Examining Business Turnover in the Texas Charter Boat Fishing Industry: 1975-80

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Introduction

The Texas charter fishing boat industry has received much previous research attention. The research has addressed the distribution and organization of charter boat businesses, operator motivations, and socio-demographic characteristics (Ditton et al., 1977a), business costs and returns (Ditton et al., 1977a; Woods and Ditton, 1980), their fishing clientele (Ditton et al., 1977b; Mertens[1]), local and regional economic impacts (Ditton et al.[2]), and harvest (McEachron and Matlock, 1983).

Each of these studies reports results of a cross-sectional study. A cross-sectional study utilizes data collected at one point in time from a particular population to explore relationships (Borg and Gall, 1983). Our nationwide review of the literature on the charter boat fishing industry revealed that all were cross-sectional studies as well. The cross-sectional study design precludes any study of change, and consequently the extent of stability and turnover among charter fishing businesses remains unexplored. The evaluation of stability and turnover requires the use of time series data and temporal analysis. Temporal analysis is used by social scientists interested in change, process, and the dynamic aspects of social and cultural phenomena (Glenn and Frisbie, 1977).

This paper used data collected at two points in time to address the extent of turnover in the Texas charter boat industry between 1975 and 1980. If it is assumed that the best predictor of the future is the recent past, then a knowledge of trends can not only lead to a better understanding of the phenomena, but also provide managerially useful information (Land, 1983).

A large percentage of business firms in the United States are, by any classification, small. Forty-six percent have fewer than five employees (Small Business Administration, 1983). Individually, these small firms are frequently described statistically in terms of annual sales, products offered, economic effect, or geographic location (Preston, 1977). However, these statistics give little information about what small businesses are like as groups or types. Also, these statistics infer little about the characteristics that distinguish the many different groups of small firms from one another.

Based upon his study of small businesses in Buffalo, N.Y., Preston (1977) suggested a five-category classification system to better portray small business firms. He identified five business types: The rare success, small business industries, firms based on successful specialization, satellite firms, and turnover firms.

High turnover is a characteristic emphasized in every study of small business. It has been estimated that as

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The Port Aransas, Tex., charter boat fleet.

[1]Mertens, T. J. 1977. The Texas Gulf coast charter boat fisherman: A description of the population, their charter fishing participation, and opinions about their fishing experience. Dep. Rec. Parks, Tex. A&M Univ., unpubl. Master's Prof. Pap., 28 p.

[2]Ditton, R. B., R. N. Jarman, T. J. Mertens, M. P. Schwartz, and S. A. Woods. 1977. Charter fishing on the Texas coast. Unpubl. tech. rep. submitted to TAMU Sea Grant Coll. Program, 186 p.

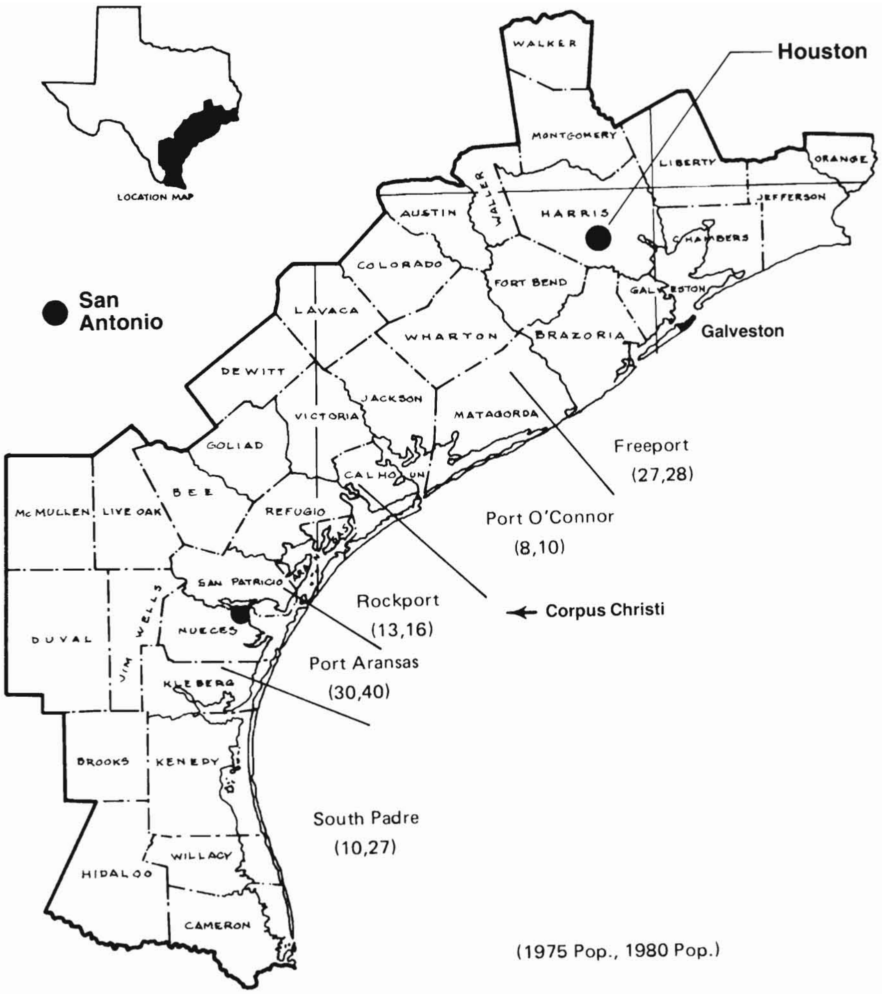

Figure 1.—Distribution of Texas Gulf Coast charter businesses operating in 1975 and 1980, by region.

many as one-third of all small businesses vanish each year (exit), only to be replaced by an equal number of often unpromising new arrivals (entry) (Preston, 1977). He described the "turnover firm" as follows:

"Even when the optimum scale of an economic activity is relatively large, and possibilities for successful differentiation unavailable, if the pool of potential entrants is great enough and no institutional barriers prevent it, there may be a perpetual and numerous small business population composed of turnover firms, whose activities consist primarily of 'entry' followed by 'exit' ".

New businesses are created when entrepreneurs see an unsatisfied demand in the marketplace, and the corresponding opportunity to fill that unmet need. The belief that entrepreneurs are profit-motivated is widely accepted (Broom and Longenecker, 1966; Dibble, 1974). Further, those entrepreneurs motivated primarily by potential financial rewards are usually the most successful (Baty, 1974).

Financial reward has not been demonstrated as the primary motivator in the charter fishing industry. For example, the 1975 average net profit for a Texas charter fishing vessel before any interest payments and income taxes was $5,804 per boat (Ditton et al., 1977a). This suggests factors other than financial reward motivate individuals to invest in a charter fishing business. After all, the charter boat business has been characterized by some operators as "fishing all day, everyday, from your own fully tax deductible boat and getting paid for it" (Groene, 1973). When Texas charter boat operators were asked in 1975 why they became charter operators, the majority said they had not entered the charter fishing business for economic reasons. This makes charter boat businesses likely candidates for classification as "turnover firms."

Methods

An inventory of Texas charter boat fishing businesses was compiled in 1975 by Ditton et al. (footnote 2). A charter fishing boat business had to meet the following criteria to be included in that inventory:

1) Operates a vessel that is U.S. Coast Guard certified if it is more than 5 gross tons. If the vessel is less than 5 gross tons, the operator is only required to have a Coast Guard motorboat operator's license.

2) Provides the services of a boat and/or services of a U.S. Coast Guard licensed captain to take six or less people fishing (either bay and/or Gulf) for monetary remuneration.

3) Utilizes a formal advertising method such as the classified section of telephone directories, radio, television, newspapers, magazines, brochures, or an established chartering service.

Using these criteria, 88 charter boat businesses were identified and grouped regionally on the Texas coast. This 1975 inventory of charter businesses served as a baseline for this paper.

A second inventory of Texas charter boat fishing businesses was compiled during 1980 using the same methods and definitions used in the 1975 inventory (Matheusik[3]), with

[3]Matheusik, R. E. 1980. An exploratory analysis of the extent of stability and the characteristics of change in the charterboat industry on the Texas Gulf coast. Dept. Rec. Parks. Tex. A&M Univ., unpubl. rep., 42 p.

121 businesses identified and also grouped by region to enable comparison.

The descriptive data for 1975 and 1980 provide one view of the Texas charter fishing boat industry. Taken together, the two cross-sectional data sets showed an increase in the size of the Texas charter fishing industry. However, the extent of change during this period is unknown. By separating the 1975 population of charter boat businesses into three subpopulations (steadfast, dropout, and new charter businesses), we examined the extent of stability in the industry between 1975 and 1980.

The steadfast subpopulation includes those businesses that were operating in 1975 and remained in business during the 5-year study period. The dropout subpopulation includes those businesses that departed from the industry sometime between 1975 (after the first inventory was made) and 1980 for one reason or another. They were operating in 1975 but not 1980. The new business subpopulation includes those businesses that entered the industry after the 1975 inventory was made. Changes in these three subpopulations will indicate the rate of turnover, or the relative temporal stability, of the Texas charter boat fishing industry.

A high percentage of steadfast businesses indicates stability, while a high percentage of dropout and/or new businesses indicates a high turnover rate and temporal instability. The reader is cautioned to remember that the analysis reported here is based on two temporal data points.

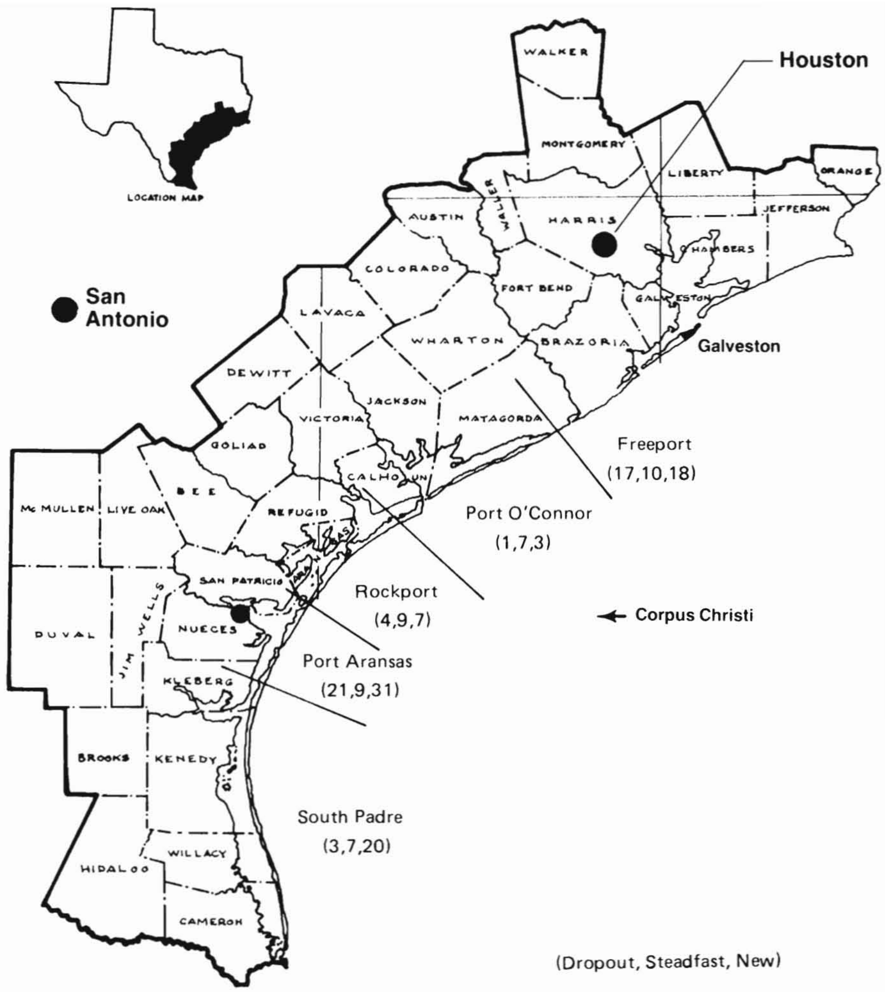

Figure 2.—Subpopulation changes in charterboat fishing businesses between 1975 and 1980, by region.

Results

Figure 1 shows the growth in the number of operating charter fishing businesses between 1975 and 1980. Thirty-three more businesses were operating in 1980 than 1975, a 37.5 percent increase. Net change in the number of operating charter businesses between 1975 and 1980 varies by region (Table 1). While it might be assumed the industry is enjoying steady growth, looking at changes in the three identified subpopulations reveals a different picture. Of the 88 businesses operating in 1975, 46 had dropped out of (exited) business by 1980 (52 percent), and 79 of the 121 businesses operating in 1980 were new (entered) since 1975 (65 percent). Only 42 businesses operating in 1975 were still operating in 1980 (35 percent) (Fig. 2) (Table 1, 2).

Differences between regions in the percentage of steadfast, dropout, and

Table 1.—Turnover in the Texas charter boat fishing industry by region.

Region	1975 Pop.	Drop-out	Stead-fast	New	1980 Pop.
Freeport	27	17	10	18	28
Port O'Connor	8	1	7	3	10
Rockport	13	4	9	7	16
Port Aransas	30	21	9	31	40
South Padre	10	3	7	20	27
Total	88	46	42	79	121

Table 2.—Turnover in the charter boat fishing industry along the Texas Gulf coast.

Year	Total businesses	Dropouts (1975-80)	Steadfast (1975-80)
1975	88	46 (52%)	42 (48%)
Year	Total businesses	New businesses (1975-80)	Steadfast (1975-80)
1980	121	79 (65%)	42 (35%)

A 35-foot Hatteras for sale.

new subpopulations are shown in Table 3. The two regions with the highest dropout rates were Freeport and Port Aransas which are adjacent to the Houston/Galveston and San Antonio/Corpus Christi metropolitan areas. These two regions also had high percentages of new businesses in 1980. South Padre Island stands out as a major growth region with a low dropout rate and high entry rate. Taken together, the high percentage (52 percent) of operators who dropped out and some of the regional exit/entry patterns suggest the Texas charter boat industry is a turnover type industry.

Table 3.—Variation in net growth and percent change in subpopulations by regions.

Region	Net[1] change	Steadfast businesses % of 1975 pop.	Steadfast businesses % of 1980 pop.	Dropout businesses (% of 1975 pop.)	New businesses (% of 1980 pop.)
Freeport	+1	37	36	63	64
Port O'Con.	+2	88	70	12	30
Rockport	+3	69	56	31	44
Port Aransas	+10	30	22	70	78
South Padre	+17	70	26	30	74

[1] Net change = Businesses operating in 1980 minus businesses operating in 1975.

Discussion

Two explanations for the high turnover can be offered. The first is entrepreneurs have been entering the charter business for all the wrong reasons. Charter boat operations are conducted in a business climate characterized by high levels of competition and low profit margins. Many businesses fail in this harsh business climate. Persons wishing to enter this business and be successful should be oriented to business and motivated by concerns for profit. In an effort to rationalize the entry process, a detailed financial analysis was conducted in Texas (Woods and Ditton, 1980) and distributed in an effort to inform potential operators on how much business must be generated to break even financially.

A second explanation for the rate of turnover observed is that these businesses naturally turn over as the business environment changes or as the operator loses interest, has particular experiences, or chooses to devote his time, boat, and money elsewhere. The price of diesel fuel provides an example of how the operating environment can change. In 1975, diesel fuel sold for approximately \$0.40 per gallon. By 1980 this had risen to \$1.10 per gallon.

Charter fishing boat businesses follow the pattern for a turnover business as decribed by Preston earlier. To put the rate of turnover identified for this business sector in some perspective, we compared our findings with the rate of small business failures in general. The dropout rate for small businesses in general (1-4 employees) between 1978 and 1980 was 10.5 percent, or approximately 5.3 percent annually (Small Business Administration, 1983). This would result in a 1975-80 dropout rate of approximately 26.3 percent for small businesses with 1-4 employees, half the dropout rate experienced by the Texas charter boat fishing industry.

An additional consideration not reflected in the pattern of turnover identifed in each region has to do with the charter boat fishing business criteria used in each inventory. A charter business was required to meet several criteria before being considered a legitimate operation. Those not meeting these criteria would not have been classified as a charter boat operation in 1975. This was done in response to previous studies of charter boat businesses on Lake Michigan (Ditton and Strang, 1976; Strang and Ditton, 1976) where "bandit" operators were systematically excluded from study. A "bandit" was defined as someone who instantaneously responded to an opportunity to take someone fishing for financial reward. Generally, these boats were operated without licensed captains, Coast Guard certification, advertising, insurance, and required safety equipment.

However, this determination can exclude businesses that over time have accumulated experience, established a history of assisting customers catch fish, and developed a clientele of satisfied customers that provide a source of repeat business and therefore no longer need to advertise their services. Consequently, these charter businesses would not have been identified in 1975 and counted in the 1980 inventory as steadfast operators. Although these businesses may in fact exist and satisfy the needs of their clientele, they would not generally be available to provide services for novice fisherman or tourists. Consequently, there may be a larger steadfast population of charter businesses, but they were not inventoried initially because they could not be located through public information channels. Fisherman interested in charter services would also be unable to locate those charter businesses that no longer advertise their services. It can be argued that this group of charter operators serve an established and perhaps more experienced group of fishermen, while only those charter businesses that advertise are available to novice charter fishermen or tourists.

Implications

With 65 percent of the available charter businesses having less than 5 years of operating history, a large degree of inexperience exists. This may result in lower catch rates at the expense of paying fishermen.

New and inexperienced charter operations will either survive or fail. When they fail, a new and equally inexperienced business replaces it. This new business will probably provide services of comparable quality. This same turnover phenomena may be observed with pier fishing businesses, party boats, bait businesses, and fishing tournaments.

If a region or community is to develop its marine recreational fisheries and derive the related economic benefits, efforts must be made to allow fishermen access to the relatively small population of experienced operators. Further, those communities or regions able to maintain a steadfast or continuing charter boat fleet will be in a stronger competitive position than other areas in attracting new fishermen and their monetary expenditures.

There are also implications for future research. Instead of perpetuating the continuing trend of cross-sectional studies of statewide and regional coastal charter fishing fleets, more attention to temporal analyses and the dynamics of change is needed. This requires the completion of charter boat business inventories on a regular and timely basis, e.g., every 5 years, with careful monitoring of entries and exits.

Furthermore, there is need for greater investigative depth in future studies. In addition to identifying charter operators who advertise their service generally, belong to associations, and are listed as a part of the industry (as is the current practice in most charter fishing industry studies), effort needs to be invested in locating those operators who are successful but generally invisible to the investigator's eye. Efforts need to be made to differentiate these operators from the "bandits" who become instant charter operators when faced with an opportunity for financial gain.

Acknowledgments

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