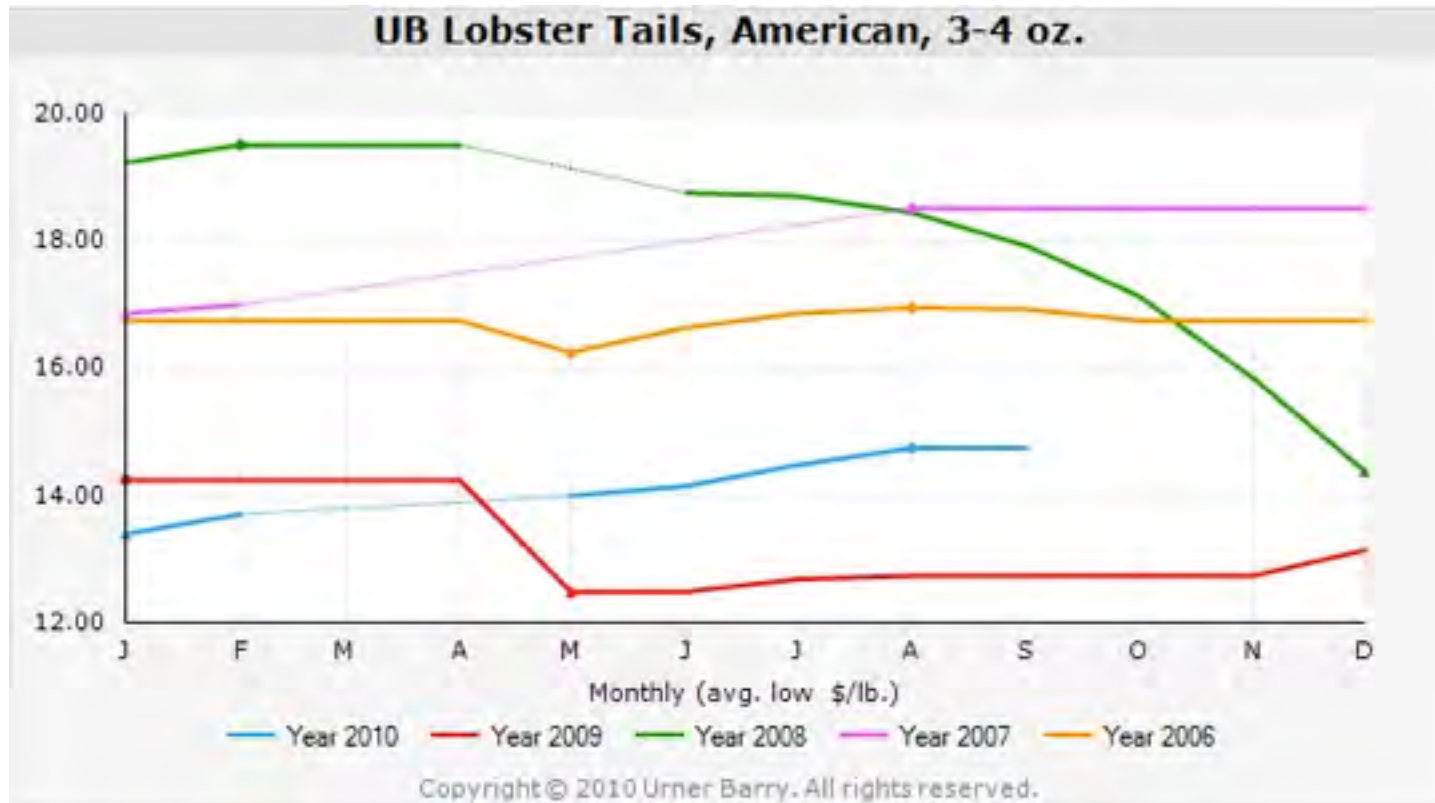
# Review of current market Pricing

- All lobster products are at higher prices than they were one year ago.
- Largely due to recovery in US and global economy
- Also due to expansion of demand, as new buyers took advantage of low prices in 2008, 2009.

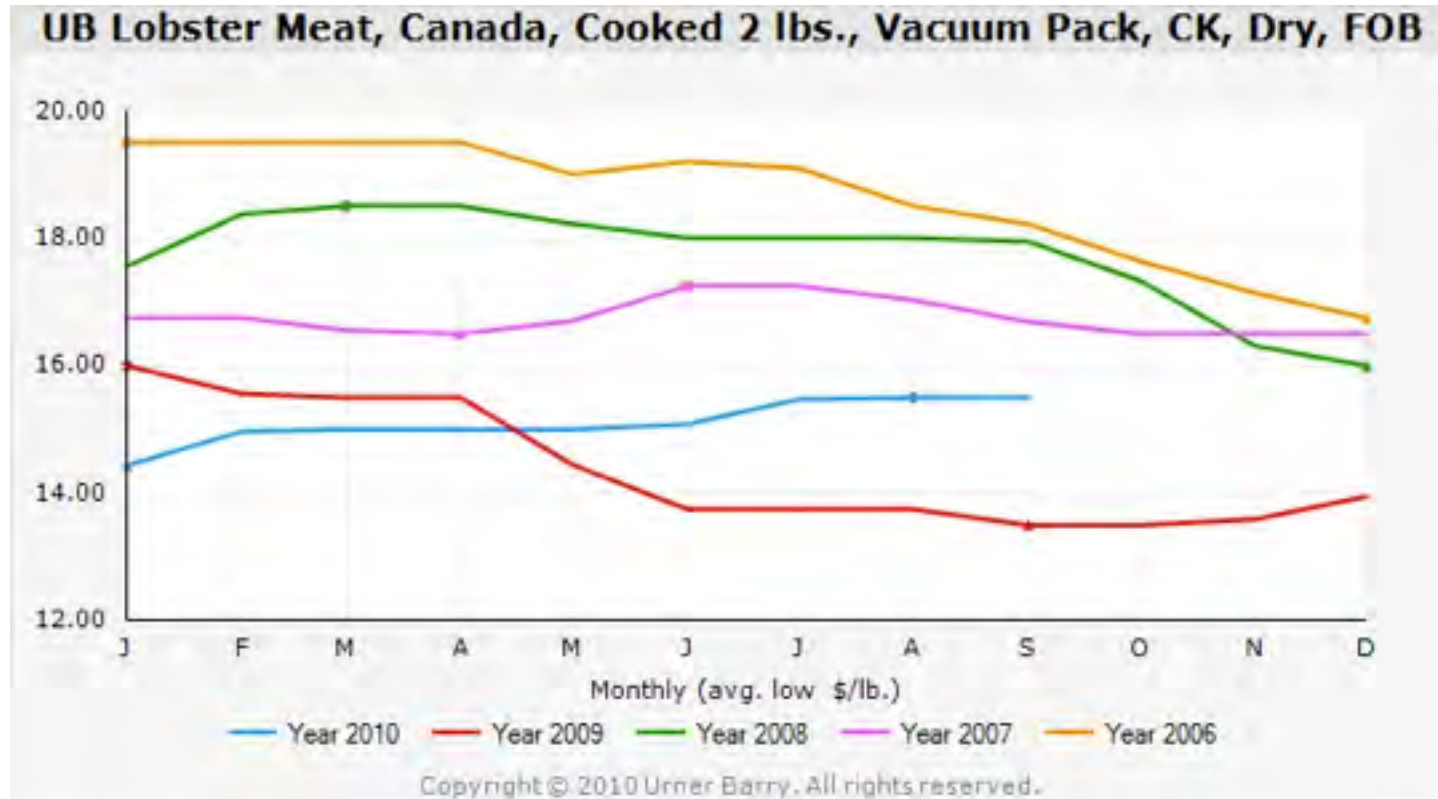
# Live Lobster: 2010 price has crept higher than 2009 over this summer



Tails: prices have strengthened; are higher than in 2009



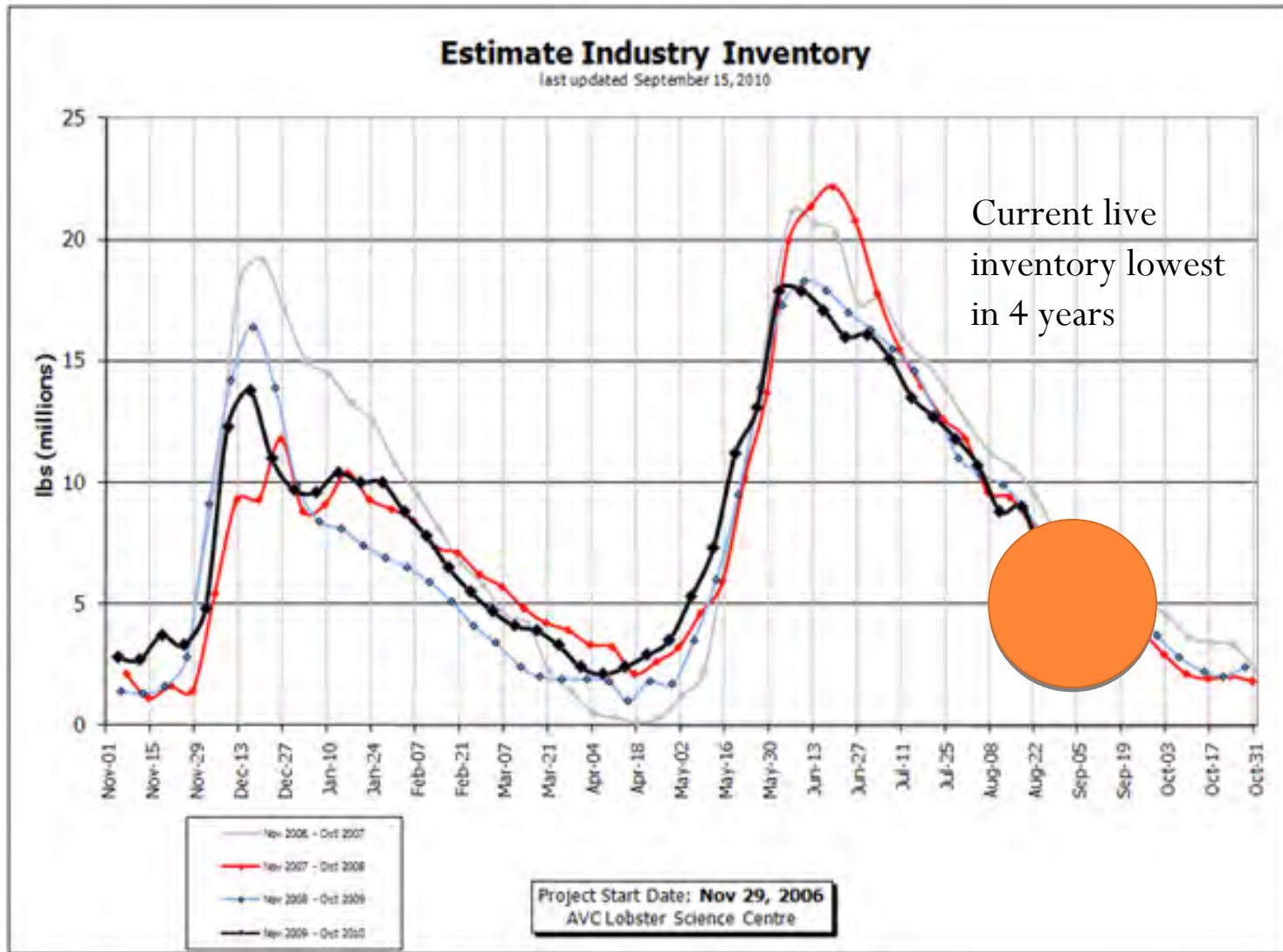
# Meat Prices have turned up also



# Prices and demand vary by product form

- Live prices are only slightly higher than in 2009 – retail is doing fewer promotions as prices rise
- Meat and Tail prices are significantly higher than in 2009
- Demand for processed meat and tails is helping to support pricing for live markets
- Current pricing reflects increasing usage of lobster meat and tails by foodservice.
- Although prices have risen some, historically meat and tail lobster products represent the mid-point of their value range.

# Live inventories go thru seasonal fluctuations



# Good landings this year so far

- PEI spring season: New record for landings
- Maine: lobstermen report increased landing volume this season
- Low inventories come from healthy product movement; not lack of supply

# Impediments to more use of lobster

- Price volatility
- Product forms
- Industry structure
  
- Potential exists for more use of processed products

# Meat and Tail consumption

- Live lobster is difficult to sell at foodservice
  - Messy to eat
  - Customers don't like to act like they don't know how to crack a lobster
- Foodservice can use “draw” of lobster as specialty, luxury item, with better product forms: i.e. tails, meat based products.
- Current trend strongly favors menu expansion for lobster meat and tail products.

# Lobster meat is undervalued product

- Lobster meat is a uniquely Canadian product, due to the claws and legs of Homarus.
- This can be a marketing advantage because it is a point of differentiation, and advantage over warm water lobster.
- Easiest way for restaurant to put lobster on menu is with meat items.
- Need to expand product development beyond lobster roll.

# Lobster has future as key driver of restaurant traffic

- As restaurants come out of recession they are looking for ways to differentiate themselves.
- Significant trend is the addition of lobster to menu, especially among non-seafood restaurants.
- Key point is to bring lobster to wider customer base.
- Chains besides Red Lobster which have developed new lobster menu items recently:
  - Ruby Tuesday; Panera Bread, Bugaboo Creek Steakhouse
- None of these are seafood – themed restaurants

# Lobster meat has ability to go beyond “seafood” barrier

- Lobster meat appears to be proving it can be used in steak houses and general purpose restaurants in a manner similar to shrimp.
- However, lobster still has a more “luxury” connotation than shrimp – or salmon - which are both seen as farmed commodities that once in the past were luxuries.
- Lobster is wild luxury product.

# Current environment is an opportunity for lobster

- High prices and shortages for king crab
- Large shrimp (21-25's) also likely to be short and expensive this fall
- Lobster can represent something new for many foodservice users

# Future:

- Greater sales of processed lobster products
  - Trend toward more convenience foods
  - Expansion beyond “seafood” category like shrimp
  - Need for product innovation
  - Much of this can also be done at chef level

# Lobster BLT - \$18 at independent restaurant

