

HAWAII'S STARBUCKS STORY

It is not too far-fetched to understand why there were skeptics originally about Starbucks entering the state of Hawaii. Certainly by the late 1990's Hawaiian-grown coffee was well-known & desirable across the country, but routine consumption of a hot beverage in temperatures typically ranging between 70-80 degrees was an entirely different idea.

A local development firm secured the rights for Starbucks in Hawaii from corporate and so Coffee Partners Hawaii began as a joint venture between the two companies to grow the local market - with no shortage of skeptics. Eric Tema, a principal of Coffee Partners Hawaii, humorously said, "We used to have to convince landlords that Starbucks was a viable business model for Hawaii in order to get them to negotiate with us." One of the first locations was at the corner of Auahi St & Kamakee St in Kaka'ako and, for a window of time, was the highest volume Starbucks in the country. If there was to be an indication of their success, it occurred early and with velocity.

Other strong locations followed and it was soon clear there was plenty of room for growth across the major islands for traditional locations which, at that time, were simply end cap cafes with some outdoor seating. That was the model for several years. A change was about to occur not only for the basic format of the typical Starbucks unit, but also the various other methods by which the brand would establish itself in different venues.



STARBUCKS - Haleiwa, HI

The First Starbucks location to open in 2018.



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The first Starbucks with a drive-thru was in Hilo of all places and the response from the community was remarkable. That success was repeated in several locations across the state with similar results. The fundamental Starbucks format was reset on a going forward basis so that customers could be served in all desired methods. In 2006, Starbucks acquired all of Coffee Partners Hawaii to bring the venture completely under the Starbucks corporate umbrella.

In 2004 there was an entrée into licensed stores. These locations did not hit the necessary thresholds to justify a traditional store, yet the demand could not be ignored in Hawaii's resort markets and military bases. The first was a push into licensed stores within the hospitality market. As the state's tourist's numbers have continued to grow over the intervening years, so have the resort/hotel unit counts.

The second initiative was strategic alliances with Safeway and Target. Virtually all of the new locations for these two brands in Hawaii include an ISL (In Store Location) Starbucks. These units are also licensed locations instead of traditional units but nonetheless they add brand presence and product availability to the marketplace. Between these two licensed store approaches, there are currently over 40 licensed store locations in Hawaii.

Innovation continues with the latest format - a drive-thru only (DTO). The first of these was constructed at Kahala Mall and negotiations are ongoing with a few other potential locations. These units are generally used to alleviate surrounding stores and increase the convenience for customers for whom the drive-thru makes a lot of difference. Particularly on smaller properties where traditional formats are not achievable.

Another great aspect of these DTO's for Hawaii is they can fit on only 15,000 sf of land so small parcels, underutilized parking fields, etc. can provide potential opportunities. It is still early in the rollout of these formats, but they will be yet another growth vehicle.

With all of these approaches and 20+ years of growth, the question of "will Starbucks succeed in Hawaii" has been replaced with inquiries about "how much growth is legitimately possible". When combining the traditional locations with the licensed locations, there are over 100 total units in Hawaii.

When asked about his thoughts on Hawaii's unit capacity, Charlie Arbing (Hawaii's Director of Store Development) said, "There are still a number of markets where we have limited brand presence, but we are also discovering that quite a few markets have far more consumer depth than we previously thought. Our sales remain strong in nearly all of our units even with the addition of several new locations each year. Hawaii will always remain an important market for Starbucks and we will continue our long term investment into the islands."

A good example of the consumer depth is Kahala Mall mentioned earlier. The end cap café was one of the first Starbucks locations in Hawaii and well-known for being perpetually busy. Two years ago when the DTO opened in the parking field, it was meant to cannibalize the end cap location to create shorter lines and a more enjoyable customer experience. Within a year the end cap location was back to its original sales volume and the DTO was well over projections.

In our representation of Starbucks for the last 15 years, their pipeline is as robust as ever and it is difficult to say where their limits are given how unlikely and prolific their growth has been since the initial rollout. A solid brand, innovation and good operations are key, but certainly this is yet another testament to the Hawaii consumer.

STARBUCKS TRIVIA

How many Starbucks stores are located inside the Honolulu airport?

- A. 6
- B. 9
- C. 11
- D. 14

Answer: C. 11



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