

OLD PROBLEMS CALL FOR NEW SOLUTIONS

There are logistical challenges for retailers either doing business or considering doing business in Hawaii that require solutions. Traditionally, the most common ones are shipping, storage, limited local resources and a limited employee base. All of these are legitimate issues and have consistently been part of the obstacle set for retailers to address as they enter the market.

While addressing these issues continues to be a reality, there are abundant solutions for mitigating or solving these obstacles which may surprise some retailers. Ironically, the protagonist for these concerns being solved is retailers themselves making adjustments in their operations.

A well-known case in point is product warehouses - particularly for the medium to large retailers. The cost of supporting an off-site warehouse for excess product is simply unfeasible for most retailers given the high cost of Hawaii real estate in general. With moderate exceptions, the solution for this has been twofold: modify delivery schedules to increase longer lead time as compared to their mainland units and implementation of drop shipping product. With a



Shipping product has always been a logistical challenge for retailers in Hawaii; however, there are more solutions to overcome these barriers than many realize.

warehouse, neither of these changes is needed and the retailer can essentially handle those logistics in the same fashion as they do on the mainland.

Another challenge historically associated with Hawaii is the retention of good employees. While the case could be effectively made that our state has a limited employee base when compared to the mainland, this obstacle can be meaningfully addressed as well. For many of the best-operated retailers in Hawaii, retention of a solid quiver of employees is achievable even with the state's limited employee base.

There is an employee flight to quality that exists in which retailers who create a culture of generosity reap the rewards of the most qualified and least transient workers. This generosity extends well beyond simply paying them a higher wage. Interestingly, this is contrasted against retailers that struggle with consistent sales growth and profitability and their persistent complaints about not being able to secure good employees.

Blue Rock represents Town Food Group, which is owned and operated by Ed Kenney and is an example of the kind of operator that has created such a culture of purpose, generosity, responsibility and `ohana. Town Food Group partners with like vendors such as Ma`o Farms, the largest locally-grown organic farmer that addresses food security. They also serve our community by providing young adults with work opportunities on the farm and in Town Restaurant, either in the front or back of the house. This "authentic," "farm-to-table" restaurant provides an invitation for staff and restaurant guests to be part of a rich, relevant experience that creates family and subsequent employee loyalty.



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Of the challenges listed above, there is one that is fundamentally changing within the state and it is directly benefitting the food and beverage category. It is the sourcing of food products from within the state as opposed to shipping them in from the mainland. Historically, sourcing meats and produce within Hawaii was on such a limited scale that only the boutique restaurants could effectively they were frequently more costly as well.

The fundamental changes have primarily been in two areas: (1) scale of local food production and (2) the increase in fuel costs. There are farms all across the state of Hawaii producing considerable amounts of vegetables and fruit and actively working to scale up acreage to meet increasing demand. Beef prices have risen over 70% in the past three years and the popularity of local, organic beef and pork has Hawaii's farmers seeking new opportunities for expanding their herds.

The force driving this increased demand is partly attributed to the broader theme of the consumer seeking to eat healthier, but the restaurants themselves are also finding this local sourcing economically attractive, as shipping costs dissuade them from buying produce that has been shipped into the state. The fuel surcharges by both Matson and Young Brothers have increased so significantly that the surcharge can frequently exceed the actual cost of the shipped product itself.

With significant farming operations for both meat and produce on all of the major islands, there are viable alternatives for food and beverage operators with an increasing number of retailers choosing to utilize these resources. Certainly, there are limits to the kinds of product that can be effectively grown in Hawaii and obviously we are subject to shipping items instead of having a trucking alternative, but there are far more local resources than many realize.

Retailers in Hawaii are in an actively evolving marketplace where the spoils of success can be won by those who are responsibly innovative, care for their employees and recognize the resources that are at their fingertips.

Local growers, such as Ma`o Farms, provide restaurants with a local sourcing option and are creating change across the state of Hawaii.



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