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## A Viable Future For McClellanville's Working Waterfront

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### Statement of the Question(s)

Carolina Sea Foods, Inc. (doing business as Carolina Seafood) is the principal economic asset in McClellanville, South Carolina. The town has a long and rich history of seafood harvesting as its primary economic activity. The owner Rutledge Leland III, is contemplating exiting the business. Mr. Leland and Carolina Seafood have for many decades been a significant and beneficial presence in McClellanville. His retirement would leave a significant gap of leadership and business acumen. In anticipation, Town of McClellanville engaged Carolina Common Enterprise to examine succession options that will preserve the essential operations of the business for the continued benefit of the fishing fleet, the employees, and the town.

Similarly, Livingston's Bulls Bay Seafood, a neighbor and nominal competitor, recently transferred to the next generation of it's family operators. Livingston's has a smaller operation than Carolina Seafoods with a somewhat different market focus. While this report focuses on Carolina Seafood, the content applies as well to Livingston's and to both businesses as a single local industry.

Our market research and discussions with various residents and stakeholders and focused on this question and several others that also arise:

- What happens when Rutledge Leland III no longer operates Carolina Seafood?
- Where else could its fleet sell their catch?
- What alternatives exist for continued operation of Carolina Seafood under new ownership and/or management?
- How can McClellanville harvesters make more money from seafood?
- How can The Town of McClellanville keep its commercial waterfront working to support the harvesters?

As a cooperative development center, our focus has been on the potential for cooperative enterprise to fill the gap - owned by harvesters to operate for their mutual benefit – but we have not excluded other options. We are pleased to report here on what we have learned and offer suggestions for the town's future in the coming 3-5 years.

## The Big Picture: Forces Affecting McClellanville's Seafood Industry

McClellanville is one of several coastal towns with significant commercial seafood industry. Other seafood landing points include St. Helena island, North Charleston/Mt. Pleasant, Beaufort, Georgetown, Murrells Inlet, North Myrtle Beach & Little River. Shellfish harvest is by nature set in place among many tidal creeks and bottoms. Fish and shrimp are not so rooted. McClellanville is part of a larger system.

This is the coastal and ocean environment where fish and shrimp live and are harvested. As part of a vast natural system, the supply of wild seafood ebbs and flows with the influence of countless factors. As a practical matter, shrimp and fin fish are more concerned with Atlantic currents and temperatures off the southeast coast without respect to state boundaries or the nearest port. McClellanville's fleet fishes in waters from Virginia to Florida. As a practical matter its boats sell their harvest close to where they catch it. Likewise, harvesters from other harbors sell their catch in McClellanville when convenient.

The seafood harvested is sold into a large processing and distribution system. While seafood customers can include families purchasing directly from some harvesters for their own consumption, most is sold to intermediary wholesalers such as Carolina Seafood. These wholesalers in turn sell through several channels at different value points.

Beyond the southeast coast, seafood harvested at a much larger scale and much lower operating costs, sold into a fluid international market with few trade or transportation barriers. This foreign harvest flows in to South Carolina, competing with the coastal catch. An unfortunate result of lowered international trade barriers and unregulated fisheries is that lower quality product from the opposite side of the globe underprices the local harvest. Mr. Leland makes it quite clear that Carolina Seafood relies upon imported fish and shrimp to stay in business in the face of such competition.

These concerns are reflected in a 2018 Clemson University survey that explored potential for a "South Carolina Seafood Trail." Interviews with seafood industry stakeholders along the coastline revealed:

Their greatest concern was that the supply of local seafood was not large enough or consistent enough to meet demand and that increasing the promotion of local seafood to tourists could exacerbate this problem. In addition, they highlighted the dominance of imported seafood, also being marketed as "local" on the coast (i.e., in response to demand), and concern about retaining the presence of shrimp fishermen on the waterfront (i.e., resulting from waterfront gentrification and decline of the industry due to competition with lowpriced imported seafood, regulatory pressures, and increasing operating costs).

Jodice, et al, *Coastal Gastronomy: Envisioning a South Carolina Seafood Trail*, Journal of Gastronomy and Tourism, Vol. 3, pp. 1-16 (2018).

This landscape can be mapped in terms of the economic pressures affecting the South Carolina and McClellanville seafood industry. Michael Porter first diagrammed the interplay of five types of forces at play in any given industry: bargaining power of suppliers, bargaining power of customers, threat of new entrants, threat of substitute products, and jockeying for position among the industry players. In this model, the flow of seafood through McClellanville’s harvesters and wholesalers both can be shown in here.

*Five Forces Affecting McClellanville’s Seafood Industry*

|   |  |   |
|---|--|---|
|   | <p><b>Threat of new entrants</b><br/>Tacit knowledge of waters and harvest techniques among current operators discourages new entrants; however, well-financed corporate harvest operations could easily outstrip McClellanville capacity. Regulatory barriers to entry are low.</p>   |   |
| <p><b>Bargaining Power of Suppliers</b></p> <ul style="list-style-type: none"> <li>• Costs of operating are not very flexible. Industry can be squeezed between these costs and varying market price for the products.</li> <li>• For the wholesaler, there is a declining number of boats and an aging pool of fishermen.</li> <li>• As suppliers to the wholesale industry, Harvesters could integrate forward and capture more value from post-harvest handling &amp; processing.</li> </ul> | <p><b>Industry positioning &amp; competition</b></p> <ul style="list-style-type: none"> <li>• Harvesters are individual operators seeking to maximize their catch but share common benefit of community, family ties and industry economic interests – “co-optition”</li> <li>• Product is interchangeable, lacks differentiation or switching costs, no customer loyalty - quantity of produce outside of harvesters’ control</li> <li>• High fixed costs and perishable products. Investment in equipment – e.g., onboard freezer capacity – could provide competitive advantage.</li> </ul> | <p><b>Bargaining Power of Customers</b></p> <ul style="list-style-type: none"> <li>• Commodity products - absent local branding, imports can easily substitute.</li> <li>• Buyer industry is low margin, low profit → price sensitive - restaurants and retail fresh seafood.</li> <li>• Downstream processors “breaders” have high bargaining power due to perishable product and many sources.</li> </ul> |
|   | <p><b>Threat of Substitution</b></p> <ul style="list-style-type: none"> <li>• Untapped branding value of local catch can defeat import substitution, support seller pricing power</li> <li>• Imported seafood places a ceiling on price, a switching point when lower priced product is more desirable</li> </ul>  |   |

This view occurs within the context of other non-industry forces, including:

- A highly variable seafood harvest from year to year,
- Development pressure for residential/recreational use of waterfront property through which the investment value of property exceeds its working waterfront value (“gentrification”).
- An aging seafood fleet and boat operators, and
- Climatic volatility affecting salinity and temperature of seafood habitats into the future,

Such factors are beyond the scope of this work but offer possible advantages as well as challenges.

## Competitive Advantage for McClellanville

These industry and external factors would naturally cause concern among McClellanville's watermen, leaders, and families. They also offer potential paths to maintain and grow the commercial success of McClellanville's working waterfront. Specifically, can the generational transition of Carolina Seafood (and its co-competitive neighbor Livingston's Bulls Bay Seafood) prompt restructuring and investment that would give McClellanville competitive advantage over other seafood landing points on the Carolinas coast?

For example, Shem Creek in Mt. Pleasant has been gradually taken over by tourism and recreational use, its remaining dock facilities have declined. Would improvements to McClellanville's seafood infrastructure make it a more attractive place to tie up and offload catch? A proactive approach by McClellanville can create such conditions. Grant of a conservation easement to the East Cooper Land Trust on the Carolina Seafood property would limit its use to current commercial seafood activities and prevent its development into condominiums or recreational facilities. Market value sale of those development rights would give Mr. Leland the monetary benefit of selling the property and maintain his legacy in the town's economy.

This transaction would preserve the current state of things on the waterfront, but by itself would not be sufficient to maintain McClellanville's industry competitiveness. Additional investment by the Land Trust, the community, and possibly by government agencies to improve and maintain the dock and harbor are needed to bring it into the 21<sup>st</sup> century. Town might also participate with supportive policy, possible land use regulation, and possible management of the dock to support commercial use. Such infrastructure improvements could in turn leverage the availability of private investment in Carolina Seafood & Livingston's facilities. McClellanville's docks need not be as slick as in a resort. At this moment of transition, investment in refreshed structures, upgraded equipment and facilities will provide returns well into the future.

## Carolina Seafood

Rutledge Leland III has operated Carolina Seafood for most of his adult life. It has become McClellanville's most significant economic asset. As the "middleman" between the harvesters and consumers of McClellanville's haul of shrimp, fish, clams, and oysters, Mr. Leland balances the market price of his products against the income needs of the town's fishermen – who are both suppliers and customers of the business – to ensure they are able to make a living from the water. The best scenario for McClellanville would be another person purchasing the entire business from Mr. Leland and taking over that role in looking after the waterfront, the seafood business, and the fisherman. Unfortunately this seems unlikely.

Carolina Seafood consists of a number of interlocking business activities which seem at first difficult to delineate. To better understand the nature of its operations and develop scenarios in

which its lines of business could be operated for the benefit of the harvesters, the town, and the wholesale purchasers, one can unbundle different lines of business as serving different customers. In simplest terms, these lines of business face seaward – serving the fishing fleet and purchasing the harvest – and landward – handling, processing, and sales of seafood to customers.

*Table 1 Carolina Seafood Business Components*

| <b>Seaward Facing Activities</b>   | <b>Assets Used</b>   |
|--|--|
| Selling to Harvesters: <ul style="list-style-type: none"> <li>● Dock use</li> <li>● Ice &amp; fuel (on credit)</li> <li>● Other maritime provisions</li> <li>● Financial Services</li> </ul> | <ul style="list-style-type: none"> <li>● Dock property, equipment, &amp; buildings</li> <li>● Ice making &amp; storage</li> <li>● Fuel storage and pump</li> </ul>     |
| Buying from Harvesters: <ul style="list-style-type: none"> <li>● Shrimp</li> <li>● Fin fish</li> <li>● Clams</li> <li>● Oysters</li> </ul>   | <ul style="list-style-type: none"> <li>● Loading and hauling equipment</li> <li>● Cold storage &amp; handling fixtures &amp; equipment</li> <li>● Buildings</li> </ul> |
| <b>Landward Facing Activities</b>  |  |
| Handling and processing: <ul style="list-style-type: none"> <li>● Cleaning &amp; refrigerating seafood</li> <li>● Freezing/storing seafood</li> </ul>  | <ul style="list-style-type: none"> <li>● Cold storage &amp; handling fixtures &amp; equipment</li> </ul> <p>Note: Freezer capacity is “outsourced” in Georgetown</p>   |
| Internal Production <ul style="list-style-type: none"> <li>● Freezing capacity &amp; season extension/balancing.</li> <li>● Employment of people</li> <li>● Sauces &amp; Dips</li> </ul>     | <ul style="list-style-type: none"> <li>● Food processing fixtures and equipment</li> </ul>   |
| Selling Wholesale: <ul style="list-style-type: none"> <li>● Shrimp</li> <li>● Fin fish</li> <li>● Clams</li> <li>● Oysters</li> <li>● Sauces &amp; Dips</li> </ul>                           | Same   |
| Selling Retail: <ul style="list-style-type: none"> <li>● Shrimp</li> <li>● Fin fish</li> <li>● Clams</li> <li>● Oysters</li> <li>● Sauces &amp; Dips</li> </ul>                              | Same   |

In addition, Carolina Seafood consists of several other assets that must be considered. Foremost is Mr. Leland’s extensive business acumen. His decades of experience, deep knowledge of South Carolina’s seafood industry, and relationships with all its players are beyond valuation. The extent to which Mr. Leland can transfer some of this knowledge to a successor manager at Carolina Seafood will greatly improve the future success of the business.

This is not to say that a capable manager cannot develop this capability as well. But Mr. Leland's guidance can shorten that learning process.

The speculative value of the waterfront property upon which Carolina Seafood sits likely exceeds its use value as an ongoing business. That is, it is worth more as vacation or resort property than as Carolina Seafood. The East Cooper Land Trust is engaged in appraising the value of the property toward a potential conservation easement. Such an easement would essentially buy out the development value of the property, leaving its current use and the business value of that use in place. Without that transaction, the land's speculative value would make purchase of Carolina Seafood prohibitively expensive. Business operations would not pay for the cost of buying it.

Another significant business activity which does not appear on the books of Carolina Seafood is informal financial services provided by Mr. Leland for the benefit of the harvesters. Providing the watermen with fuel and ice on credit against future delivery of harvest is an ordinary practice by Carolina Seafood and Livingston's both. This benefits the wholesalers and allows harvesters to maintain cash flow. Watermen also described that Mr. Leland would extend credit for unexpected expenses. This ranges from "slack" in payment time to fronting the cost of important engine parts or equipment for the boats, and so forth, against future payment. After Mr. Leland's retirement, his successor at Carolina Seafood may not be inclined – or financially able – to provide this sort of financial cushion. The harvesters will need to develop these resources on their own.

### Freezer capacity in Georgetown.

In addition to the Carolina Seafood property, Mr. Leland makes use of a well-equipped freezer facility near Georgetown, South Carolina. This enables Carolina Seafood to store excess harvest to balance market pricing in the long run and for off-season sales. This storage is not cheap but eliminates the need to build in-house freezer storage.

### SWOT Analysis

The Town of McClellanville lies amongst the tall marsh grasses along the South Carolina coast north of Charleston. It's residents are mostly native-born, with the only operating school in town being a state charter elementary school that teaches with a focus on environmental science. Students learn with their boots on early in this seaside community. They inherit the sense of place and the feeling of belonging to an extended family that is the population of the entire town. Such rural places are getting fewer and fewer, especially along the southeast coast, and are more and more important to save. McClellanville is no exception, as its fishing fleet and seafood industry have dwindled dramatically in the last half century. Saving this way of life requires more than just preserving old buildings and scenic views. It means doing what is necessary to keep the community viable and sustainable socially, environmentally and economically. Change will happen, but can be harnessed in ways to keep the waterfront working the docks busy when the shrimp boats come in and the generations of town's people happy and proud of what they are a part of. This place is special.

In light of the fact that only 2 harvester surveys were returned, their information is appreciated for the purposes of the team, but results will not be shared because it would compromise the anonymity of the participants and yield less than significant data. Therefore, the characterizing of the harvesters and fleet will have to be based on observation.

### **Strengths**

The docks and facilities of the two seafood houses are in generally good shape, with the impact of a good cleaning and going over being needed in areas of both properties. The recent sale of Livingston's Bulls Bay has already accomplished that to a degree. But these are working waterfronts and their appearance reflects that status. Carolina Seafood holds a dominant position in the town and nearby region.

Staffing of the fish houses is stable and about average, they seem to be happy and may not find another job that good, that close in.

### **Weaknesses**

The retail business acumen of the seafood harvesters and the financial resources are largely undetermined but assumed to be modest and insufficient for an outright sale of the business assets to them. It is without a doubt very important to have a local supply of fuel and ice, as well as a market for their catch. Also, the natural tendency is for the producers to take their catch to the highest price. Mr. Leland enjoys much loyalty because he strives to give the harvesters a fair price. Will the next owner be able to do the same? In these days of big food grocery stores, contract deals and prices set way in advance, The wholesale price discovery system relies upon Mr. Leland's tacit knowledge. The perishable nature of the product makes freezing an option during times of bounty but it takes money to pay for freezing and money to pay the harvesters.

### **Opportunities**

The design of the ultimate plan is like a plain canvas that the citizens of McClellanville can paint at this point. They still control all the brushes and the paint, the time is at hand for the picture to be painted and the process to begin before someone else comes in and does it for them.

## Successful Mutual Seafood Harvesting Operations

Seafood harvesters have benefited from cooperatives for generations in other areas of the United States. New England has the strongest history of maritime co-ops, dating back to the middle of the last century. Here are a few examples of different ways that watermen have used co-ops to improve their livelihoods.

### New England

#### **Stonington Lobster Co-op**

"In 1948 something unusual happened in the small coastal town of Stonington, Maine. Fifteen fishermen agreed on something! They had decided to form the Stonington Lobster Cooperative,

to pool their resources and invest in a facility to ‘engage in the buying and selling of lobsters and fish of all kinds; to conduct a store or stores for the buying and selling of hardware, electrical supplies, fishermen’s equipment, oil, gasoline, sporting supplies; and to deal in, acquire, buy, sell, assign and transfer, and otherwise dispose of all kinds of property.’”

Financed by the lobstermen themselves, the co-op grew to own two waterfront landing and processing facilities. “Some years were better than others as is the nature of fishing, but the Coop gradually became a major buyer of lobster and paid regular yearly dividends to its members.” The co-op now serves more than eighty boats harvesting lobster and crab.

### **Winter Harbor Lobster Co-op**

In 1971 harvesters in Winter Harbor, Maine, organized a cooperative and purchased a local pier. Thirty-eight years later, the Winter Harbor Lobster Co-op built a live lobster storage facility to provide its 32 members “the opportunity to hold their lobsters, rather than sell them for whatever, often low, prices were being paid on any given day, week, or month.” The co-op also sells direct-to-consumer.

### **New Hampshire Community Seafood**

Seafood harvesters and concerned community members explored a different approach in New Hampshire in 2013. Unsustainable harvests - most of which were going overseas - resulted in a drastic reduction in groundfish quota for the fishermen (cod, haddock, flounder, etc.). In 2010 the co-op obtained federal “ownership right” to collectively manage the fishery for long term benefit. Using a Consumer Supported Fishery (CSF) and Restaurant Supported Fishery (RSF) strategy, the co-op is able to manage demand and plan a harvest strategy to ensure sustainable fish populations.

### **Lobster 207**

One of the newer lobster co-ops in Maine took a somewhat unusual path. In 2013, lobstermen (both female and male harvesters refer to themselves as “lobstermen”) became concerned about falling prices and approached the local Machinists Union (IAM). The union employed its organizing talent to meet with harvesters all along Maine’s coast to form the Maine Lobstering Union local 207. Another benefit the IAM brought to the table was financing. The union/co-op was able to borrow from the Bank of Labor early on to buy processing capacity.

The Union purchased the Trenton Bridge Lobster Pound, a wholesale lobster distributor, in 2017 from fourth-generation owner Warren Pettegrew’s family for \$4 million. Pettegrew remains the company’s chief executive officer of wholesale operations. “We’re growing by leaps and bounds,” said Rocky Alley, president of the Maine Lobstering Union and a Jonesport lobsterman. “This is in the best interests of the lobster industry. The profit is going into our hands, not into the hands of big business.”

. . . .

In a fundamental sense, Lobster 207 operates largely as Maine’s other lobstering cooperatives do. Members of the co-op sell their lobster to the company, which holds the lobsters and grades them; the company then markets and sells those lobsters to

customers large and small. At the end of the year, co-op members receive a dividend, based on the pounds of lobsters they sold that season to the company, minus the expenses it took to run the business. (Maine Lobstermen's Community Alliance, Landings newsletter, November 2018.)

### **Tenants Harbor Fisherman's Co-op**

Another Maine lobster co-op was essentially founded by a successful restaurateur. Luke Holden, was offspring of a lobstering family and a New York investment banker when he founded Luke's Lobster to sell lobster rolls in Manhattan. With "trap-to-table" commitment to sustainability for lobster and lobstermen, the business quickly grew. Holden in turn founded Cape Seafood, a sustainable processing facility to become his only supplier.

"Most recently Holden, along with a group of over 20 lobstermen, and the owners of a historic wharf in Tenants Harbor, Maine, opened the world's first-ever fishermen's co-op to be vertically integrated with a seafood processing company and restaurant group. The new, revitalized lobster shack, appropriately named 'Luke's at Tenants Harbor,' allows guests to dine at the source."

The Tenants Harbor Fisherman's Co-op has but a single customer, Luke's Lobster.

Furthermore, Holden has committed to putting 50 percent of this shack's profits back into the Tenants Harbor Fishermen's Co-op. This partnership promotes diversified revenue streams for the members of the co-op and sets a new standard to make the fishing industry fairer and more sustainable for all parties. (Paste Magazine, March 2017.)

## **West Coast**

### **Morro Bay Community Quota Fund**

In the early 2000s California's Morro Bay fishery was declared a disaster as a result of over-investment in high volume trawler harvesting, increased competition from foreign sources, and new regulation intended to prevent overfishing. In 2004 the last local groundfish buyer pulled out. Harvests plummeted from millions of pounds of groundfish to a tiny percentage of that. In 2011, the National Marine Fisheries Service implemented an Individual Transfer Quota/catch-share system the Limited Entry Trawl fishery to localize harvest regulation.

In response, harvesters organized the Morro Bay Community Quota Fund to fairly allocate the quota among themselves. This "Catch Share" management structure allocates an annual "quota" to individual fishery participants. In its first year of operation, members harvested 1.7 million pounds of groundfish; 78% of the quote was allocated to local vessels. The Fund includes a Science Advisory Committee to improve species management and a Social Fund that covers equipment and other startup costs for newcomers to the local fishing industry.

### **Alaska Seafood Cooperative**

The Alaska Seafood Cooperative (AKSC) was organized in 2008 by owners of very large "catcher processor" fishing vessels (110 to 295 feet) to improve management of the Bering Strait flatfish fisheries (several species of sole and flounders including yellowfin sole, rock sole,

rex sole, flathead sole). Co-op members limit their harvest to agreed science-based quotas and apply methods to reduce bycatch and limit removal of non-market species (e.g., halibut). By cooperating and obtaining sustainable harvest certification, members ensure long-term vitality of fish stocks.

### **Seafood Producers Co-op**

North Pacific halibut fishermen organized a cooperative in 1944 to sell halibut liver oil to pharmaceutical companies. Since then the co-op has grown to more than 575 small-boat-and-hook fishing families selling a variety of fin fish throughout the world. The co-op created the successful Alaska Gold Brand of seafood products. The Seafood Producers Co-op has its own processing plant, offers vessel insurance, and purchases bait, gear and fuel at discount for its members. "The co-op works to preserve the livelihoods of fishermen and the coastal communities within which they work."

## Southeast

### **Walking Fish Cooperative**

Based in Beaufort, in Carteret County, North Carolina, the Walking Fish Cooperative markets its harvest through a community supported fishery model. Consumers pre-pay the co-op for a share of the annual catch, delivered regularly to pick-up points in Raleigh and Durham. Walking Fish was initiated by a group of graduate students at Duke University's Nicholas School of the Environment in 2009. The participating fishermen formally organized as a cooperative in 2011. Prepayment allows the fishermen to operate with cash on hand and to harvest sustainably to satisfy known demand. The co-op provides its subscribers with a variety of seafood varying by season; primarily fin fish, as well as shrimp and clams.

### **Ocracoke Working Watermen's Association**

When the last fish house in Ocracoke, North Carolina, was for sale in 2006, the seafood harvesters who had been fishing the coast there for generations had few other options. Fortunately Robin Payton Payne, a transplant from Washington, DC, stepped up with creativity and energy. Payne founded the Ocracoke Foundation as a tax-exempt nonprofit to support the island's way of life. She met with watermen to discuss the situation and, winning their trust, helped them to identify their needs and abilities. Payne marshalled grants and philanthropic resources to purchase the fish house property and renovate its facilities, renaming it The Ocracoke Seafood Company. The harvesters organized as the Ocracoke Working Watermen's Association (OWWA) to purchase their catch and operate the fish house, which is still owned by the Foundation. By taking on the capital burden of owning the real estate and facilities, the Ocracoke Foundation made operating the fish house financially feasible for the OWWA. From this experience, Ocracoke Seafood Company manager Hardy Plyer offers some important observations. First, find enough money to re-do the infrastructure. And second, "you need a base group that is 100% committed. You're either on the boat or you're off the boat."

While these examples are chosen to highlight a variety of approaches and their successes, it should also be apparent that a cooperative strategy is not itself a bed of roses for harvesters.

The seafood co-ops described here have been subject to the tumult and tempest of economic and natural forces that affect any fishery. Not all co-ops have survived such upheavals. These examples demonstrate that cooperative strategies can and do offer resilience against those challenges.

More importantly, these successful examples all share a common thread: in most cases the harvesters own a piece of the industry value chain beyond the dock. By having storage, distribution, or processing facilities as part of the cooperative business, harvester members get to keep more of the value of their catch. They exercise more control in the market and over the price they receive, and ultimately over their own economic circumstances.

## McClellanville Without Rutledge Leland III At The Helm.

The last half century of McClellanville's history is dominated by forces of nature and economics. In a way, Mr. Leland represents a combination of both, a force of nature safeguarding the town's people and industry. As he moves towards retirement from Carolina Seafood, the town and its seafood harvesters are confronting how things will be without him.

Where would things lead if Carolina Seafood suddenly shut down? The harvesters would continue to follow the shrimp, but sell to the next closest wholesaler. They would be price-takers without the consideration that Mr. Leland has for their continued livelihood. That consideration would also be absent from dock services and provisioning, his informal financial cushion and "slack." Livingston's may fill some of the gap, but the town would be without its largest supplier and employer.

Fortunately, the town is taking a proactive approach. Carolina Seafood is not going to disappear immediately. There is a good prospect that Mr. Leland will be able to grant a conservation easement on his property, preserving its futurity for use as a seafood house. "What next" remains the pressing question?

## Recommendations

In considering this situation, Carolina Common Enterprise offers several approaches to consider and specific scenarios in which they might be implemented. Beginning with the general level,

*Think Systemically.* In considering its future, McClellanville should think beyond McClellanville. As noted earlier, McClellanville occupies an important position in a larger system of seafood harvesters & wholesale channels. How can McClellanville leverage that interdependency to ensure the future of its seafood industry?

*Differentiation & Branding.* Price competition from imported seafood products is one of the principal complaints of everyone in McClellanville's seafood industry. Mr. Leland does not like imported fish and shrimp but acknowledges that he must trade in it to stay in business. While these imports are far inferior to South Carolina's catch, allowing them to be seen as interchangeable with local product leaves consumers and restaurateurs comparing only on

price. McClellanville and its neighbors need to turn this comparison upside down by preventing the easy substitution of cheap imports for its own superior products. McClellanville already offers premium products. The task is making sure everyone outside of McClellanville knows that.

This can be accomplished by market communication – branding – of South Carolina seafood generally and McClellanville’s products specifically. The South Carolina Department of Natural Resources has already established a “Certified SC Seafood” program. Taking enthusiastic advantage of it would be an easy first step. This is demonstrated up the coast, where North Carolina’s “NC Catch” program has multiplied into several more localized brands such as “Ocracoke Catch.” Similarly, McClellanville harvesters, wholesalers, and restaurants should take the opportunity to participate in a “South Carolina Seafood Trail” program as that emerges.

McClellanville could follow this with investing into product labeling and tracking technology: origin, date, and identification labeling. Traceability would serve two purposes. First, it would protect McClellanville’s products from counterfeit “local” seafood in stores and restaurants. Second, traceability combined with a good Hazard Analysis and Contamination Control Points (HACCP) program would offer both wholesale and retail buyers assurance of the seafood’s quality and purity.

Branding focused on both origin and quality would distinguish McClellanville’s products from imports and support a higher market price. Consumers will demand local catch if they know there’s a difference. This will in turn motivate restaurateurs and retailers to charge and pay premium prices for premium products.

*Collaboration.* Mr. Leland’s retirement will leave a gap in both leadership and economic coordination in McClellanville’s seafood industry. Where for years he was able to benevolently manage things for greater benefit, harvesters and others will need to rely on their own abilities moving forward. Working together is a proven strategy for exercising greater economic power and spreading economic risk. As described below, the transition in ownership of Carolina Seafood offers a number of opportunities for collaboration in McClellanville.

## Scenarios

*Divide & Complement.* As already discussed, Carolina Seafood’s business activities roughly fall into two categories: seaward and landward. If a single buyer is not able to purchase the entire business, these activities could be pursued separately to provide needed services and markets for harvesters.

### **Seaward**

The Seaward side is the dock. Harvesters could cooperatively manage dock operations for their mutual benefit. At the most basic level, this includes mooring, electric and water service, as well as fuel and ice for fishing boats. At a minimum this would require investment in replacing or upgrading Carolina Seafood’s aging ice machines and other equipment. Ideally the dock structure and other services would be renovated as well.

Operation and ownership of the dock are two separate considerations. The real estate could be owned by the East Cooper Land Trust, the Town of McClellanville, a fishermen's cooperative, or by an independent nonprofit organization. A cooperative would require financial investment by each harvester-member and be governed on a one-member-one-vote basis. Each of these options has been successfully implemented in other communities. Likewise, dock operations could be managed by the Town, by the harvesters, or by an independent contractor hired by the title owner. The driving principle is that it should be managed in a way to preserve the financial viability of the fishing fleet and the working waterfront.

*"Integrate Forward" – Freezer Capacity.* At present McClellanville's fleet harvests fish and shrimp and is paid market price at the dock. Wholesalers carry these products through the value chain to retailers and as "middlemen" have significant pricing power. Instead, McClellanville's fleet could also collaboratively invest in and manage freezer capacity, capturing more of that value chain. As Mr. Leland has emphasized, freezing seafood is an essential tool to manage market price and extend the selling season. Without freezer storage, an abundant harvest would result in market glut and plummeting prices. Harvesters can use freezer storage to prevent flooding the market and maintain stable market prices. This is a "grain elevator" strategy used by commodity farmers. For McClellanville it could be a "shrimp bank" managed by the fishermen for their own benefit. Carolina Seafood outsources freezer storage to an operation in Georgetown. A harvester cooperative could contract in the same way rather than investing in new freezer capacity.

*Step Up Equipment.* In addition to cooperatively purchasing fuel and ice, harvesters could boost their combined purchasing power by jointly investing in technology for the fleet. In addition to needed improvement of existing equipment, this could include onboard flash-freeze capacity. This allows them to offer fresher and more superior product including fancy head-on shrimp at premium prices.

*Financial Services.* Moving forward, harvesters will need to find a new financial cushion for cash flow and surprise expenses. At the simplest level this would be a shared cash reserve account to which each harvester contributes regularly and draws upon with demonstrated need. Harvesters could each contribute a percentage of income each month or just a fixed monthly amount. Funds would be managed transparently in a single credit union account. The harvesters might initiate this together or a third party – the credit union or a nonprofit – could create a program for this purpose. Ideally this shared reserve fund would be a function of another cooperative effort such as dock and fuel purchasing or a "shrimp bank."

To level up, boat operators could participate in business training for the seafood industry. Anecdotally it appears that some fishermen have better understanding of their business than others. Business training for the harvesters would help them understand their source of revenue and costs of operations, watch their cash flow, and identify where they may be wasting money. It would ensure that everyone operates more efficiently and profitably.

*Commitment.* These scenarios present several options for harvesters at a basic level. Further exploration of their practical and financial feasibility may give rise to other opportunities worth pursuing. However, any collective effort by the harvesters will require their commitment to the near term process and to long term outcomes. Consider first where the greater benefit will lie in five to ten years rather than the most attractive immediate solution.

### **Landward**

Carolina Seafood is a complex business and more challenging to operate collaboratively. Regardless of who or what may own the business, it will require talented management to succeed. The simplest outcome would be for Mr. Leland to sell or lease the business to an independent operator. If that opportunity is not available, other options may be preferable.

*Worker Ownership.* While no one knows the Carolina Seafood better than Mr. Leland, the people who know it *second best* are the people who work for him. Employee ownership is a proven succession strategy for closely held businesses of all type and sizes. The Carolina Seafood work force would incorporate and create a new business plan for buying out Mr. Leland – all at once or in stages. Worker ownership conversion would provide Mr. Leland with a market value exit, would enable his former employees to build their own wealth as owners of the business, and preserve Carolina Seafood as McClellanville's principal economic asset – a win-win-win outcome.

The most common vehicles for employee ownership are the Employee Stock Ownership Plan (ESOP) or a worker-owned cooperative. An ESOP is federally regulated employee benefit plan with widespread use throughout the country. The plan holds the company shares in trust for the employees. There are many ESOPs exercising 100% employee ownership of businesses and many more with partial ownership. ESOPs do have significant financial and tax reporting and carry high operating costs.

For smaller business, a worker-owned cooperative offers lower administrative overhead and greater flexibility. Each employee would join the cooperative by buying a share. Employees govern the business on a one-person-one-vote basis. Traditional management roles take precedence in daily operations. New workers would become candidates for ownership after a probationary period. With each employee having a stake in the outcome, worker owned businesses typically outperform ordinary businesses by most measures.

The "Purpose Trust" is a more recent option for employee ownership. It combines the benefit trust share ownership of an ESOP with democratic governance of a co-op – but is not an employee benefit plan.

Employee ownership is a viable strategy and a serious undertaking. It would be necessary to ensure that the Carolina Seafood workforce has the management talent and capacity for cooperation before embarking on this course. If Mr. Leland and his employees choose to do so, employee ownership conversion financing is becoming more widely available.

*Harvester Ownership.* If the McClellanville fleet was committed and well organized, it could own and operate the Carolina Seafood wholesale business just as it would own and operate the dock. The greater complexity of the wholesale business would require such a cooperative to employ a full time general manager just as any other owner-operator must. Example: Lobster 207.

*Nonprofit Ownership.* The harvesters, interested McClellanville residents, and other stakeholders could organize a tax-exempt nonprofit with a mission of preserving the working waterfront, conducting research, and offering training to improve the seafood industry. A tax-exempt organization is eligible to receive grants for these purposes (if grants are available) where a business must obtain capital financing. To this end, the nonprofit could own title to the Carolina Seafood property and lease or contract its operation out for the benefit of the harvesters. Example: Ocracoke Foundation and the Ocracoke Working Watermen's Association.

*Community Ownership.* McClellanville residents who are not directly involved with its seafood industry may also hold a strong interest in retaining the town's working waterfront. Many of them may have the financial resources and commitment to make a financial investment in preserving the commercial use of McClellanville's docks. This could take the form of a nonprofit as described above financed with community donations. It could also be a basic real estate investment LLC with "patient capital" ownership. Another option is to form a community real estate cooperative through which residents become members of the cooperative through pooling investment funds and in turn purchasing the waterfront property. The difference between an LLC investment vehicle and a cooperative is that all co-op members participate in governance on a democratic basis, and still receiving returns in proportion to their investment. Community owners would hold title to the real estate and lease or contract out management of the business to qualified operators for the benefit of the community. Example: North East Investment Cooperative (St. Paul, MN).

*Combined Cooperative Ownership.* While each of the foregoing ownership strategies may be viable on its own, combining the knowledge and finances of two or more ownership groups would create a stronger enterprise. A multi-stakeholder co-op could own and operate all or part of the Carolina Seafood operation. One such approach could be a Carolina Seafood cooperative with membership of harvesters and employees both. Each group would have its own class of share ownership and board representation from each class. Each group would be financially invested in the business and have a stake in its outcome. One might expect that with competing incentives – workers want higher wages, harvesters want higher prices – conflict would interfere with successful operations. However, with both groups having a greater interest in the continued successful operation of the business at stake, these competing interests can be balanced. This just as Mr. Leland has balanced his interests against those of the harvesters for his entire career. Example: Weaver Street Market (Carrboro, NC).

## Example: a Model of Stakeholder Ownership

Drawing from the above scenarios and from the successful experience of Ocracoke's fishery, one can envision the different aspects of Carolina Seafood in McClellanville's Working Waterfront owned and operated by the stakeholders most directly affected. Looking at each piece in turn:

- **The Real Estate.** The value of the Carolina Seafood property is based on several factors: the value of the underlying land and waterfront for future development purposes; the current market value of its buildings, docks, and equipment, and the value of the property for its current (non-speculative) use.
  - **Investment Value.** East Cooper Land Trust purchases a preservation easement in the land and waterfront, taking on the future speculative value and removing it from the market in perpetuity.
  - **Current Use of Property.** McClellanville's citizens form a nonprofit foundation, comparable to the Ocracoke Foundation, to purchase and hold the Carolina Seafood real estate for the very long term. (Recall Hardy Plyer's advice from Ocracoke: find enough money to re-do the infrastructure.) There may be potential for the Town to participate in improving part of the land with park-like landscaping and amenities to increase the waterfront's appeal to tourists and retail customers.
- **Business Operations.** McClellanville's seafood harvesters and Carolina Seafood employees share a mutual interest in the continued success of that business operation. A multistakeholder cooperative of those two groups would purchase the Carolina Seafood business from Mr. Leland. With employees and harvesters each exercising stewardship in the business for the benefit of the other group and for the vitality of the town itself, the cooperative would preserve Mr. Leland's legacy indefinitely.
- **Relationships.** The Foundation is in a position to raise grant funding from government, foundation, and individual philanthropic sources. This is absolutely necessary for the purchase of the real estate at appraised fair market value and improvements to its buildings and equipment. To ensure that the Foundation balances the needs of these stakeholder, its board of directors should have seats designated for representatives of the seafood fleet, the Town of McClellanville government, McClellanville residents, and other partners. The Cooperative would operate Carolina Seafood business under a long term lease from the Foundation.

## Next Steps

The foregoing recommendations and scenarios present plausible options but will not be worth a dime unless they are advanced by stakeholders in McClellanville with energy, creativity, and commitment to implement them. This entails the following considerations.

*Rutledge Leland gets to decide.* Carolina Seafood and its associated real estate belongs to Mr. Leland and he has sole control over its destiny. He is a knowledgeable and prudent man with

the interests of his community close to his heart, and he will certainly take counsel from those he trusts. These options are presented for his consideration as well as for the harvesters and other groups, but the choice of path belongs to him alone.

*Examine options and organize.* If any of these scenarios capture the imagination of an individual or group, the next step is to examine them for practical viability and financial feasibility. What are the costs involved? Will it have positive cash flow? What external factors does it rely on? Is Rut on board? If signs point to yes, participants must commit to working together towards their common purpose.

*Shared vision.* When McClellanville, its stakeholder groups, and Mr. Leland determine a course of action, it is essential that it take shape around a common vision held by all participants. This should not be an airy “vision statement” with lofty goals but a simple, specific, and practical description of the purpose of the business and the means used to carry it out. A shared vision keeps all players on the same page. When differences inevitably arise, the shared vision reminds them of the reason they are working together. Without a shared vision, participants will move in different directions and work at cross purposes until they determine that common goal or the project fails. As Hardy. Plyer noted: “You’re either on the boat or you’re off the boat.”