Teachers' Resource Sheet on

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Financial management of a small fishing business

What is a fishing business? ***A fishing business involves capturing fish and marine products with the primary objective of selling them to generate income. Fishing businesses in the Pacific sell many different products[1] in many different forms and in many different markets.[2] Some markets include selling direct at local fish markets; or selling to restaurants, wholesalers, retailers and processors; or to buyers in international markets (export markets).***

Types of fishing businesses

There are two general categories of fishing businesses: commercial and semi-commercial.

Commercial fishing businesses* operate to profit from the sale of fish and other marine products. These enterprises range from small, family-run businesses to large companies that employ staff to help to operate the business.

Semi-commercial fishing businesses are typically informal businesses that usually include fishing for food and income. These businesses are small and are run by a single person or household.

Products sold by a fishing business

Some of the products that are sold by fishing businesses and the form that they're sold are listed in the table below.

Typical products that are sold by small fishing businesses in the Pacific.

Product	Example	Form
Fish	Tuna, wahoo, mahi mahi, grouper, snapper, parrot fish, sardines, mackerel	Fresh (chilled), frozen, whole, filleted, gilled and gutted, cooked, canned, live
Invertebrates*	Prawns, shrimp, sea cucumber, lobster (crayfish), crabs, sponges, trochus	Fresh (chilled), frozen, whole, cooked, shelled, meat, canned
Ornamentals	Angelfish, clownfish, damsels, giant clams, corals, starfish, live rock	Usually live
Seaweed	All types of macroscopic, multicellular and benthic marine algae	Live, dried, chipped, sheets, hydrocolloids
Leisure	Game fishing, fly fishing,* spear fishing	Fishing activities that people participate in for recreation and entertainment

Management of a fishing business

Managers of a fishing business ensure that the business remains viable. A manager of a fishing business is responsible for ensuring that the product being sold meets customer expectations, for ensuring that income is generated and for managing business finances,[3] sometimes with the assistance of an accountant.

Financial management of a fishing business

Costs are usually incurred in the process of generating income. Financial management of a business largely involves ensuring that the income received is more than the costs incurred (income is greater than costs), or maximising income while minimising costs.

[1] A product is a good or service that a business sells to generate income.
[2] The market is the person or business that buys fish and marine products from the fishing business.
[3] Finances refer to the money that a business has, receives and pays.

What is income?

Income refers to the money that a fishing business receives for the sale of its goods and services.

Income per trip = Price x Quantity

For example, if a fishing business catches 10 yellowfin tuna, each weighing 10 kg, then the total catch (or quantity) is 100 kg of tuna. If the tuna are sold for $10 per kg, then the income for that fishing trip is $1,000 (i.e. $10 x 100 kg = $1,000).

Annual income is the sum of the income generated from every fishing trip undertaken over a year.

$$\textit{Total income} = \textit{Income}_1 + \textit{Income}_2 + \textit{Income}_3 + \ldots\ldots + \textit{Income}_n$$

For example, using the above income per trip of $1,000 and if we assume that we do 100 fishing trips per year and always catch the same amount of fish, we can calculate total income as $1,000 x 100 trips = $100,000). The income per trip is not always the same because the catch changes each trip, which is why we need to add income from all trips individually.

What are the costs of fishing?

As with any business, there are costs incurred when generating income. We broadly define these costs as operating costs and fixed costs.

Operating costs are incurred when going on a fishing trip and can include items such as: fuel, bait, ice, gear, crew payments (labour), rations, etc.

Fixed costs (or overheads) are incurred by the business whether or not fishing occurs. That is, fixed costs are the costs that the business has to pay regardless of the number of fishing trips that are completed. Fixed costs can include items such as fishing licence, bank loan repayments, annual vessel maintenance, insurance and depreciation. For example, the cost of a fishing licence is the same whether a business does 10 or 100 fishing trips each year – the cost is fixed.

Total cost = Total operating costs + Total fixed costs

For example, if a fishing business does 100 fishing trips each year and each fishing trip costs $500, then our total annual operating cost is $50,000 (i.e. 100 x $500 = $50,000). To operate as a fishing business, the business has to buy a fishing licence ($1,000), make loan repayments ($5,000) and pay boat maintenance ($5,000), so the total annual fixed cost is $11,000 (i.e. $1,000 + $5,000 + $5,000 = $11,000). Putting these together, we calculate our total annual cost to be $61,000 (i.e. $50,000 + $11,000 = $61,000).

This resource sheet is one of a series produced by the Pacific Community (SPC) to assist teachers in introducing fisheries topics into school curricula.

Each sheet should be used in conjunction with the Guide to Teachers' Resource Sheets, which contains suggestions for student activities and exercises. All words marked with an asterisk (*) are defined in a glossary in this guide.

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What is profit?

Profit is the money that is left over after total costs are deducted from income over a given period. **For businesses to be viable over the long-run, they must be profitable.** If a business is not profitable, then the business spends more money than it makes. Businesses need money (profit) to operate.

Profit = Total income - Total costs

For example, using the total income and total cost figures from above, we can calculate profit, as follows:

Profit and loss analysis

Total income (A)	$100,000	
Total cost (B)	$61,000	
Profit (C)	$39,000	C = A - B

In this example, profit = $39,000, which means that after total costs (operating and fixed) are deducted from total income, we have $39,000 left – this business made a profit for the year.

We can expand the above table to represent a profit and loss statement, as follows:

Detailed profit and loss statement

Total income	Price x Quantity = $10 x (100 kg per trip x 100 trips) **= $100,000**
Operating costs	Cost per trip x number of trips = $500 x 100 = $50,000
Fixed costs	Sum of all fixed costs = $1,000 + $5,000 + $5,000 = $11,000
Total costs	Operating costs + fixed costs = $50,000 + $11,000 **= $61,000**
Profit	Total income - total costs = $100,000 - $61,000 **= $39,000**

Other fields to consider in financial management

Profit is one key component of financial management. However there are many other areas of importance beyond the scope of this sheet. They surround investment expense (e.g. purchase of boat, motor, ice box), managing assets and liabilities (or creditors and debtors, such as banks and customers to whom credit is extended), cashflow, financial reporting, budgeting and decision making.