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# Ready Seafood: Business Model Innovation and Venturing in a Mature Industry

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**Abstract.** This case describes how two brothers transform their small business from lobster harvesting, to lobster distribution, to gifting centered around fresh seafood. One of the brothers, John Ready, was an entrepreneurship student in an author's class. At that time (2001), John was harvesting lobsters with his brother Brendan to pay for college tuition. By his junior year, John initiated with his brother a lobster distribution company serving the New England Region. They then expanded across the United States, and then to Europe. Upon graduation in 2004, John then conceived of a direct to consumer gifting business of fresh seafood while listening to his professor talk about MyM&M's from Mars, Incorporated. The innovation was not to just sell lobsters to consumers through the Web, but to use banks, law firms, and investment companies as intermediaries who would order lobsters as gifts for their high net worth clientele.

**Keywords:** business model, innovatio, entrepreneurship in a mature industry.

## 1. Introduction

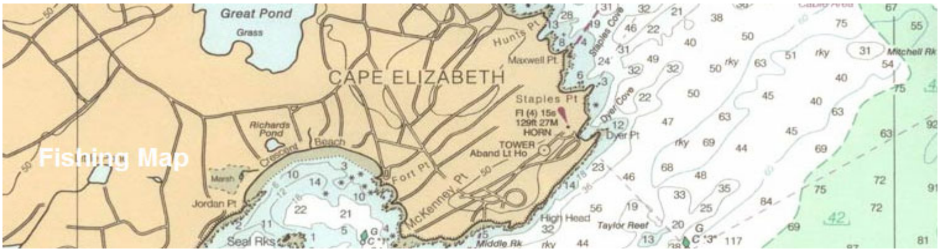
It's a perfect September day in Portland, Maine. Crisp and clear. And the harbor side location of Ready Seafood is already busy. A lobster boat has pulled up alongside the wharf and is unloading its morning's catch. The boat's skipper, who has been on the water since before sunup, relaxes on the pier, regaining his land legs as a Ready employee examines and weighs the lobsters, and then puts them into a holding tank with dozens of their crustacean kin. Within a few minutes the lobsterman has been issued a check and is casting off, heading seaward to check his other traps.


A lobster boat at the Ready Seafood dock. Source: Catch a Piece of Maine, with permission.

Meanwhile, inside a 5,000 square feet leased building, several young men are busily pulling lobsters out of super-cooled holding tanks and packing them into specially designed cartons for a journey that will speed them by truck to Logan airport, then on by air express to distributors in Europe and Japan. Others lobsters will be taken to the loading dock for local and regional distribution. The holding tanks in the backrooms could contain 45.000 pounds of lobster at any given time.

The Ready operation just described is quality-oriented and highly efficient. With the exception of its overseas sales, however, its business model differs little from the model followed by other lobster and seafood distributors on the same wharf and up and down the Atlantic coast. That model is simple and straightforward: take in freshly caught product from boats on one side of the wharf and sell it at a modest markup out the other side to local restaurants, supermarket chains, and other buyers. If a distributor can manage its cost, he or she can earn a 3-5 percent operating margin.

While Ready Seafood has the appearance of a standard seafood distributor, a small, cramped office with two employees on the building's second floor is creating something new and different—and immensely more profitable: catchapieceofmaine.com. This small but growing operation has established a direct supply link between ruggedly independent Maine lobstermen and the far flung individuals who purchase and consume their harvest. That link is tight and personal: the customer owns an interest in a lobster trap, and knows the fisherman who regularly baits and checks it. And she'll hear from him often. "Hello," says a voice on the phone as a customer is preparing a special meal for her guests. "This is Captain John from the Port of Cape Elizabeth, Maine. I'm on the boat and just calling to see if your lobsters arrived today in good condition. I caught them yesterday."




John and Brendan Ready grew up in Cape Elizabeth, just south of Portland, Maine. Their uncle Ted, like many other local men, was a commercial lobsterman, and through him they learned the trade. The business is dangerous and physically demanding to the point of breaking strong men before their time. But the two young men couldn't get their fill of being out on the water, baiting and hauling traps. Before either was ten they owned their own boat and gear and were earning modest incomes. "Lobstering was our passion," says John Ready, "and the older lobstermen were our heroes."

## 2. Off the Water and Onto the Dock

The brothers continued lobstering through elementary and high school. Then Brendan went off to Stonehill College, where he majored in marketing. John enrolled in Northeastern University's "coop" business program, a five-year undergraduate curriculum characterized by alternating periods of work internships and classroom study. While there, John took a "venturing" course which, among other things, required him to develop a plan for a new business. His choice of business, with Brendan's participation, was a lobster distributorship. "We realized that the working lifestyle we so admired could not be sustained as we got older," says John. "We could see that in the older men we had looked up to as kids. Being out in rough weather day and night, lifting traps and heavy equipment, and so forth, takes a huge toll on your back, your knees, and your whole body."

There was also a clear economic reason for moving a step up the supply chain from harvester to distributor. Lobstermen are stuck selling a commodity product at a price dictated by supply/demand forces over which they have no control. They also feel the full force of bad harvest seasons and rising fuel costs. One or two years of low prices or bad harvests can force even the hardest working lobsterman to sell his boat and quit the business. And because a license holder can work no more than 800 traps, a lobsterman's potential income has a ceiling. Says, John:

> There are some five thousand full-time licensed lobstermen in Maine. Because of the trap limit, and other dynamics such as the amount of fierce competition among harvesters, it is difficult for a lobsterman to catch more than 50,000 pounds each year. At the current $2.50 per pound dock price, that means $125,000 in revenue—tops! After boat payments, insurance, fuel, equipment, and so forth, it's hard to net more than $50,000 in a year of very hard work.

A distributor, in contrast, works "out of the weather." He can ride the spread between the lobster harvester and the seafood retailer, charging between a 3-5% markup between the price for lobster at dockside and the wholesale price that retailers pay. The distributor may squeeze out a bit more profit through operational innovations and efficiencies, such as larger holding tanks, careful route planning for deliveries, and other means to share increased volumes over fixed assets or reduce variable expenses. And if the distributor has good marketing sense, it can scale up volume by generating more or larger accounts.

When they finished college in 2004, the Ready brothers began implementing John's business plan which, coincidentally, won Northeastern University's undergrad business plan competition that year. With the financial support of friends and family and an SBA-guarantee bank loan which together, amounted to less than $50,000, they leased a building on Hobson's Wharf just off Portland's bustling Commercial Street, purchased holding tanks and other necessary equipment, and used their contacts to generate initial customers. Those contacts came from having been lobstermen themselves and knowing various restaurants and retailers in Maine who had served as outlets for their own harvested lobsters. With limited startup capital and just themselves to rely upon for both marketing and operations, "it was a grind," John confesses.

> During the first 18 months I spent most nights here in the building, sleeping on a cot. You never knew when a lobster boat would pull up wanting to sell it catch. Someone had to be here at night, but we didn't have the cash to hire anyone.

To preserve cash, the brothers took turns running the new distribution operation while the other was out still catching lobsters. That catch was contributed without payment to the new fledgling distribution business.

Distribution is a simple and straightforward business. As described by the brothers, "We buy lobsters from one side of the building [dockside] and sell them out the other side [the loading dock where vans and trucks make pickups]. For the many lobster distributors in Portland and elsewhere along the New England coast, this business model produces low margins: about 5 percent. "It's an easy business to enter," according to John. "All you need is a building with boat access, a winch and scale, and a tank system."

The Ready's built their small distributorship buying lobsters from their local Maine lobstermen and selling their lobsters to restaurants and fish markets in Maine and its surrounding states. Although finances were extremely tight, they reached $2 million in sales within two years. The 5% profit margin from distribution also had to cover the variable expenses of the business. Still, there was sufficient money left over to allow both brothers to finally "get off the water." They still maintained their lobster boat, however, for public relations purposes such as taking visiting retail customers out on the water.

## 3. From Local to Global Distribution

Once they had their feet on the ground, the Readys turned their attention to optimizing the three key factors that affect margins in their industry: buying, holding, and selling lobsters.

- *Buying*. Eager to assure a reliable supply of product, the Readys adopted a strategy of buying both direct from lobstermen as well as indirect from dealers. Dealers who would work as middlemen to accumulate lobsters from the lobstermen and then sell to the Ready brothers. They located and signed deals with different buying stations/ middlemen up and down the Maine Coast to secure supply. The Readys also adopted a COD, "fast pay" buying plan. This practice aimed to make them a *preferred* buyer among local lobstermen. By their estimate, 90 percent of rival distributors make both harvesters and middlemen wait weeks for payment.

- *Holding*. Ready Seafood has a number of seawater holding tanks where live lobsters are held until they are packed for shipment. The brothers invested in cooling apparatus that keeps water temperature in two of these tanks at a very low 38° F, a technique that reduced mortality among lobsters shipped long distances from an industry average of 5 percent to 1 percent The brothers also developed low cost packing materials that further enhances survivability over long shipping routes. By their calculation, that one improvement has reduced costs by $40,000 per year.

- *Selling*. Most of the Maine distributors that cater to the Eastern seaboard market fight intensely for sales to supermarket chains, fish retailers, restaurants, and individual customers. Their success depends on quality, reliability, and price - but mostly price. Brendan and John managed to carve out a modest niche in this traditional market; but unhappy with low margins, they decided to seek out more profitable opportunities. By means of persistent phone calls and personal visits, they established a number of accounts with major seafood dealers in California and other distant states. Following a suggestion by the Maine International Trade Center, the Ready brothers traveled to

> Europe where they met with and forged relationships with distributors in Italy, France, and Spain. These customers put greater stock in product quality and less on price. France and Spain also represented volume markets that provide large bulk orders for fresh seafood, making them highly attractive to a growing company like Ready Seafood.

Within four years, Brendan and John were shipping almost 2 million pounds of Maine lobster each year from a facility that could handle 20,000 pounds of lobster at any given moment. They had their eyes on expanding on the same dock, renting additional warehouse space to double capacity. This was generating domestic and international sales of approximately $10 million. Margins were roughly 5 percent, somewhat better than those of their local competitors. As revenues grew, however, overhead costs also increased. It became more important than ever for the Ready's to examine all aspects of their operations – from customer order processing, to transporting lobsters from harbors up and down the coast, to the backroom lobster holding tanks, to shipping product to customers – to make these as efficient as possible to preserve their margins. The operation had become a lot bigger and more complex than the typical Maine distributorship. It had leased two trucks, had banking relationships, and was paying workers compensation and interstate licensing fees. "We were much bigger, but not proportionally more profitable." Profit margins increased a little, but not substantially.

Left to right: John and Brendan Ready. Source: Catch a Piece of Maine, with permission.

## 4. Connecting with End-Users

The brothers viewed entry to the distribution business as a means to more profitable end. Their intention was to use it as a financial reliable base from which to seek out higher-margin ventures within the lobster business. Once that base was secure, John and Brendan began thinking about those other ventures.

During his senior year at Northeastern University's business school, John Ready learned from an entrepreneur professor how Mars, the largest U.S. confectionary company, had successfully carved out a direct connection to the people who consumed its candies, generating higher profit margins in the process. Mars is a master at mass-producing M&M's, Snickers, and many other candies and selling them by the truckload to mass market retailers, supermarkets, convenience store chains, and other intermediaries. Like Ready Seafood distribution, Mars is a high-volume, low-margin business. But thanks to a technical innovation that made it possible to print short personalized messages on individual M&M's candies, a development team at Mars created a profitable and growing business selling small volumes of custom-printed candies to individual customers for weddings, retirement parties, birthdays, and other special occasions. They successfully bypassed layers of middlemen and sold direct at higher prices to end-users who appreciated - and were willing to pay for - the personalized aspect of the product. That same professor had helped the internal Mars venture team organize and launch "MY M&M's" to market.[1]

Two years after the brothers launched Ready Seafood, John recollected the M&M's story. His old professor had challenged him to consider what the MY M&M's business model might mean for Ready Seafood. John wondered if he and Brendan could do something similar to break out of their high-volume, low-margin business. Could they premiumize a commodity product and position it as a service for special occasions?

## 5. The Ah-Ha Moment

One day in the fall of 2006, the Readys were visited by a New York banker for whom John had worked briefly as part of his Northeastern co-op program. The brothers thought it would be nice to give their visitor some live lobsters to take home for dinner. So when a boat pulled up to the dock, they took their guest onboard, introduced him to the skipper, and invited him to pick out the lobsters he wanted. "He thought this was so cool," John recollects. "Being on the boat and meeting the guy who had caught his dinner really made his day. That experience meant more to him than his lobster dinner."

Bingo! That episode on the dock got John and Brendan thinking that many customers, like their banker friend, would value and pay for a piece of the lobstering *experience*.

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1. For a fuller description of the MY M&Ms corporate venture within Mars, Inc, see Chapter 10 in: Marc H. Meyer, (2007). *The Fast Path to Corporate Growth: Leveraging Knowledge and Technologies to New Market Applications*, Oxford University Press.

> Our gut feeling was that we had more to sell than a commodity seafood product. We tested that idea through focus groups of affluent summer visitors to Maine—people who loved Maine and loved lobsters but didn't see all the people and all the work that brought food to their tables. We also talked with friends and acquaintances in different parts of the country. What we learned was that most of them valued and would pay a premium for something that connected them to life here in Maine—call it the Maine mystic.

Despite lots of positive feedback, the brothers recognized that this would be a risky venture. "But we had a solid and profitable business [Ready Seafood] as a safety net if our idea failed."

## 6. Developing the Concept

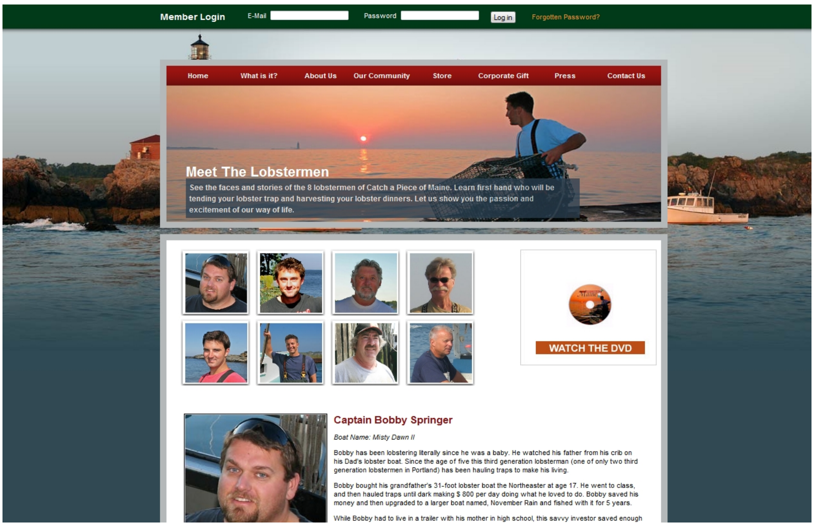
Over the course of twelve months, the Ready brothers fleshed out their concept and processes for marketing and delivering it to customers throughout the United States. "It had to be more than simply selling lobsters online," says John. "Other people were already doing that. We wanted to sell a piece of the Maine experience."

As initially conceived and offered, the "product" was the annual catch of a single lobster trap, along with other dinner items. For $2,995, the customer would receive a *minimum* of 13 gourmet lobster dinners delivered anywhere in the country with free shipping: i.e., at least fifty-two 1-1/2 pound lobsters, clams, mussels, and Maine-made desserts. At this price level, John Ready projected that the business would enjoy at least four times the profit level per pound of lobster relative to their core distribution business.

A "partner" customer would be assigned a lobsterman who would fish the partner's trap over the course of the season. Partners would capture some of the excitement of the lobstering experience by monitoring their traps online. They would also get to know their assigned lobstermen via online video clips and DVDs. And as an added personalized touch, they would receive a phone call from their lobsterman on the day of shipment.

Each customer would also receive literature about the Maine lobster culture, and how their participation helped support lobstering families, a sustainable fishery, and working waterfronts on the coast of Maine. For their part, participating lobstermen would receive a premium price for their catch. In this sense, the Ready's concept was analogous to the "community farm share" and "buy locally grown food" movements then sweeping the country. Both aimed to help the small family producers who were doing the hard but poorly rewarded work at the very beginning of the food supply chain. The Ready's tactic of connecting customers with their assigned harvesters via Internet and telephony put a human face on this concept.

The brothers had to engineer every piece of the process that made their offer possible and financially viable, from recruiting seven Portland area lobstermen, to creating and staffing an e-commerce site, and dozens of logistical arrangements. They also set up Catch a Piece of Maine as a limited liability company, with Brendan and John as shareholders.




"Meet the Lobstermen." Catch a Piece of Maine, with permission.

## 7. Making a Wave

In November 2007, a year after conceptualizing the new business, the brothers launched Catch a Piece of Maine, with John as manager. For his part, Brendan would tend primarily to the ongoing distribution business.

Their launch immediately caught the attention of the Associated Press, thanks to a personal call from John. The uniqueness of the offer and its beneficial intentions for struggling lobstermen presented a good story opportunity. *USA Today*, a huge nationwide daily, ran a feature on Catch a Piece of Maine. The next day, 30 people purchased full-trap partnerships, producing roughly $90,000 in sales in the first few hours—until the Web site crashed. "This was great start," says John, "and we didn't spend a bundle on advertising and, unlike the distribution side of the business, we didn't have to wait thirty to sixty days for our money. With credit card purchases we were paid in a few days." John Ready quickly realized the importance of a robust Web site and jumped all over his subcontracted Web developers to fix any and all problems.

More Ready-generated publicity followed on Fox News and other media outlets with the result that November and December 2007 brought in $200,000 in revenues. John and Brendan were amazed. Media coverage continued into 2008, with some reporters traveling to Portland to film the company's lobstermen at work. When the *CBS Sunday Morning* television show ran a segment on Catch a Piece of Maine, the company's Web site crashed under the weight of incoming orders—but not before booking $60,000 in ten minutes. Revenues for that year totaled $375,000 with profit margins five times higher than the core business. And despite a terrible economy, the company appeared on its way to $500,000 in sales for 2009.

While recognizing the beneficial impact of media news stories, John Ready attributes much of the company's revenue growth to "viral" marketing "an infectious message spread by happy users of a brand or product.

> Many of our customers are businesses. They'll buy a full trap for $2,995 then gift each of its 13 shares to a key client or outstanding employee. Each of those 13 recipients receives a great meal for four people, gets a personal call from a lobsterman, and a piece of the Maine experience. The next thing you know, those gift recipients are calling us to order shares for *their* friends or *their* business associates. And so far they keep coming back. Eighty percent of share purchasers have renewed their shares for the coming year.

The benefits of viral marketing were not immediately apparent. As a result, the company spent several hundred thousand dollars on traditional advertising before it realized that traditional ads were not cost effective.

## 8. Tweaking the Offer

Despite good initial results, market research by the company confirmed that the initial product offer at $2,995 left too many potential customers on the sidelines. So the company created an alternative. It subdivided every trap into thirteen "shares," each priced at $249. One share consists of four 1-1/2 pound hardshell lobsters, along with four servings of mussels and Maine-made desserts (e.g., whoopy pies), a map showing where the lobsters were caught, a DVD, and a personal phone call from a lobsterman timed to correspond with their package's delivery. "For many customers, this is the perfect gift for a friend, family member, or business client," says John Ready. "And the personal phone call makes a huge difference. It separates us from anyone selling lobsters online."

The "share a trap" program was launched for the holiday season in 2008. With economic times becoming even harder and luxury spending dropping, the "share program" began to exceed "total trap" purchases. Most customers were now looking for lower price points. Even very highly influential customers were stressing that they wanted a lower to entry price point making the "share a trap" an attractive option. Sales hovered around the same level but the brothers decided to limit their spending for the time being on costly outward bound marketing programs. Their focus was to keep existing customers happy and get them to recommend new people.

The brothers launched promotions following certain gift-giving cycles such as the Christmas holidays, Valentine's Day, and other special occasions. They found that promotions created secondary spikes in demand following those holidays.

## 9. Managing Growth

Sales continued to increase into late 2009, and the fact that 80 percent of share and trap partners were renewing for a second year inspired much confidence in the future. Participating lobstermen were also doing well, receiving a year-end bonus equal to 40 cents per pound of the catch they sold to the new enterprise. This could potentially increase their annual revenue by 20 percent. The Ready brothers' operating profits on lobsters sold noticeably increased by virtue of having added the direct-to-consumer gifting business.

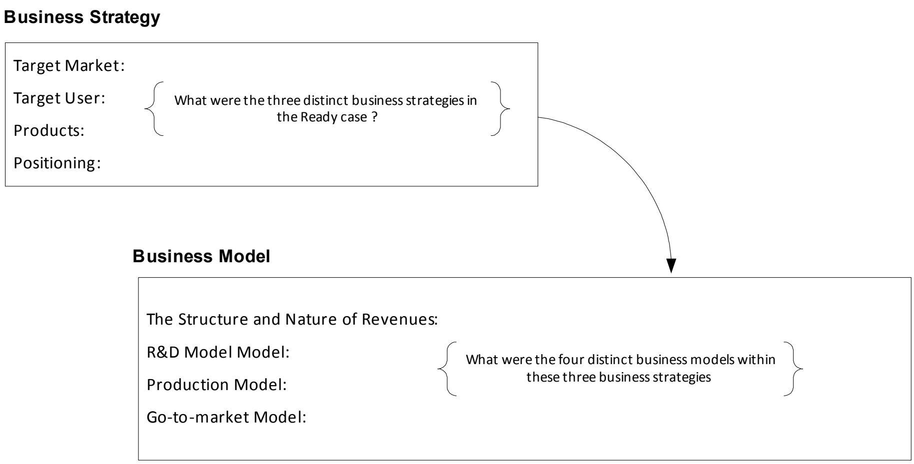
All of this good news, however, brought John face-to-face with an unanticipated problem: building an infrastructure capable of handling current and future business. He had his eyes on a 15,000 square foot facility on the either side of the harbor that would triple his holding tank capacity to 150,000 pounds of lobster and offer the potential of tripling his revenue if marketing efforts were successful. Finding employees was also a challenge. They needed to be personable and effective on the telephone was proving difficult. "We can't grab just anyone off the street for this type of work. I had to go through four people before I found the two effective employees I have today. Competent people are proving to be an important constraint."

And he did not consider his e-commerce site (www.catchapieceofmaine.com) capable of handling much more in the way of new business. "It simply isn't up to the demands of a much larger business," John complained out loud.

> We'd like to be able to put webcams in waterproof housings in the traps, so that our customers can tune in anytime to see what going on. Can you imagine the excitement they and their friends will feel watching lobsters coming in for the bait? We'll need a better system for that.

## Discussion Questions

1. Apply the figure below to identify the four distinct business models that the Ready brothers have journeyed on their path to success. Apply the figure below to identify and discuss the four distinct business models that the Ready brothers have journeyed on their path to success.[2] Are the Ready brothers selling just lobsters in their direct-to-consumer business?




2. Why did the Ready brothers shift their entrepreneurial efforts from harvesting lobsters to distribution, and then, to expand from distribution to a direct-to-consumer business?

3. The company is presently operating under two different business models. Is managing two different business models too much to handle? What are the benefits and drawbacks of staying in both businesses?[3]

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2. For a more detailed explanation of the framework shown in Figure 1, see: Marc H. Meyer and Fredrick G. Crane (2011). Entrepreneurship: An Innovator's Guide to Startups and Corporate Ventures, Sage Publications, Thousand Oaks, CA.
3. Transitioning between the "old business" and the "new business" has been the focus of substantial academic writing and discourse. See: James Utterback (1994). *Mastering the Dynamics of Innovation*, Boston: Harvard Business School Press; Christensen, C., (1997). *The Innovator's Dilemma*. Boston: Harvard Business School Press; and Michael Morris, Minet Schindehutte, and Jeffrey Allen, *Journal of Business Research*, (58:6), pp. 726-736. Another outstanding example of the difficulties of running two business models under the same business entity is that of the New York Times, which found itself having to separate its print and Internet digital content business into two separate business units.

4. What are some things the Ready's will have to do to in terms of operations to double or triple the size of Catch a Piece of Maine? Please consider the marketing skills and capabilities that the Ready's need to bring into the company. Also consider the limitation of its current facility (a 10,000 square foot facility on the docks, filled with holding tanks that could contain 50,000 pounds of lobster at any given time.)