

# Hide and Skin: An Alaska Tannery Conundrum

By

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*Abstract: Kellie Olanna and Roger Nayokpuk were co-managers of Shishmaref Traditional Industries (STI), a tannery and small enterprise in the village of Shishmaref, Alaska. The village is located on Sarichef Island in the Chukchi Sea, just north of the Bering Strait and five miles from the Alaska mainland. STI custom tans furs and hides and retails tanned furs and hides as well as finished fur and hide products. STI is facing an uncertain market, an unreliable supply chain, and dated machinery that inhibits its ability to excel in its business. STI has made a decision to seek funding for new machinery and facilities expansion. In order to justify and support the decision to expand the tannery and undertake a major investment, Olanna and Nayokpuk need to conduct industry and market analyses to determine the attractiveness of STI's industry and market.*

After a long day at the tannery, Kellie Olanna and Roger Nayokpuk were ready to head home. The temperature had gone down to ten degrees below zero that day. They were glad Roger's children had agreed to give them a ride. Being pulled home in a bearskin lined sled by all-terrain vehicle was definitely better than walking.

On the ride home, Kellie and Roger talked about how things were going at the tannery. They were concerned. The tannery needed upgrading and demand for its products was decreasing. They wanted to help their village survive: with few ways to earn income, their subsistence-based village often struggled to generate the funds it needed.

They thought that if they could only revitalize the old tannery or build a new one to produce better products to sell, they could improve the livelihood of their friends, family, and neighbors in Shishmaref, Alaska. Unless they could improve the production facility—and that needed funding—and figure out how to expand sales, sales and revenues would further decline.

They had significant experience with management and production, but knew little about marketing. Kellie and Roger were faced with a conundrum: how could they expand the village's economic base without having the funding or business acumen to improve the market for the tannery's products? They knew that they needed help.

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## BACKGROUND

Kellie Olanna and Roger Nayokpuk co-managed Shishmaref Traditional Industries (STI), Inc. -- a tannery-based small enterprise in the village of Shishmaref, Alaska. The village is located on Sarichef Island in the Chukchi Sea, just north of the Bering Strait and five miles from the Alaska mainland. It lies within the Bering Land Bridge National Preserve. (See Figures 1 and 2) Due to the island's location, the climate varies between extremes. The Chukchi Sea freezes and encases the island in ice during the winter months (starting in mid-November), and thaws out in mid-June. During the summer months, temperatures become more moderate. Average temperatures during summer can range from the high 40s to mid-50s. Temperatures during the winter typically average 22.1<sup>0</sup> F and range from the mean minimum temperature of -8.8 to a mean maximum of 44.3<sup>0</sup> F. On average, there are over 203 days a year with one inch or more of snow.

The waters off the coast of Alaska are a rich source of animal life, some of which has traditionally been harvested for furs in addition to meat. Hunting for and using fur is an integral part of the Alaska Native<sup>2</sup> lifestyle and is accorded special protections under U.S. law. Besides production for their own use, many Alaska Natives also produce furs and fur-based merchandise for sale either as an occupation or to supplement their incomes.

The history of how the tanning process evolved among indigenous peoples is little known. We do know that about 5,000 years ago the Denbigh, known as the Small Tool culture, arose and was differentiated by the use of skin-covered boats and flint blades. Evidence of the Denbigh culture has been unearthed at a well-known Ipiutak site, located near the Inuit settlement of Point Hope, approximately 125 miles north of the Arctic Circle. Point Hope is approximately 720 air miles northwest of Anchorage on a spit of land extending into the Chukchi Sea in Northwest Alaska. Also, artifacts from this region lead some to dub the Inuit people the "Old Bering Sea Cultures" because the inhabitants traveled by kayak and umiak skin boats during the summer months. Both Point Hope and Shishmaref are located on the Chukchi Sea and in relatively close proximity, hence travel between the two villages was possible. Therefore, one must assume that tanning furs and hides has been part of the Native culture for thousands of years.

Prior to 1990, most furs and hides utilized in the production of commercial and personal items such as hats, slippers, ruffs, and mittens, were not tanned commercially within Alaska. Most were either home-tanned or shipped out of state for processing and returned to owners six to twelve months later. Demand for Native-produced items increased with the escalation in tourism in the 1980's. A tannery was built in 1990 to provide quality commercial tanning of furs and hides for hunters and trappers in the northwest region of Alaska. After 1990, several Alaska tanneries entered the marketplace to compete with tanneries in the Lower 48 (the contiguous United States).



Figure 1: Map of Alaska showing location of Shishmaref (Image courtesy of Windows to the Universe)



Figure 2: Map of Alaska and insert showing the Village of Shishmaref on Sarichef Island in the Chukchi Sea (Image courtesy of Maruskiya's of Nome)

The STI was composed of two divisions: Tannery and Cottage Industry. The tannery division offered quality tanning services and the Cottage Industry produced traditional Native handicrafts and souvenirs. After three years of improving income (See Appendices: Financial Statements), STI determined that, in order to continue the upward trend, they would have to expand the tannery. STI took on the challenge of expanding operations within its Tannery Division and Cottage Industry Division. Remarkable progress had been made during the previous three years. Sales had increased. Their records showed that as of July of their second year of operation there were 1,322 orders on file for tanning services. By August of the following year the volume of orders increased to 1,454—a 10% growth. This growth in orders corresponded to the increase in customers. Their client list in year three was 182 and showed growth of 20% since the first year of operation to include 15 new clients from the Lower 48. (See Appendix: List of Patrons by Village and City in Year 3) As result, STI decided to build a new tannery to replace the old one in order to accommodate the sales growth and to support economic development of Shishmaref.

### **STI: Corporate Mission and Scope**

Kellie and Roger intended to co-manage the new tannery for STI. They liked the fact that STI was dedicated to producing top-quality products and to strengthening the Native community. Since STI was owned and operated on behalf of community owners (the Native Village of Shishmaref and the Shishmaref IRA Council<sup>3</sup>) the co-managers understood that the new venture would likely benefit the village's economy. More workers would be hired from the village and STI expected to spend \$100,000 for local goods and services, including hides supplied by villagers. Each of these factors would boost the economy and help improve the living conditions of Shishmaref's residents. Furthermore, STI also identified “innovative solutions and ventures that demonstrated commitment to excellence by focusing on employees, community and customers.”<sup>4</sup> Kellie and Roger were pleased that STI advocated social responsibility and ethical business operations. They were determined to follow STI's principles: a focus on employee wellbeing, community responsibility, and customer satisfaction. Part of the co-managers' vision was to make the new tannery a benchmark for potential new businesses in Shishmaref. They thought that STI's vision was clear because it focused on excellence—a requisite component of running a successful business.

### **The Prospective Leadership Team for the New Tannery**

Kellie and Roger had three years' management experience at the old tannery and this made them the top choices for leadership roles in the renovated tannery. As life-long residents of Shishmaref, Kellie and Roger were aware of the challenges facing their village of around 550 people. Similar to other Native villages, the Shishmaref economy relied on substance harvesting of fish, seal, walrus, rabbit, and polar bears in order to survive. Subsistence was not only a cultural component of Native life but also a necessity because there were few part-time or full-

time jobs. The prospect of new jobs for village residents and the incomes that would be spent in the local economy was an important motivation for Kellie and Roger to build a new tannery.

Kellie and Roger had been friends since childhood. They had been an excellent management team for STI during the past three years, and believed that they could do equally well running a new or a refurbished tannery in Shishmaref. Both believed themselves to be entrepreneurial, and since the demand for home-grown tanned pelts had increased and the old tannery needed improvements, they decided to seek funding to upgrade the old tannery and to acquire new equipment. They figured that they could prove that a remodeled facility would not only improve the products produced, thereby further increasing demand, but also that it would provide more jobs for the community. They also realized that any new venture anywhere was a risky proposition, and in a remote village like Shishmaref, it would be more so. Nevertheless, the dream of helping expand the village's economy strengthened their resolve.

Even though Kellie and Roger had managed the old tannery successfully for three years, they had little experience solving complex business problems on their own. They thought it would be in their best interest to attend business start-up seminars offered in Shishmaref by the Alaska Small Business Development Center (SBDC). The instructors from the SBDC hammered home the fact that potential new business owners and entrepreneurs needed to write a detailed business plan in order to get the funding they needed to start and maintain a new business. The team also learned that they would have to create a mission statement and to think about the future of the tannery. To ensure continuity of the new business and support growth, they would have to build a management team, find employees to run the tannery, and locate more employees to make products. Kellie and Roger would have to strengthen their accounting knowledge or hire an accountant to help them examine current financials and produce pro forma financials. While they had given some thought to the new types of products they would produce, they would also need to think about the future of their product line and service offerings. In addition they learned that they would have to develop a marketing plan and create a unique selling advantage to distinguish their tannery from that of anyone else.

Kellie, being the more cautious of the two said, "It's a good thing that we took those seminars. However, I think we need some help writing a business plan and starting the new tannery. I'm a little nervous about going ahead on our own."

Roger, being the more laidback of the two, was pretty sure that they could write the business plan themselves. Kellie and Roger talked about the advantages and disadvantages of hiring a consultant to help them. They agreed that they had to create a business plan to raise capital and expand their current market. They also knew that their dreams of improving the economic stability of Shishmaref had a high risk of failure without a business plan.

After some discussion and debate, Kellie and Roger admitted that a lot of time, effort, and knowledge were needed to produce the business plan. They decided to seek help. Subsequently, while looking for sources of capital, a village elder suggested that they see if they could get a grant. Roger and Kellie, after research, found out that they could present a proposal for funding to the U.S. Department of Commerce's Economic Development Administration. Even better, the University of Alaska Center for Economic Development (UACED), based in Anchorage, agreed to help produce a business plan for them. Kellie and Roger wanted to contribute to the plan, so they agreed to take it upon themselves to write the marketing plan component of the business plan. They began with a situation analysis.

### **Key Production Factors**

In order to show that the grant from the U.S. Department of Commerce Economic Development Administration would pay off, Kellie and Roger had to make sure that they would have sufficient supplies to support the forecasted growth in production. They sat down to review the requirements. The co-managers knew what materials were needed, but they were concerned about having enough raw materials, chemicals, and electricity for larger production runs that the new equipment would allow. Kellie was uncertain about labor availability and how to distribute so many more products than ever before. So they each conducted research in the areas of their major concerns and shared their findings with each other.

### **Raw Materials**

Roger reminded Kellie that they had been processing a large variety of furs and hides including: beaver, fox, seal, lynx, bear, polar bear, reindeer, caribou, moose, wolf, wolverine, fox, sea otter, river otter, deer, and coyote. Though tannery customers were primarily from Alaska, some hunters and trappers from the Lower 48 sent their furs and hides to Shishmaref for tanning.

Since a major portion of STI's supply of raw furs and skins was supplied by Alaskan Natives engaged in subsistence activities throughout the state, Roger believed that the supply of raw materials would be adequate for growth in production. The supply of raw skins could never be counted on to be steady, due to the subsistence nature of the hunting activities – Alaska Natives would engage in hunting and trapping when required, and not as a steady, organized occupation. Obviously, individuals who were primary breadwinners for their families would choose work likely to produce the most economic and domestic value. For example, when fish prices were low and firefighting jobs few, more residents would hunt and trap if fur prices were steady. On the other hand, if fishing was more lucrative and/or firefighting jobs plentiful, hunting and trapping activity would decrease. While supply of raw materials could be unpredictable, Roger and Kellie agreed that they would have enough raw materials to meet demand.

### Chemicals and Supplies

Chemicals used in the tanning process included sodium acetate, sodium bicarbonate, oxalic acid, soap, degreaser, mineral spirits, glaze, ultra soft, furrier oil, and soft tan. Rittel's Tanning Supply in Tauton, MA, had supplied the tannery with chemicals since its inception. Current inventories of these chemicals were sufficient for at least the next three years.

Roger wanted to make sure that the new tannery met the environmental objectives of STI. He was aware of the environmental hazards posed by some of the chemicals used in the tanning process. He recommended that they continue using remedies within the tanning process to mitigate its toxicity. In addition, the co-managers agreed that they would continue to stay knowledgeable about the latest advances in chemicals and mitigation techniques. To insure that they met this objective, Roger proposed hiring Rittel's Consultant Services not only to help set up the new operation, but also to give employees professional training. Most importantly, Rittel's had significant experience managing quality and pollution control mechanisms. This training would help the co-managers prevent damage to Shismaref's fragile ecosystem and avert the possibility of any criticism from villagers, customers, employees, investors and especially from regulatory agencies.

### Utilities

Utility services in Shismaref had been a problem over the years. The Tannery had no running water. Between 400 to 1200 gallons of water had to be hauled in from a local reservoir each week by four wheeler, truck, or snow machine in 30-gallon trash containers. The water had to be pumped using an electric pump, into vats as needed. Electrical power was provided by Alaska Village Electric Cooperative (AVEC). Roger did not foresee much change in the availability of utilities for years to come and he concluded that the new tannery would be able to operate effectively even with increased production. Additionally, phone service, provided through Mukluk Telephone, was pretty dependable and the federal government was considering offering wireless computer service to Alaska villages.

### Transportation

Unfortunately Kellie found that there would not be much change in transportation infrastructure. The tannery would have to continue relying on commercial air service for freight handling and shipping to customers. Service would be provided by Bering Air, Olson Air, Baker Aviation, Cape Smythe Air, Hagland Air, Northern Air Cargo, and ATS Freight. Barge service would only be available during the late summer months through Crowley Barge and Northland Barge.

For many years, local transportation has been by snow machine, four-wheeler or truck, depending on the time of the year. Almost every household in the village had at least one snow machine and a four-wheel vehicle. Kellie and Roger did not foresee any serious inadequacy in the transportation of furs.

Labor Availability

Currently, the tannery employed the two co-managers, one full-time tanner, and one part-time administrative assistant. The Tannery also employed 23 artisans who sewed the products and 15 beaders to make sealskin slippers. Based on their research, Kellie expected that the expansion of the Tannery would increase the number of employees to 6 and would add 20 additional employees to produce the sealskin slippers in the the Cottage Industry Division. The Tannery jobs would be full time, and sewing and beading would offer part-time employment and complement the local subsistence lifestyle. Kellie met with the Community Council and she held village meetings with artisans and beaders. Based on discussions with villagers, she told Roger that the new tannery would be able to find the requisite number of employees.

**STRATEGIC ISSUES**

*Developing a Competitive Edge to Expand Sales*

Kellie and Roger planned to take on the challenge of expanding operations both within its Tannery Division and the Cottage Industry Division. While significant improvement in quality and sales had been made during the previous three years, the tannery had not been able to create and maintain a competitive edge: inadequate facilities and outdated equipment prevented the Tannery from improving its capacity.

Roger’s qualitative survey of potential distributors (discussed below) showed that, while some retail furriers perceived STI’s quality and dependability to be less than desirable, strong evidence pointed to the contrary. The team needed to prove to retailers that STI could produce high quality products in a timely manner.

*Financing the New Facility*

Under Roger and Kellie’s management, STI had experienced strong sales growth, particularly during the past year (See Appendix: Financials). Several indicators supported the manager’s conviction that the new venture would be financially successful: 1) total gross revenues were up 46%, 2) market forecasts for all product lines showed increased opportunity for the near future, and 3) STI’s market share, at less than 10% of harvested fur bearing mammals, seals, and polar bears, showed strong potential for growth based on Cash Flow projections. (See Appendix: Cash-Flow Projections)

With the help of the SBDC, the co-managers forecasted that the total cost for construction and refitting equipment was expected to be \$1,185,000. This included:

Building Construction	\$1,000,000
Equipment and Training	\$ 60,000



Land	\$ 25,000
Operating Capital	\$ 100,000

At this point, STI had good cash-flow. Roger and Kellie got help from accountants to find out that STI had to produce a long-term plan for capital replacement. Accountants for STI recommended applying the ten-year, straight-line depreciation method. While the capital investment would not be recorded as a cash expense to STI, it would reflect a net loss on income statements. If nothing were done to plan for savings and future construction loans, STI would, at some point of time, again fall behind in capacity and technology. Kellie and Roger took the accountants' advice to heart. They also decided to continue consulting with the accounting firm.

### *Finding Funding Sources*

STI sought project funding through the U.S. Department of Commerce Economic Development Administration, the Catholic Campaign for Human Development, USDA Rural Development, and First Nations Eagle Fund. Furthermore, the Shishmaref IRA Council committed passionately to building a new tannery. The IRA Council was very pleased with Kellie and Roger's work at STI and acknowledged that the team had been instrumental in achieving recent successes at STI. The IRA Council supported their energy, vision, drive, and commitment to this project and believed that it would become a reality under the co-managers' leadership. STI looked forward to seeing the completed business plan.

## **MARKET ANALYSIS**

"I'm sure glad that we didn't have to write the entire business plan, Roger. If it weren't for the UACED we would have been over our heads. It's taken us over 50 hours of hard work just to put together the Market Analysis portion of the marketing plan. Thankfully, the Small Business Administration had some guides and examples of business plans online."

Roger had the same opinion. He'd been the one to conduct the interviews with Alaska business owners to get a feel for what demand for a new tannery would be like. "You know, Kellie, I liked meeting all the business owners, but I hated flying. Another thing, the folks in the big city had some strange ways of thinking and doing things. A couple of fur shop owners said they didn't think they could rely on us to do a good job or return their pelts on time. They thought that we'd have to mechanize our production process more than we do now and hire dozens more employees than we projected we'd need. I think that some of them just don't understand what it's like up here in the Bush<sup>5</sup>."

"You're right about that, Roger. Let them find tanneries that produce the top quality work that we do and do it without having running water. We don't ship our goods to them by dog

sled, so they'll get their merchandise on time! I hope you made sure to tell them about the advantages we can offer them simply by being an Alaska business.”

“I sure did. I think I made some inroads, Kellie. Anyway, let's take a look at the Market Analysis. I think we have a very good start.” The team reviewed the following components of the market analysis.

### **Market Description**

STI served both the business and consumer markets. The Tannery Division served the business and consumer markets by providing commercially tanned hides and furs to manufacturers and to individuals. The Tannery also provided tanning services to individual subsistence and game hunters.

The Cottage Industry Division primarily targeted the business market. This division sold its finished goods to a number of retailers. These included Heartbeat Alaska, the Eskimo Shop in Barrow, the Alaska Native Medical Center in Anchorage, Lucky Swede in Nome, and Peaceful Arts in Logansport, Indiana. In the past, a few local taxidermists and furriers had used STI to process mounting and garment grade furs, respectively. STI reached the consumer market (Alaska residents and tourists) via retail distribution. Consumers bought sealskin and fur seal slippers, wolf and polar bear ruffs, wolverine ruffs and trim, sea otter/leather fur hats, sea otter and seal skin hats, beaver mittens, and a variety of fur and skin scraps.

Kellie and Roger wanted to expand the Cottage Industry Division by targeting trappers and their families who also used a lot of fur. Villagers rely on the annual fur harvest to augment their subsistence economy. Known worldwide for their exceptionally fine artwork, fur garments, and handicrafts, villagers parlay their fur harvest into creating income. The money generated from the sale of these distinctive and beautiful products help meet the needs of villagers. Kellie and Roger considered these Alaska customers an excellent target market. After all, once the artisans finished their work then Kellie and Roger could pay piecework rate to them and resell the finished items to Alaska retailers. Roger projected that the Tannery Division would increase sales by 10% on resold goods produced by the Cottage Industry Division if they used the STI's distribution system and hired more part-time artisans and beaders.

### **General Market Trends**

In addition to their research of target markets, Kellie and Roger researched market trends. The SBDC trainers strongly suggested that they find out what was happening in the marketplace to identify any potential pitfalls and opportunities. Even though the team found this portion of their work particularly grueling they came up with the following findings:

### Government Regulations

Two key laws pertaining to trade of Native crafts are the Marine Mammal Protection Act and The Convention on International Trade in Endangered Species of Wildlife Fauna and Flora (CITES). The Alaska Department of Commerce and Economic Development states that the "Marine Mammal Protection act was established to protect marine mammals and to regulate the trade of their parts and products. Under the law, Alaska Natives are permitted to use these items in crafts, provided the animals are taken for subsistence purposes or manufactured into authentic Native handicrafts and it is not done in a wasteful manner." CITES is a comprehensive wildlife treaty signed by more than 100 countries, including the U.S. that regulates and, in many case, prohibits the import and export of wild animal and plant species that are considered threatened or potentially threatened.

Another factor which may have had long-term impact on STI was a potential decline in raw material availability. The resources needed to conduct business are renewable, but must be managed for the species' continued general welfare and sustainability.

### Culture and Society

The social and cultural environments also impacted the sale of Native handicrafts and services. The status of village life was changing. The subsistence lifestyle hindered consistent flow of merchandise throughout the year. Native artisans were sometimes perceived as unreliable and retailers needed a consistent supply. Therefore, if slippers and other goods were not available at the right price and time, or if the local tannery could not guarantee quality products and timely turnaround, then retailers would find more reliable sources.

Furthermore, the demand for fur and fur products was experiencing an increase in the Lower 48. However, according to a few local furriers and taxidermists, recent trends in anti-fur activism in the Lower 48 had had little effect in Alaska.

### Science and Technology

Breakthroughs in the computer industry had fueled advances in technology for the fur industry. Some tanneries in the Lower 48 had adopted these technologies to reduce the cost of producing quality hides.

### Competition

Competition for STI's tanning services and manufactured goods was strong and diverse. The strongest competition for tanning came from the Lower 48. Most of the individuals interviewed for this study sent their skins to California, New York, and South Carolina. Tanneries in these states had been in business for a very long time (some over 100 years) and held a large market share in the Lower 48. Other potential competition came from outside the country, from Canada, Italy, and countries in Asia among others.

Other competitors were the independent local taxidermists that processed a limited amount of skins for their own customers. The newest direct competitor was Trophy Tanning in Palmer, Alaska which had opened five years earlier. Jim Vanderhorn, the owner of the tannery, only processed bear skins. Jim was unable to meet the large volume demand for processing. Some additional competition came from do-it-yourself tanners. The strengths of the competitive tanneries and taxidermists included higher quality products, dependable service, lower prices due to economies of scale, long-term relationships with customers, and lower shipping costs.

Manufactured goods also experienced substantial competition. Alaska retailers carried numerous lines of traditional Alaska handicrafts. Strong competition came from other Alaska-made arts and crafts and from other gifts and souvenirs produced in the Lower 48. Clothing (fur slippers, mukluks, hats, parkas), grass baskets and other grass-coiled products (baskets, trays, wall-hangings, dance fans), Qiviut garments (produced from the downy-soft underwool from the Arctic musk ox), dolls, wood carvings, birch bark products, beadwork, ivory and bone carvings, and yo-yos are commonly found at retail shops throughout Alaska. The majority of this merchandise was supplied by individual artisans. Retailers typically operated in shopping malls and in downtown districts which traditionally attract tourists. Convenient location also facilitated direct sale of product from artisans to retail shops.

Individual artisans generally priced their products lower than what STI charged. For example, STI typically charged \$95 to retailers for a pair of sealskin slippers. Retailers would need to mark up the prices of slippers to cover their expenses and profit. The marked up prices could become higher than some consumers would be willing to pay. To keep prices in line with demand some retailers avoided buying from STI. One retailer stated that items under \$100 sold best at her store. If she were to buy slippers from STI the marked up price on the slippers would put her resale price beyond what her customers would be willing to pay. Therefore, she only bought slippers from individual artisans.

### ***Results of Roger's Interviews***

Roger could hardly wait to report the results from the personal interviews. He had conducted interviews with 34 local businesses. He reported that results of the interviews uncovered four factors that affected demand from both the consumer and business markets: quality of merchandise, competitive pricing, dependability, and fast turnaround time.

### **Feedback from Retailers**

#### **Taxidermists**

Roger interviewed nine taxidermists. He was pleased to find out that opinions about the tanning and gift industry paralleled the economic forecasts. Most of the interviewees believed there was future growth potential in tanning raw skins in Alaska. A few believed that an Alaskan tannery could turn around the hides faster than tanneries in the Lower 48.

On the negative side, a few believed that an Alaska tannery could not compete with Lower 48 tanneries. Feedback from Larry Miller, owner of Alaska Wildlife Studio, identified some factors which limited Alaska's potential to compete. Larry said that Alaska's "seasonality is not conducive [to supporting the tannery industry] and that "[high] isolated freight costs offer no cost benefit to Alaskans." Larry also stated that a local tannery would have to produce volumes equal to tanneries in the Lower 48 to be competitive.

Roger's research documented some of the problems that taxidermists experienced in the past when they used Alaskan tanneries. These included 1) inconsistent quality, 2) oily, greasy, and smelly pelts, and 3) high price. Three taxidermists stated that these factors made it less likely for them to buy from Alaskan tanneries.

### **Gift Shops**

Of the 20 Anchorage gift shops that Roger contacted, only seven sold Alaska Native sealskin slippers. Each shop bought slippers directly from the craftsperson--some of whom were from Shishmaref. To give Kellie a feel for the gift shop market, Roger discussed a few of the owner's comments. Some of the feedback was positive and some comments revealed potential problems.

Shawna Rider from Once in a Blue Moose, used to buy Native-made slippers from Shishmaref at wholesale price of \$45 a pair. She said that the STI Tannery wanted \$85 a pair now. At the higher price, she had to resell at a retail price of \$90 or more. The higher price significantly cut into her margin and decreased demand. She also said that she couldn't count on a consistent supply: ". . . artisans don't sell 'unless they're hungry,' she said." On the positive side, Ms. Rider liked carrying the slippers. She found that slippers were "well made, sized correctly, and had a good beaver trim." Demand for sealskin slippers is good. Ms. Rider said that her customers loved them and that the demand for the slippers looked good for the future.

Hector Garcia owned the Alaska Fur Gallery and five additional stores in Juneau, Sitka, and Anchorage. Mr. Garcia thought that there was a lot of need for an Alaska tannery. He said that he thought that "a local tannery should be able to produce 'flexible quality' which should include garment and mounting quality skins." In addition to manufacturing fur garments, Mr. Garcia manufactured slippers. He said that he would sell sealskin slippers if he could buy them at a wholesale price of \$40 to \$60.

Wild Furs' owner, Brandon Butler, didn't think that Alaska needed more tanneries. "Competition from the Lower 48, from taxidermists and from Alaska tanners, was too strong." He sent his pelts to New Method Tanning in Seattle or to a tannery in Brooklyn, NY. Mr. Butler thought that the fur industry had leveled off. He saw no real market for a garment quality tannery in Alaska. However, he thought that trappers and hunters could be a viable market for a local tanning business. He said that he would like to see more local

manufacturing. He would like to sell Native-made slippers, but would only buy them at a lower price. He needed to sell them at about \$80 retail. Another factor which would affect his purchasing manufactured goods from STI was whether he would have a local place to see and touch the products. Furthermore, he would want the tannery to be able to manufacture to his specifications.

Mrs. Dalia Gutierrez of Spenard Fur & Suede sent skins to the Lower 48. She sold Native-made slippers which she bought from individual artisans. Mrs. Gutierrez thought there was a good market for the slippers.

Kellie was very impressed with Roger's report. It certainly supported his initial statement that quality merchandise, competitive pricing, and dependability were important factors affecting buying decisions among retailers. Most of the owners thought that the demand for slippers would continue because of the good quality of slippers produced in Shismaref. On the other hand, feedback indicated that supply had to be reliable and timely; and that prices had to be competitive. The co-managers realized that they would have to manage customers' attitudes about the tannery's ability to supply quality products in a timely manner. Negative customer perceptions could have a long-term impact on demand for new products as well as for their core line. They would have to develop a strategy to create positive perceptions related to product quality and timeliness.

### **Financial Assumptions**

Kellie and Roger made some assumptions about the operations of the renovated tannery. They figured that they could increase sales by 25% annually in all product lines during the first two years of operating the tannery. In addition they could produce a new hat product. They forecasted that STI would sell 100 units for the second year of operation and 250 units in the third year. They projected that piecework expenses would be \$20 per hat. Projections for the first two years of operation showed a steady increase in sales and cash. (See Appendix: Pro forma cash flow statements)

### **THE TASK**

Kellie Olanna and Roger Nayokpuk discussed their predicament and the scope of task ahead of them. They wanted to create a convincing argument explaining why STI should win a grant to build a new tannery. They figured that the business plan and, above all, the marketing plan would prove that investing in a new tannery would benefit investors as well as the village's economy. The team did a lot of research, so they knew a lot about the tannery's resources and external environment. But, who should become their target market(s)? Competition is extensive in the tannery industry, so how should they differentiate their products and their tannery from all of their competitors? Most importantly, how could they achieve their dream of improving the economy of their village while operating on a remote island in the Chukchi Sea of Alaska?

## ENDNOTES

<sup>1</sup>The names used in this case have been changed to protect individuals' privacy.

<sup>2</sup>Those referring to peoples indigenous to the United States generally capitalize Native, as in Alaska Native. Also, Alaska's indigenous peoples want the word Native capitalized whenever used.

<sup>3</sup>The Native Village of Shishmaref is a federally recognized tribe established pursuant to the provisions of the Indian Reorganization Act (IRA) of 1934 and amended in 1936. The IRA Council is the governing body for the Native Village of Shishmaref.

<sup>4</sup>Johnson, Annette, Carol Lewis, and Jeri Rubin. University of Alaska Center for Economic Development. Business Plan, Shishmaref Traditional Industries, Inc. Anchorage: University of Alaska, 1998. Print.

<sup>5</sup>*The Bush* is a term that Alaskans use when referring to locations within Alaska not connected by North American road systems or to the Alaska ferry system.

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## APPENDICES: STI Financials and Patrons

Appendix A		SHISHMAREF TRADITIONAL INDUSTRIES	
		FINANCIAL ANALYSIS	
A.	Projected Budget		
	Building costs are detailed in Appendix C.		
	Equipment costs are detailed in Appendix B.		
	Budget Summary	Building with freight and labor	\$1,000,000
		Equipment with freight	52,000
		Training including travel	8,000
		Land	25,000
		Additional operating capital	100,000
		Total	\$1,185,000
B.	Structure of Financing		
	Sources of Funding		
	Building Construction		1,000,000
		U.S. Department of Commerce Economic Development Administration	
	Equipment and Training		
		Catholic Campaign for Human Development	50,000
		Shishmaref IRA Council	2,000
	Training		
		Shishmaref IRA Council	8,000
	Land		
		Shishmaref IRA Council	5,000
	Operating Capital		
		First Nations Eagle Fund or	100,000
		National Cooperative Bank	
			\$1,185,000

## Appendix B

## SHISHMAREF TRADITIONAL INDUSTRIES

## Cash Flow Projections

July 1, 1999-June 30, 2000

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
<b>Revenue</b>													
Cash-on-hand	866,064	605,361	321,657	190,954	58,978	59,852	65,363	61,280	60,257	61,257	61,234	61,887	62,739
Income													
Fur Sales	5,625	5,625	5,625	8,438	8,438	8,438	11,250	11,250	11,250	12,188	12,188	12,188	112,500
Custom Tan	5,313	5,313	5,313	7,969	7,969	7,969	10,625	10,625	10,625	11,510	11,510	11,510	106,250
Slippers	2,500	2,500	2,500	3,750	8,750	12,500	7,500	6,250	6,250	6,250	5,000	5,000	68,750
Hats	500	500	500	600	1,300	2,300	1,300	600	600	600	600	600	10,000
COD	470	470	470	705	705	705	940	940	940	1,018	1,018	1,018	9,400
Rent	600	600	600	600	600	600	600	600	600	800	800	800	7,600
ANA Grant													0
Misc.	150	150	150	225	225	225	300	300	300	325	325	325	3,000
Sub.	15,158	15,158	15,158	22,266	27,986	32,736	32,515	30,585	30,565	32,691	31,241	31,441	317,500
<b>Construction Grants</b>													
Building													
Equip/ Training													
Operating Capital													
Land													
Sub. total										0			
Income Total	15,158	15,158	15,158	22,286	27,986	32,736	32,515	30,565	30,565	32,691	31,241	31,441	317,500
<b>Expenses</b>													
<b>Variable</b>													
Personal	5,531	5,531	5,531	8,297	8,297	8,297	11,063	11,063	11,063	11,984	11,984	11,984	110,625
Taxes	2,400	2,400	2,400	3,600	3,600	3,600	4,800	4,800	4,800	5,200	5,200	5,200	48,000
Utilities	642	642	642	642	642	642	642	642	642	642	642	642	7,700
Heat	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Water	167	167	167	167	167	167	167	167	167	167	167	167	2,000
Furs	2,219	2,219	2,219	3,328	3,328	3,328	4,438	4,438	4,438	4,807	4,807	4,807	44,375
Slippers	1,250	1,250	1,250	1,875	4,375	6,250	3,750	3,125	3,125	3,125	2,500	2,500	34,375
Hats					350	600	400	350	300				5,000
Sew Supplies	156	156	156	234	234	234	313	313	313	339	339	339	3,125
Tan Supplies	363	363	363	544	544	544	725	725	725	785	785	785	7,250
Office Supplies	194	194	194	291	291	291	388	388	388	420	420	420	3,875
Postage	510	510	510	765	765	765	1,020	1,020	1,020	1,105	1,105	1,105	10,200
Freight	78	78	78	116	116	116	155	155	155	168	168	168	1,550
Refunds	78	78	78	116	116	116	155	155	155	168	168	168	1,550
Council Per diem					1,000		1,000			500			2,500
Travel				1,000	1,000			1,000	1,000				4,000
Bank Fees	25	25	25	38	38	38	50	50	50	54	54	54	500
Training		1,000		1,000			1,000			1,000			4,000
Total Variable	14,111	15,111	14,111	22,512	25,362	25,487	30,563	28,888	28,838	30,964	28,839	28,839	296,625
<b>Fixed</b>													
Insurance	83	83	83	83	83	83	83	83	83	83	83	83	1,000
Advertising	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	20,000
Loans	0	0	0	0	0	0	0	0	0	0	0	0	0
Licenses/ Permits							200						
Total Fixed	1,750	1,750	1,750	1,750	1,750	1,750	1,950	1,750	1,750	1,750	1,750	1,750	21,000
<b>New Construction</b>													
Building	260,000	260,000	130,000	130,000									780,000
Equipment		22,000											22,000
Training							4,000						4,000
Land													25,000
Construction Total	260,000	282,000	130,000	130,000	0	0	4,000	0	0	0	0	0	831,000
Total Expenses	275,861	298,861	145,861	154,262	27,112	27,237	36,513	30,638	30,588	32,714	30,589	30,589	1,148,625
Cash-on-hand	605,361	321,657	190,954	58,978	59,852	65,352	61,353	61,280	61,257	61,234	61,887	62,739	

Appendix C

SHISHMAREF TRADITIONAL INDUSTRIES  
Cash Flow Projections  
July 1, 1998 - June 30, 1999

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
<b>Revenue</b>													
Cash-on-hand	1664	(326)	(3,316)	(5,306)	(8,791)	(9,926)	(7,311)	(9,091)	(10,221)	(11,401)	1,101,821	866,842	866,064
Income													
Fur Sales	4,500	4,500	4,500	6,750	6,750	6,750	9,000	9,000	9,000	9,750	9,750	9,750	90,000
Custom Tan	4,250	4,250	4,250	6,375	6,375	6,375	8,500	8,500	8,500	9,208	9,208	9,208	85,000
Slippers	2,000	2,000	2,000	3,000	7,000	10,000	8,000	5,000	5,000	5,000	4,000	4,000	55,000
Hats					700	1,200	800	700	600				4,000
COD	375	375	375	563	563	563	750	750	750	813	813	813	7,500
Rent	600	600	600	600	600	600	600	600	600	800	800	800	7,600
ANA Grant													0
Misc.	150	150	150	225	225	225	300	300	300	325	325	325	3,000
Sub	11,875	11,875	11,875	17,513	22,213	26,713	25,950	24,850	24,750	25,896	24,696	24,898	252,100
Construction Grants													
Building										1,000,000			1,000,000
Equip/Training										60,000			60,000
Operating Capital										100,000			100,000
Land										25,000			25,000
Sub										1,150,000			1,160,000
Income Total	11,875	11,875	11,875	17,513	22,213	25,713	25,950	24,850	24,750	1,185,896	24,896	24,896	1,412,100
<b>Expenses</b>													
Variable													
Personal	4,425	4,425	4,425	6,638	6,638	6,638	8,850	8,850	8,850	9,588	9,588	9,588	88,500
Taxes	1,920	1,920	1,920	2,880	2,880	2,880	3,840	3,840	3,840	4,160	4,160	4,160	38,400
Utilities	533	533	533	533	533	533	533	533	533	533	533	533	6,400
Heat	279	279	279	279	279	279	279	279	279	279	279	279	3,350
Water	167	167	167	167	167	167	167	167	167	167	167	167	2,000
Furs	1,775	1,775	1,775	2,663	2,663	2,663	3,550	3,550	3,550	3,846	3,846	3,846	35,500
Slippers	1,000	1,000	1,000	1,500	3,500	5,000	3,000	2,500	2,500	2,500	2,000	2,000	27,500
Hats					350	600	400	350	300				2,000
Sew Supplies	125	125	125	188	188	188	250	250	250	271	271	271	2,500
Tan Supplies	290	290	290	435	435	435	580	580	580	628	628	628	5,800
Office Supplies	155	155	155	233	233	233	310	310	310	336	336	336	3,100
Postage	425	425	425	638	638	638	850	850	850	921	921	921	8,500
Freight	63	63	63	94	94	94	125	125	125	135	135	135	1,250
Refunds	63	63	63	94	94	94	125	125	125	135	135	135	1,250
Council Per diem					1,000		1,000			500			2,500
Travel				1,000	1,000			1,000		1,000			4,000
Bank Fees	25	25	25	38	38	38	50	50	50	54	54	54	500
Training		1,000		1,000			1,000			1,000			4,000
Total Variable	11,244	12,244	11,244	18,377	20,727	20,477	24,909	23,359	23,309	25,053	23,053	23,053	237,050
Fixed													
Insurance	63	63	63	63	63	63	63	63	63	63	63	63	750
Advertising	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	20,000
Loans	892	892	892	892	892	892	892	892	892	892	892	892	10,700
Licenses/ Permits							200						200
Total Fixed	2,621	2,621	2,621	2,621	2,621	2,621	2,621	2,621	2,621	2,621	2,621	2,621	31,650
New Construction													
Building										20,000	200,000		1,000,000
Equipment											30,000		52,000
Training											4,000		8,000
Land										25,000			25,000
Construction Total	0	0	0	0	0	0	0	0	0	45,000	234,000	0	1,085,000
Total Expenses	13,865	14,864	13,865	20,998	23,348	23,098	27,730	25,980	25,930	72,674	259,674	25,674	1,353,700
Cash-on-hand	(326)	(3,316)	(5,306)	(8,791)	(9,926)	(7,311)	(9,091)	(10,221)	(11,401)	1,101,821	866,842	866,064	

**Appendix D: List of Patrons by Village and City**  
**Old Tannery Year Three**  
**(Continued on the next page)**

<b>Village/City</b>	<b># of Patrons</b>	<b>Village/City</b>	<b># of Patrons</b>	<b>Village/City</b>	<b># of Patrons</b>
Akiachak	8	Gambell	26	McGrath	6
Akiak	1	Girdwood	1	Mekoryuk	2
Alakanuk	8	Glenallen	1	Minto	1
Aleknagik	10	Golovin	6	Montana	1
Allakaket	2	Goodnews Bay	4	Moose Pass	3
Anaktuvak Pass	1	Grayling	1	Mountain Village	9
Amber	4	Haines	1	Naknek	9
Anchorage	35	Healy	1	Napakiak	6
Anderson	1	Holy Cross	9	Nelson Lagoon	2
Aniak	8	Homer	4	New Stuyahok	4
Anvik	1	Hooper Bay	3	Newport, OR	3
Arctic Village	2	Hope	1	Newport, VT	1
Barrow	80	Hughes	1	Newtok	1
Beaver	2	Huslia	15	Nikolski	1
Bethel	31	Iguigig	5	Noatak	11
Bettles	1	Iliamna	3	Nome	147
Boyer Town, PA	1	Issaquah, WA	1	Nondalton	1
Brevig	11	Kake	6	Noorvik	6
Buckland	10	Kaktovik	5	North Pole	1
Cantwell	3	Kalamazoo, MT	1	Nuiqsut	6
Central	2	Kalispell, MT	1	Nulato	12
Chenega Bay	1	Kalskag	6	Nunapitchuk	7
Chicken	1	Kaltag	1	Ouzinkie	2
Chignik	1	Kasigluk	5	Palmer	5
Chuathbaluk	1	Kenai	1	Paalsbo, WA	1
Chugiak	1	Kiana	10	Perryville	1
Circle	1	King Salmon	1	Pilot Station	15
Clarks Mills, PA	1	Kipnuk	20	Point Hope	10
Craig	1	Kivalina	4	Point Lay	4
Conda Mt.	1	Klawock	3	Port Graham	1
Copper Center	3	Kobuk	4	Quinhagak	10
Cordova	1	Kodiak	6	Red Devil	1
Crooked Creek	1	Koliganek	2	Ruby	8
Deering	14	Kongiganak	5	Russian Mission	3
Denali	1	Kotlik	7	Sand Point	1
Dillingham	22	Kotzebue	97	Savoonga	9

Diomedes	10	Koyuk	16	Scammon Bay	16
Eagle	9	Koyukuk	16	Selawik	9
Eagle River	1	Kwethluk	5	Seward	1
Eek	2	Kwigillingok	8	Shageluk	2
Egegik	1	Lake Minchomina	6	Shaktoolik	16
Ekwok	2	Levelock	3	Shishmaref	109
Elim	8	Lower Kalskag	6	Shungnak	8
Emmonak	8	Manley Hot Springs	2	Sitka	18
Ester	1	Manokotak	4	Sleetmute	1
Fairbanks	23	Marshall	3	Soldotna	1
Fort Yukon	9	Massachusetts	1	Solon Springs, WA	1
Gokana	2	Ketchikan	1	Plano, TX	1
Galena	14	St. George	7	St. Mary's	19
Hartford, WI	1	St. Paul	6	Stebbins	12
South Naknek	1	Stony River	1	Tacoma, WA	1
St. Michael	13	Tanana	6	Teller	16
Sterling	2	Togiak	25	Tok	4
Talkeetna	6	Trapper Creek	3	Trenton, OH	3
Tetitlek	1	Twin Hills	2	Unalakleet	45
Thorne Bay	1	Valdez	5	Venetie	3
Tooksook Bay	3	Wales	13	Wasilla	1
Tuntutuliak	22	Willow	2	Wrangell	1
Upper Kalskag	3	Yakutat	3	Unalaska	1
Wainwright	12	White Mountain	12	Mattawan, MI	1
Yakima, WA	1				
<b>Totals</b>	429		424	601	1454

