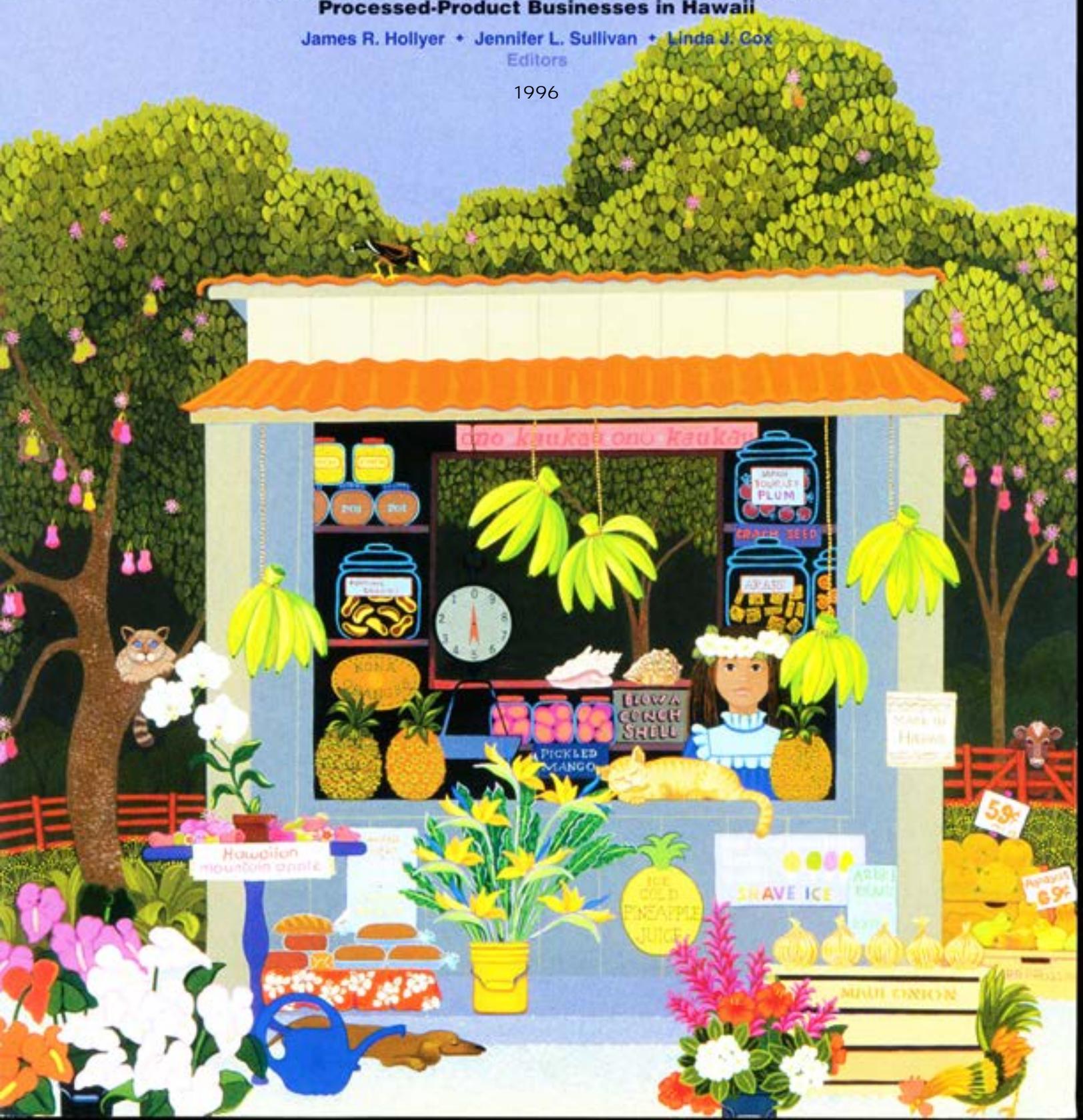


THIS HAWAII PRODUCT WENT TO MARKET

The Basics of Produce, Floral, Seafood, Livestock, and
Processed-Product Businesses in Hawaii

James R. Hollyer + Jennifer L. Sullivan + Linda J. Cox
Editors

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Foreword



Daniel K. Inouye
U. S. Senator

We live in an exciting and challenging period in Hawaii's agricultural history. The decline of sugar and pineapple signals a passing of both an economic era and a way of life for many people. Sugar and pineapple have contributed much to the aura of Hawaii—lush greenery, economic opportunities, and a beautiful backdrop for our tourism industry. I remain committed to the sugar and pineapple industries as they strive to remain competitive domestically and internationally.

Although sugar and pineapple are still important to our economy, the face of Hawaii agriculture is rapidly changing and we are in transition between a plantation system and smaller scale, diversified agriculture. This change will bring new crops, products, and services to market as well as expand the existing diversified crop base. While change is never easy, the current situation presents many opportunities for entrepreneurial endeavors. For the first time in many decades, Hawaii's agricultural resources—land, water, people, and related services—are being released and refocused to allow for the cultivation and commercialization of new tropical crops and products.

Hawaii possesses a broad array of agricultural expertise—scientific, financial, marketing—to service this blossoming sector of our economy. To succeed in maintaining our existing agricultural land base, entrepreneurial spirits must be rekindled and talents nurtured to

develop and capture new markets on the U.S. mainland and abroad. Our scale of agriculture is smaller, compared to the U.S. mainland and abroad, so we must assertively develop these opportunities.

Although local competition is good and healthy, we will need to continually remind ourselves that our real competitors are not neighboring farms or processors but those outside of Hawaii. A spirit of cooperation among our many growers and processors from Kauai to Ka'u is essential if we are to regularly fill our airline and ship containers to ensure a steady supply of high quality products demanded in domestic and offshore marketplaces.

Nowhere is the importance placed on cooperation and collaboration more evident than in *This Hawaii Product Went to Market*. I am encouraged by the timely topics and succinct presentations. I am also impressed with the spirit of cooperation among the many contributors from the private sector, the University of Hawaii, and all levels of government. I congratulate the authors on a job well done.

We have the drive to keep our agricultural lands in agriculture. We have the resources. We have the know-how. Let's work together in the spirit of cooperation so that for decades to come we will continue to enjoy the social, economic, and political benefits of a green, bountiful backdrop—Hawaii's aura.

Introduction: The Big Picture

In 1903 Theodore Roosevelt said, “Far and away the best prize that life offers is the chance to work hard at work worth doing.” As an entrepreneur, you might already know this feeling. And for those budding businesspeople just starting out, hopefully this feeling will come over time. The important thing is to make sure your work *is* “worth doing” by planning ahead and making informed decisions. Otherwise, you may put a lot of effort into your business for little or no reward.

In this book, we have assembled the knowledge of many people to help you get the greatest reward from your hard work. The authors are specialists in their areas and offer guidance that would typically be gathered only by attending many different conferences or workshops.

“None of us are as smart as all of us”

—an African saying

You will note that the chapters are short and are set up to highlight important points. They cover a logical continuum of issues from planning your business to marketing your product and investing your earnings; and they are arranged so that you can read the book from cover to cover or mix and match chapters to suit your needs. You should consider reading all of the chapters, however, even if they don’t apply directly to your product, because there are important ideas in each one. For instance, there are two great marketing drawings in the chapter on *Marketing Your Seafood Products* that can be applied to many businesses. Also, while most of the information focuses on Hawaii’s products and markets, much of the information can still be useful to people outside of Hawaii because many of the concepts are universal—think of this book as a blueprint for your information search! This introduction discusses some important themes that run throughout the book.

Business Skills and Tools

Just like a carpenter building a house, you can’t build a business without skills and tools—enthusiasm is just not enough! In business, some important skills include:

- communication skills
- management skills
- technical skills (e.g., production or processing)
- computer skills
- marketing skills

If you develop these and other skills, then you will be able to use business *tools* more effectively. Some tools that can be used to help you make more informed

decisions about your business include:

- business, financial, and marketing plans
- knowledge of government rules and regulations
- new technology
- current, historical, and projected market statistics
- computer/office equipment
- consultants and other informational resources
- written and electronic resources, such as this book or the computer Internet



Skills and tools are important in developing and running your business

You can use skills and tools to recognize and take advantage of opportunities in all aspects of your business. For example, if you have good communication skills and can build a relationship with your buyer, you can reduce your business risk by arranging to sell your product *before* you invest money for production; or, if you use business tools such as current market prices, you will be in a better position to negotiate a profitable price for your product.

Depending on your company or industry, you may also need to have or learn some additional, specialized skills in order to succeed. The “credentials” list at right gives an idea of the types of specialized skills you may need in your business.

Although working on many of these skills and tools is important to your business, you must also remain focused on the real reason that you are in business—your customers.



Customers: The Only Reason to Go into Business

Many entrepreneurs think that the key to being successful is simply to get their product off the farm or boat or out the door of the factory. They don't think about the customer who finally uses their product. Unfortunately, this approach is not effective because customers dictate what is successful in the marketplace.

As consumers are presented with a vast array of choices, making a sale is getting tougher. Producers will need to more carefully identify their customers' needs and respond to their demands in order to succeed. The following list from Lopez and Polopolus (*Vegetable Markets in the Western Hemisphere*, 1992) gives an idea of the characteristics that consumers, like you, use in comparing many types of products:

- appearance
- consistency
- convenience
- excitement
- freshness
- nutrition
- price/value
- quality
- safety
- taste
- understanding
- uniqueness
- variety

If you can satisfy the customer's needs, in terms of these characteristics, then they will be more likely to buy your product again. If your product and service does not meet their specific needs, then they will buy from your competition. You prove this fact every day when you make choices about the products that you buy!

Employees: An Essential Element for Business Success

Although your customers are the focus of your business, your employees are an essential element in making your business a success. In many cases, your employees are the only contact that your customers have with your company, and as a result, your company's image is in their hands. Your employees may also be responsible for



When a producer takes a good look at himself, he realizes that he is not only a supplier, but also a consumer in many markets

maintaining the quality of your product. For these reasons, it is important to train your employees properly, compensate them fairly for their work, and treat them with respect. A satisfied employee is an asset to your company, therefore they are worth the investment.

Competition: Get Used to It and Beat It!

Believe it or not, you *do* benefit from competition. You may not think that competition is good when you are competing against other businesses within your product's market, but you are a consumer in many other markets and you benefit from the lower prices that competition brings.

The drawing below indicates how people view competition differently depending on their position in the market. As a producer, competition forces you to distinguish your product or service through creativity and differentiation. As a consumer, competition means lower prices and more choices in the market.

In the last frame of the drawing, Kimo, the starfruit grower, has a number of choices. He can choose to grow another crop if he thinks there is too much competition for starfruit; he can make his product better than the others by adding a service or a unique quality; he can take a lower price for his starfruit; or he can try to reduce



the cost of producing his starfruit so he can retain more of his profits. This decision will be much easier if he knows about his competition and can use that knowledge to better his product and services.

Learning About Your Competition

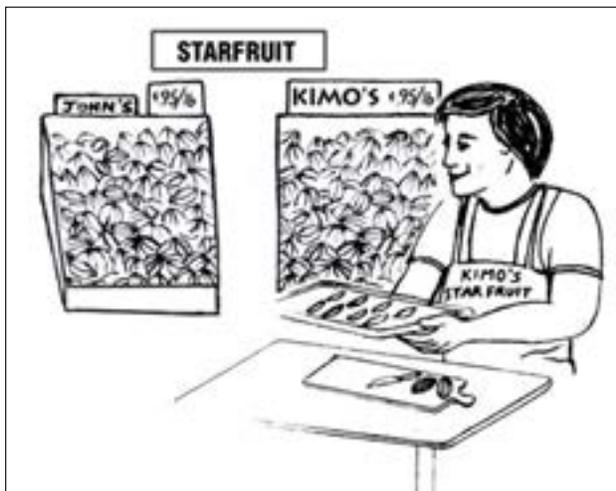
Before you invest in a business venture, it is a good idea to look at what is already in the marketplace to learn about your potential competitor(s). You can look at the different products, services, labels, packages, and pricing, and consider whether the customer's needs are being satisfied in the products that you see. If they are not being met, then you may have a place for your product. Or, if the customer's needs are only partially being met, maybe you can "out-compete" the competition by meeting the customer's needs more fully.

You can go "shopping" for ideas in a range of places, including restaurants, grocery stores, shopping malls, farmer's markets, product catalogs, trade magazines, trade shows, airport shops, and specialty stores. From looking around, you may get some ideas about what you can do with your own product and how to "beat" your competition.

Market, Market, Market

One way to "beat" your competition is by cleverly marketing your product. Marketing means making your product more appealing and desirable through price, packaging, processing, or a service, and responding to customer demands. You need to convince your customers that your product meets their needs and that it meets them better than your competition.

The drawing below shows Kimo, from the drawing on the previous page, trying to "beat" his competition by attracting customers to his product. He is making his selling area more appealing with signs and information and by greeting his customers with a smile.



Marketing means attracting customers to your product

Do you think McDonald's or Disney would have been successful if they had just offered their products for sale with no effort to *persuade* people to buy them? No, of course not. In fact, they became successful by putting a lot of effort into *marketing* their products.

The way that you market your product may be even more important than the product itself, at least to make the initial sale. For example, the successful marketing of the Pet Rock in the 1970s was the result of a very creative marketing strategy, not because it was high in quality or had any real value—hey, it was a rock in a cardboard box!

"Niche" Marketing

Increasingly, businesses are relying on "niche" marketing, or marketing to a select group of customers with unique needs or wants. This trend is especially recent within the produce industry, where the traditional attitude was to focus on producing a certain commodity-grade product and then trying to *make* consumers adapt to that item. Now, the tables are turned. Consumers are looking for items that meet *their* specific needs, and the producers or processors that can meet those needs will be the successful ones. Remember how undersized carrots used to be undesirable, now consumers are demanding "baby carrots" by the truck load.

In Hawaii, there are many opportunities to take advantage of "niche" marketing. Hawaii's exotic image is an advantage for any producer who wants to export their quality product, direct their marketing toward visitors, or enter local or specialty markets.

Unfortunately, there are always two sides to every story. There are often some difficulties with first identifying and supplying a "niche" market. Thus, you will need to do your homework, develop a plan, and be prepared to change that plan quickly if an opportunity arises.

Trends in Agriculture

Whether your business is producing and selling clams, carrots, carnations, cows, or pickled cucumbers, the recent changes in agriculture will probably affect the way you do business. For instance, there are new laws regulating farm effluents, clean water, worker safety, and meat, poultry, and seafood processing, to mention a few. Along with new laws, we have:

- increased competition resulting from a more global economy
- consumers demanding that products meet their specific needs
- technological advancement in the sciences of horticulture, animal husbandry, aquaculture, fishing, and food processing that will require substantial amounts of your time and money to stay current

- the government beginning to take a back seat in some parts of agriculture, including research, which means that you are going to be in the driver's seat more than ever before when it comes to production and marketing research

In Hawaii, the dramatic changes in the structure of agriculture, such as the decline in the sugar and pineapple industries, will present opportunities for people interested in diversifying Hawaii's economic base or expanding Hawaii's market potential both domestically and internationally.

Hints on Business Growth

Like anything in life, moderation will serve you well when it comes to business expansion. You will need to balance your need for more space, people, equipment and so forth with your future potential returns and your ability to pay off any loans you may incur in the expansion. It is important to realize that business expansion typically requires large jumps in spending for items such as equipment. Before leaping into an expansion, make sure your market research is current and then review your business plan with trusted advisors. Finally, stay focused on your long-term goals, because it's easy to get sidetracked in the process of expansion.

Never Stop Learning

In a changing world, it is very important to continue learning, so you can remain competitive. There are many opportunities to improve your ability to run your business and make it more successful. For example, although you may be very familiar with producing or processing, you may benefit from attending a seminar or a workshop about marketing or postharvest handling. There are many ways that you can keep learning, such as:

- attending trade shows
- joining an association/cooperative
- taking continuing education or night courses
- working toward a degree
- attending seminars/workshops
- subscribing to relevant newsletters/trade magazines
- reading both "classics" and contemporary books
- working on the computer Internet and World Wide Web

Learning is a continuous process from which you can always benefit. The more you learn, the better able you will be to produce, process, and market your product.

When You Need Help

There are many organizations available in Hawaii and elsewhere to help you find the information you need and take advantage of the opportunities discussed throughout this book. The best way to go about getting assistance

from these organizations is first to think through your business goals and figure out the areas where you need the most help. Once you have identified these areas, you will be better prepared to ask for help and better able to make use of assistance.

Some good places to get information about starting a business or how to improve your business are the *Business Action Center*, a one-stop shop for information about getting started in business; the *Hawaii District Export Assistance Center*, which provides information and assistance on exporting your product or locating new markets abroad; the book *Business Basics in Hawaii: Secrets of Starting Your Own Small Business in Our State*, which gives a thorough description of the process of starting and maintaining a business in Hawaii; the *Small Business Development Center Network*, which provides business consulting and resource referrals; and finally, the *U.S. Small Business Administration* offices and its publications, which are numerous and deal with almost every topic concerning small business (see *Appendix A* for a list of many of these publications). For more information, contact or obtain the following:

- *Business Action Center*
Department of Business, Economic Development & Tourism
1130 Nimitz Hwy., Suite A-254
Honolulu, HI 96817
Tel: (808) 586-2545
- *Hawaii District Export Assistance Center*
U.S. Department of Commerce
300 Ala Moana Blvd., Room 4106
Honolulu, HI 96813
Tel: (808) 541-1782
- Kondo, Dennis. 1995. *Business Basics in Hawaii: Secrets of Starting Your Own Small Business in Our State*. University of Hawaii Press, Honolulu, HI.
- *Small Business Development Center Network*
University of Hawaii at Hilo
200 West Kawili St.
Hilo, HI 96720-4091
Tel: (808) 933-3515
- *U.S. Small Business Administration*
main office and publications
300 Ala Moana Blvd., Room 2314
Honolulu, HI 96813
Tel: (808) 541-2990

These are only a few of the fine resources available to Hawaii businesses, and there are many more mentioned within this book, especially in the chapter *Business Assistance in Hawaii*.

Passing on the Agricultural Legacy

Whether you are a grower, rancher, fisher, or manufacturer, there will be a time when you want to retire (see the chapter on *Saving and Investing Your Earnings*). And for new entrepreneurs, there is going to be a time to get your feet wet. There is a movement on the U.S. mainland to help entrepreneurs do both—it is called *Matchmaking* and it is a process whereby established entrepreneurs get matched to prospective new entrepreneurs and they begin the process of shared learning. Eventually, if all goes well, the new farmer or processor buys out the retiring businessperson, and both benefit from the exchange. The buy-outs are called *business continuation agreements* and can have very nice tax implications for both parties. If you would like to learn more about the opportunity, read Dan Looker's new book, *Farmers for the Future* (see below).

Matchmaking Programs

Dan Looker notes in his book, *Farmers for the Future*, that matchmaking and traditional apprenticeship programs have many things in common. If you are considering entering into either type of program, Mr. Looker suggests that you visit the business and think and talk about the following items:

- hours and type of work, days off, and length of stay on the farm
- wages, if any
- living arrangements, domestic chores expected
- level of experience of apprentice
- skills or aspects of business the apprentice wants to learn
- policy on use and care of equipment
- safety of the conditions, nature of the work, and insurance coverage
- sensitivity to stereotyping work by gender
- sensitivity to the need for privacy for both the apprentice and the business owner

Source: *Farmers for the Future*, Dan Looker, 1996.

All the Best!

We hope that you enjoy this book and learn from it as much as we did from putting it together. We have tried to include all of the essential information that you will need to start building your agriculturally-related business and marketing your products. From these beginnings, we hope you will keep your eyes and ears open, so you can build upon the knowledge compiled in this book. As the business world changes, you will need to constantly adapt to the changing situation and at the same time stay focused on your goals. And although some of the information in this book will become dated, we hope that you can gain a greater understanding of the fundamentals of business from reading it.

Finally, we would like to let you know that the net proceeds from the sales of this book are going to an Agricultural Awareness and Education campaign being developed by The Hawaii Farm Bureau Federation, the University of Hawaii's College of Tropical Agriculture and Human Resources, the Hawaii Department of Agriculture, and the Future Farmers of America program at the Department of Education. We thank you for your support of this effort!

James R. Hollyer
Jennifer L. Sullivan
Linda J. Cox

Honolulu
September 1996

What Producers/Businesspeople Need to Do to Be Successful—A Grower's Perspective



Out of all of the producers here in Hawaii, I am not sure why I was chosen to write this article. I guess it is because my business has been somewhat successful, and I am willing to share some basic ideas about how to improve your chances of

“When your tools become your toys, work becomes play.”

succeeding in business. For instance, years ago I asked my wife's uncle, a successful businessman, to give me some direction in solving a business problem. I will never forget him saying, “I can't help you. You have to overcome the problem yourself.” At first I was shocked, but later I understood that to be a successful business owner you have to be disciplined and learn how to solve your own problems.

Business Basics

Successful business owners, whether they are part-time or full-time, keep their eyes on the basics. This means that you have to be committed, seek out opportunities, keep your standards high, and have discipline.

Be Committed

To be committed and dedicated to your business means that you will do whatever has to be done, whenever it has to be done. Many business owners work 6 to 7 days a week and at least 10 hours a day. In other words, a business owner must work for every good thing that happens in their business, because nothing comes easily.

When I think of commitment, I think of a real estate investor in Seattle, Washington with whom I did some business. He had the dedication to save enough money to invest in his business, no matter what had to be done. He is mentally retarded, but because of his dedication he was able to overcome his disability. In 1977, he owned several million dollars of rental real estate near downtown Seattle. He was very inspiring to me because he showed me what real commitment can actually achieve.

Seek Out Opportunities

Keep your eyes open and look to grab good business opportunities when you see them. When you look at a problem, you should always see an opportunity to find a solution. For example, last year my problem with produce losses from theft had grown too large for me to accept, so I put in a security system. As a result, my yields increased 27 percent. Instead of ignoring the

problem, I looked at this problem as my chance to take away a thief's opportunity to steal, and I was able to improve my business at the same time.

You can also look at education as a potential opportunity to improve yourself, and in turn improve your business. Continuing your education is a lifelong process, which can be very helpful. You need to build a foundation of knowledge layer by layer over your entire life to be really successful. In other words, the more you already know the more you are capable of learning. I continued my formal education to finish my B.A., and then went back at age 36 for graduate work. With technical journals and books, I have been informally continuing my education all of my life. When you apply his learning process to your business, your only limitation is your willingness to work.

Competition presents another opportunity for people in business to improve their product and their business. Competition helps you stay on top of things. If, on a monthly or annual basis, you ask your customers how you can better serve them, you will dominate your market. You need to listen to your customers' requests if you want to overcome the competition.



Keep Standards High

Your honesty, integrity, and reliability will help customers, vendors, and lenders believe in you and your business. It might be easier to take short cuts and not give your buyers and customers exactly what they want, but over the years people learn and remember what kind of business person you are. Remember, if you aren't willing to give good service, there are others who are willing.

Have Discipline

One of the most important ways, and usually one of the more difficult ways, in which you must discipline yourself is in saving and investing your earnings.

Goodman and Spicer's book, *The Richest Man in Babylon*, presents a good example of the importance of saving. The idea of the story is that the king asked the richest man in Babylon to teach 500 youths the secret to wealth. One day the rich man asked his students how fat each person's purse was. As you can imagine, their purses were almost all empty. He asked them, “since all of you earn different salaries how can you all have equally small purses?” The youths couldn't answer his question, but the answer was simple: “All of you increase your life-style to accommodate spending your entire salary. If you will first pay 10 percent of your salary to

your purse and adjust your spending to 90 percent of your salary, you will soon have fat purses.”

This also happens in business today. Many people simply increase their spending when their profits increase, and they end up spending their whole paycheck. You should save at least 10 percent of your profits (salary) and invest it in your business. As your business grows, you will earn even more. But if you spend everything without investing, you’ll have no savings for your future needs, which include business expansion and retirement.

You must also be disciplined by sticking to your goals. Some of your friends may want to borrow from your savings, with little or no interest payments, and they may not be able to pay it back. Although there may be a lot of pressure to loan to your friends and relatives, you should be very careful and selective when loaning out your money. You must remain focused on your business goals and remember that you are saving the money to invest in your future.

Another aspect of discipline is planning. Planning is the road map to completing your goals. I make short, intermediate and long-term business goals, such as weekly, annual and 5-year plans in writing with a date. I make a financial (mathematical) plan in dollars and cents as well as a written plan. Then, I can see where I excel and fall short of my plan over time. It is important to remember that original plans change for a variety of reasons, such as a new idea or an opportunity. Over time, you should update and change your plans as your business changes.

You can seek advice about any aspect of your business. The best thing is to seek advice after you have tried to figure out the solution on your own (see the chapter on *Business Assistance in Hawaii*).

The Bottom Line

These business concepts are interdependent, which means that you can’t be lacking one or two of them but must use all of them together to be successful. For example, seeking out opportunities won’t help you if you lack the dedication and discipline to save money to take advantage of an opportunity, or if you lack the reliability and integrity to gain support from customers, vendors and lenders.

In addition, you should make all business decisions with very rational thinking. For example, when considering purchasing a tractor or other equipment, carefully calculate how much money the equipment will earn for you after all costs. In business, you only want to buy assets that pay their own way plus earn you a profit.

I believe that the worst day working for myself is better than the best day working for someone else. You don’t have to be really “book-smart” to start your own business, but you have to be willing to sacrifice. And only you can decide if the sacrifice is worth the rewards.

Suggested Resources

Goodman, Robert B. and Robert A. Spicer (Ed.) 1974.
The Richest Man in Babylon. Norfolk Island, Australia. Adapted from the original story by George S. Clason.

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What it Takes to Be Successful in Small Business

Darryl Mleynek
University of Hawaii at Hilo

In business, there are certain things that can help you improve the likelihood of your success. There are also well-documented causes of business failure that can be avoided. Both the opportunities for success and the chances of failure apply to growers, fishers, and others engaged in agricultural pursuits, as well as to retailers, wholesalers, and manufacturers. Although there are no guarantees for success in business, the following tips can set you on the right path.



The “TRICC” to Success

Some tips for business success are captured by the acronym “TRICC,” which stands for Team, Risk, Innovation, Customers, and Capital. Almost everything you need to know to be successful in business is contained in these five concepts:

Team

Successful business people come to understand that their business is supported by a team of players. This is true even when business people are the sole workers in their business. For instance, those engaged in farming need to put together a team that includes their:

- insurance agent
- accountant or bookkeeper
- banker
- employees
- family
- associations, such as the Farm Bureau
- cooperatives
- agricultural extension agents and their services
- consultants
- buyers

From this team, you need to actively seek out advice. Successful business people find ways to capture other people’s expertise for their business. There is too much to know in today’s world for any one person to assimilate.

Risk

The very essence of business is risk. Producers know that. But too often the view of risk is wholly negative, and some people believe that all risk should be avoided. Not so. In business, the goal is not to avoid risk, but rather to understand your risks and reduce them to acceptable levels. A business without risk is a business that is doing nothing new; a business that is doing nothing new is failing to compete; and a business that is failing to compete is creating an unacceptably high level of risk. Calculated risk is necessary for business survival.

Innovation

The foundation for competition in the marketplace is innovation. Successful companies innovate over and over again by:

- developing new products and services
- finding new technology to produce their products less expensively or to increase their quality
- finding ways to add value to their products
- finding new markets

Doing one’s business in new and better ways creates competitive advantages. In today’s world, businesses do not survive if they are not competitive. This is a critical point for producers and those who fish, because traditionally their products were commodities without distinction in the marketplace. Today, producers must find ways to compete with other products.

Customers

Products must fulfill customers’ needs and desires or solve their problems. Your product must perform uncommonly well because competition is becoming increasingly strong.

The first step in addressing this challenge is to determine who your customers are. For producers, customers may be marketing cooperatives, wholesalers, retailers, or end users. The second step is to determine what their needs are for your product. The third step is to provide what they need. While these steps may seem simple, they are not. In fact, each step requires diligence and commitment.

Capital

Businesses invest capital (money) in equipment, inventory, buildings, and people in order to earn greater amounts of capital. Usually, businesses begin with the owner’s capital, but expand with the capital of new

owners or investors and/or by creating debt. How this works is an ever changing process, and all expansion requires some understanding of this process. The answers lie with your team members.

So, this is the “TRICC” to business success. Learning more and more about each of these concepts through experience, education, and asking experts will help you achieve success and avoid the causes of failure.

The Causes of Failure

Business failure can result from neglecting the “TRICC’s”, but also from some other reasons, including:

- lack of management systems
- lack of vision and purpose by owners
- lack of financial planning and review
- over-dependence on specific individuals in the business
- poor market segmentation and/or strategy
- failure to establish and/or communicate company goals
- competition or lack of market knowledge
- inadequate capitalization
- absence of a standardized quality program
- owners concentrating on technical rather than strategic tasks
(Gerber Business Development Corporation, 1994.)

While those reasons for failure are all too common, organizing your company with a business plan will help to reduce uncertainty. Following through with the plans will, in turn, help increase your chances of success (see the chapter on *Preparing Your Business Plan*). Of course, much of your success depends on whether you have done your homework and have read market signals correctly.

Suggested Resources

One community resource for learning more about business success is the UH Hilo Small Business Development Center Network with offices throughout the state on Kauai, Hawaii, Maui, and Oahu (see the chapter on *Business Assistance in Hawaii* for more information about our organization and also a number of other business support organizations).

The following publications can be purchased at the UHH–Small Business Development Center Network offices on each island:

- *The Business Planning Guide—Creating a Plan for Success in Your Own Business*
- *Cash Flow Control Guide—Methods to Understand and Control the Small Business’ Number One Problem*
- *Market Planning Guide—Creating a Plan to Successfully Market Your Business Products or Services*
- *Innovation in Hawaii—A Resource Manual*

Author Information

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Business Assistance in Hawaii

Whether you have a new business or want to improve your existing one, there are a lot of resources in Hawaii to help you. Business assistance in Hawaii focuses on small businesses because they dominate the marketplace. The following is a list of helpful resources for small businesses in Hawaii. But, remember that information can never replace innovation and determination, it can only supplement it.

Chamber of Commerce of Hawaii

Small Business Center

The Chamber offers a complete range of services to the small business community, including:

- business advocacy
- government marketing assistance
- networking opportunities
- seminars and trade shows
- entrepreneur training classes
- information and referral
- business expansion advice

For more information, contact:

Chamber of Commerce of Hawaii
1132 Bishop St., Suite 200
Honolulu, HI 96813
Tel: (808) 545-4300/Fax: (808) 545-4309

University of Hawaii at Manoa

Pacific Business Center Program

The Pacific Business Center Program (PBCP) matches faculty, students, and facilities at the University of Hawaii with requests for assistance from businesses and community development organizations in Hawaii and the Pacific Islands. In addition, Pacific Business Center staff meet with public and private sector representatives to discuss their needs in a variety of fields, including:

- marketing
- financial and business planning
- visitor industry development
- workshops and training programs
- management audits
- small business incubator planning
- aquaculture and hydroponics
- equipment and supply sources
- ecotourism development

Initial consultation with program staff is free of charge. After that consultation, clients may receive a variety of

consulting services for a modest fee. For more information, contact:

Pacific Business Center Program
University of Hawaii at Manoa
2404 Maile Way, Business Administration A413
Honolulu, HI 96822
Tel: (808) 956-6286/Fax: (808) 956-6278
email: angie@pbcp.cba.hawaii.edu
Internet: <http://www.cba.hawaii.edu/pbcp/>

ALU LIKE, Inc.

Native Hawaiian Business Development Center

The mission of the Native Hawaiian Business Development Center (NHBDC) is to increase the number of successful Hawaiian-owned businesses by providing business training assistance. Assistance includes:

- adult and youth entrepreneurship training programs
 - conduct training classes for adults and youth in the principles of entrepreneurship, business organization, marketing, sales, and financial planning
- management and technical assistance
 - business plan preparation
 - business loan application assistance and consulting through the Office of Hawaiian Affairs
- business incubator project
 - subsidized lease agreement for fully furnished office space
 - personal computer and laser printer
 - business office services
 - product marketing services
 - technical and business consulting assistance

For more information, contact our nearest branch:

Oahu

1120 Maunakea St., Rm. 273
Honolulu, HI 96817
Tel: (808) 524-1225
Fax: (808) 522-5314

Hawaii

32 Kinoole St., Suite 102
Hilo, HI 96720
Tel: (808) 961-2625
Fax: (808) 935-6084

Molokai

P.O. Box 392
Kaunakakai, HI 96748
Tel: (808) 553-5393
Fax: (808) 553-9888

Honolulu Minority Business Development Center

The Honolulu Minority Business Development Center (HMBDC) is operated by Grant Thornton, an international accounting and management firm. It is supported under a cooperative agreement with the Minority Business Development Agency of the U.S. Department of Commerce. Services include:

- consulting, management, and technical assistance for ethnic minorities
 - business planning
 - finance and accounting
 - federal procurement
 - general management
 - marketing
- management consulting services
- free orientation session every Tuesday at 9:00 a.m.

For more information, contact:

Honolulu Minority Business Development Center
First Hawaiian Tower
1132 Bishop Street, Suite 1000
Honolulu, HI 96813
Tel: (808) 531-6232/Fax: (808) 523-8590

Office of Hawaiian Affairs

Native Hawaiian Revolving Loan Fund

The Native Hawaiian Revolving Loan Fund (NHRLF) is supported by the Administration for Native Americans of the U.S. Department of Health and Human Services and the Trustees of the Office of Hawaiian Affairs. The services include:

- loans for business start-ups or expansion of existing businesses that are 100 percent native Hawaiian-owned
- maximum five-year loan term
- loans limited to working capital or fixed asset purchases (real estate purchases do not qualify)
- loans available on all islands
- management and technical assistance

For more information, contact:

Office of Hawaiian Affairs
711 Kapiolani Blvd. #500
Honolulu, HI 96813
Tel: (808) 594-1888/Fax: (808) 594-1865

University of Hawaii at Hilo

Small Business Development Center Network

The UHH–Small Business Development Center Network (SBDC Network) is a support service for small or new businesses that is funded by the U.S. Small Business Administration and the University of Hawaii at Hilo. It offers free consulting through its professional staff and

business professionals. The services include:

- business consulting
- information and research
- business training seminars
- information resources
 - books
 - videotapes
 - business computer software
 - database searches

For more information, contact:

Hawaii

Univ. of Hawaii at Hilo
200 West Kawili St.
Hilo, HI 96720-4091
Tel: (808) 933-3515
Fax: (808) 933-3683
email: darrylm@interpac.net

Oahu

Bus. Info. & Counsl. Ctr.
130 Merchant St., Ste. 1030
Honolulu, HI 96813
Tel: (808) 522-8131
Fax: (808) 522-8135

Kauai

Kauai Community College
3-1901 Kaunualii Hwy.
Lihue, HI 96766
Tel: (808) 246-1748
Fax: (808) 245-5102

Maui

Maui Research &
Technology Center
590 Lipoa Parkway
Kihei, HI 96753
Tel: (808) 875-2400
Fax: (808) 875-2452

College of Tropical Agriculture and Human Resources, University of Hawaii at Manoa

Cooperative Extension Service

CTAHR's Cooperative Extension Service has offices statewide to assist agriculturally-based businesses and other small rural businesses. Farmers, ranchers, nursery owners/managers, landscapers, food processors, and other agribusiness people, along with creative professionals and other home-based business owners/operators, have access to the following services:

- production and business development guidance, including information about current research
- specialized educational programs comprised of seminars, workshops, and written materials on business and production issues
- organizational services to help businesses work together to solve common problems and pursue specialized economic research and market development needs

For more information, contact:

Cooperative Extension Service
3050 Maile Way, Gilmore Hall 203
Honolulu, HI 96822
Tel: (808) 956-8139/Fax: (808) 956-9105
email: ta_hitahr@avax.ctahr.hawaii.edu
Internet: <http://www.ctahr.hawaii.edu>

Other CES Offices:

Hawaii (Hilo)	(808) 959-9155
Hawaii (Kona)	(808) 322-2718
Maui	(808) 244-3242
Molokai	(808) 567-6833
Kauai	(808) 241-3471

University of Hawaii at Manoa

Office of Technology Transfer and Economic Development

The Office of Technology Transfer and Economic Development (OTTED) facilitates community access to the University's scientific and technical resources, including in-house research and technology, faculty expertise, and unique R&D equipment and facilities to support the growth of Hawaii businesses and industry, education enrichment, and state economic development.

Intellectual Property Program

- patents and licenses University-developed technologies and facilitates spin-off businesses

Economic Development Program

- supports local software development and provides state-of-the-art computer technology and training to industry, educational groups, and government
- business technology development workshops

Technical Assistance Program

- helps find low-risk, technology-based solutions to technical problems

Outreach Program

- information on University of Hawaii faculty expertise and research in selected disciplines
- facilitates access to technologies, expertise, and specialized research facilities of federal laboratories that work with businesses on joint R&D, new product development, and technical commercialization

For more information, contact:

Manoa Innovation Center
2800 Woodlawn Drive, Room 280
Honolulu, HI 96822
Tel: (808) 539-3817/Fax: (808) 539-3833
email: otted@hawaii.edu
Internet: <http://www.mic.hawaii.edu/otted/otted.html>

Maui Research & Technology Center
590 Lipoa Parkway, Suite 259
Kihei, Maui, HI 96753
Tel: (808) 875-2600/Fax: (808) 875-2605

Hawaii Department of Business, Economic Development & Tourism

Business Action Center

The Business Action Center (BAC) is a one-stop business license and permit center for:

- general excise tax licenses
- business and trade name registration
- employer registration
- information and referral service
- business assistance booklets
 - Starting a Business in Hawaii*
 - Hawaii's Business Regulations: A Summary*
 - Checklist for Employers in Hawaii*

The BAC also provides information on other business assistance programs. All services are free of charge, although applications may require a fee.

Financial Assistance Branch

- low interest loans for small businesses available from the State of Hawaii

Government Marketing Assistance

Helps businesses understand procurement laws and regulations of federal, state and county governments. Services include:

- assistance in identifying government purchasing activities
- information on the bidding process and specific bid opportunities

For more information about BAC services or DBEDT's *Financial Assistance Branch* or *Government Marketing Assistance*, contact:

Business Action Center
1130 N. Nimitz Highway, Suite A-254
Honolulu, HI 96817
Tel: (808) 586-2545/Fax: (808) 586-2544
Neighbor islands: (800) 468-4644 ext. 6-2545

U.S. Small Business Administration

Honolulu District Office

The mission of the Small Business Administration (SBA) is to stimulate and foster economic development through small business. The services include:

- business development
 - information
 - counseling
 - training
- financial assistance
 - loan guarantees
 - bonding assistance
 - other direct and indirect support

- assistance in getting government contracts and advocacy services representing
 - small business interests in Congress
 - other federal agencies
- publications and educational materials (see Appendix B)

For more information, contact:

PJJK Federal Building
300 Ala Moana Blvd., Room 2314
Honolulu, HI 96850
Tel: (808) 541-2990/Fax: (808) 541-2976
Internet: <http://www.sbaonline.sba.gov>

Service Corps of Retired Executives

Partially funded by the U.S. Small Business Administration, the Service Core of Retired Executives (SCORE) utilizes the expertise, ideas and skills of retired and active executives to counsel small businesses at no charge. Services include:

- Counseling on business start-ups
- Financial and marketing planning
- Operations, accounting, sales, and procurement assistance
- Workshops
- Counselors statewide and in the South Pacific

For more information, contact:

Oahu

District Office
PJJK Federal Building
300 Ala Moana Blvd.
Room 2314
Honolulu, HI 96850
Tel: (808) 541-2977

Honolulu Chapter
Bus. Info. & Counsl. Ctr.
Bancorp Tower
130 Merchant St., Ste. 1030
Honolulu 96813
Tel: (808) 522-8132

Maui

Maui Chamber of Com.
250 Alamaha, N16A
Kahului, HI 96732
Tel: (808) 871-1249

Hawaii

HI Is. Chamber of Com.
202 Kamehameha Ave.
Hilo, HI 96720
Tel: (808) 935-7432

The Business Information and Counseling Center

The Business Information and Counseling Center (BICC) is a special project under the SBA with SCORE and the Small Business Development Center Network. The BICC is designed to guide owners and managers in business planning and research, plus:

- provide an opportunity to develop management skills and utilize new technology such as computers, CD-ROMs and the latest business software
- counseling is confidential and can be accessed on-line through the Internet, via email

For more information, contact:

Business Information and Counseling Center
Bancorp Tower, 130 Merchant St., Ste. 1030
Honolulu, HI 96813
Tel: (808) 522-8131/Fax: (808) 522-8135
email: sbascor@aloha.net
Internet: <http://sbaonline.sba.gov/regions/states/hi>

College of Business Administration, University of Hawaii at Manoa

The Family Business Center of Hawaii

The Family Business Center of Hawaii is a new partnership between Hawaii's family business community and the University of Hawaii's College of Business Administration. The mission of this organization is to help Hawaii's family businesses to survive and thrive into and through the 21st century. This mission is achieved by providing:

- an opportunity for owners and managers of family businesses to interact directly with the country's leading experts, researchers, consultants, and professional advisors who know and work with family businesses
- a forum for Hawaii's leading family business owners where ideas and experiences can be shared and opportunities presented for mentoring and internships for future leaders
- access to the growing body of knowledge and research that enhances the understanding of the special issues and circumstances relating to family businesses in general and Hawaii in particular
- programs with experienced family business professionals that will strengthen the many relationships unique to a family business
- information and programs to increase awareness in Hawaii about the unique value of family businesses

For more information, contact:

Family Business Center of Hawaii
College of Business Administration
University of Hawaii at Manoa
2404 Maile Way, B-101
Honolulu, HI 96822
Tel: (808) 956-4298

Hawaii Department of Agriculture

The Department is dedicated to stimulating the development and utilization of agricultural resources in this State. In this way, we help to maintain a healthy food supply for Hawaii's people, provide employment, maintain a favorable balance of trade, and preserve the aesthetic quality of the islands.

For more information contact:

Hawaii Department of Agriculture
P.O. Box 22159
Honolulu, HI 96823-2159

Agricultural Loans

The Agricultural Loan Division provides financing to “qualified” and “new” farmers engaged in agricultural production of food, feed, and fiber, as well as aquacultural ventures.

For more information contact:

Agricultural Loan Division
Oahu: (808) 973-9460
Hawaii Island (East): (808) 933-4446
Hawaii Island (West): (808) 323-2608
or toll free: (800) 468-4644 ext. 39460

Agricultural Parks

Agricultural parks are areas set aside specifically for agricultural activities to encourage continuation or initiation of such operations. The State’s Agricultural Park Program makes land available to small farmers at reasonable cost with long-term tenure. Currently there are eight agricultural parks managed by the Department’s Agricultural Resource Management Division:

Oahu

- Waimanalo Ag Park, 126 acres subdivided into 14 lots
- Waianae Ag Park, 150 acres subdivided into 17 lots
- Kahuku Ag Park, 686 acres subdivided into 24 lots

Hawaii

- Pahoia Ag Park, 599 acres subdivided into 60 lots
- Panaewa Ag Park, 460 acres subdivided into 28 lots
- Keahole Ag Park, 179 acres subdivided into 34 lots
- Hamakua Ag Park, 509 acres, yet to be subdivided

Kauai

- Kekaha Ag Park, 158 acres subdivided into 19 lots

For more information contact:

Agricultural Resource Management Division
Tel: (808) 973-9475

Market Development

The Market Development Branch assists in the marketing and promotion of quality agricultural commodities and products. Services include:

- assists in developing product promotions.
- provides information on exporting Hawaii’s agricultural products, including assistance for phytosanitary clearances.

- coordinates Hawaii’s contingents for trade shows on the Mainland, Japan, Canada, and Europe.
- provides fee-for-service for certification of agricultural commodities such as eggs, fresh fruits and vegetables, as well as processed food.
- enforces laws pertaining to agricultural commodities relating to grades, standards, labeling requirements, advertising, minimum export requirements, and licensing of dealers, as well as sampling and testing of animal feed for guarantees and adulteration.
- enforces package labeling and retail pricing requirements.
- requires all commercial measuring devices to be registered and checked for accuracy.
- provides data and reports relating to farm production, acreage, farm prices and value, as well as wholesale prices, supply, and market conditions for a wide array of commodities.

For more information contact:

Marketing Division
Tel: (808) 973-9566

Other Development Programs

These other offices offer a wide variety of services dedicated to economic development in their counties. For a list of services or other information, contact:

Hawaii

Department of Research & Development
25 Aupuni St., Room 219
Hilo, HI 96720
Tel: (808) 961-8366/Fax: (808) 935-1205

Hawaii Island Economic Development Board
200 Kanoiehua, Ste. 103-281
Hilo, HI 96720
Tel: (808) 959-0108/Fax: (808) 959-0108

75-5737 Kuakini #206
Kailua-Kona, HI 96740
Tel: (808) 329-4713/Fax: (808) 966-6792

Kauai

Office of Economic Development
4444 Rice St., #230
Lihue, HI 96766
Tel: (808) 245-7305/Fax: (808) 245-6479

Maui

Office of Economic Development
200 South High St.
Wailuku, HI 96793
Tel: (808) 243-7710/Fax: (808) 243-7870

Oahu

Economic Development Corporation of Honolulu
1001 Bishop St., Ste. 735
Honolulu, HI 96813
Tel: (808) 545-4533/Fax: (808) 545-4309

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Honolulu, HI 96817

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3050 Maile Way, Gilmore Hall 115
Honolulu, HI 96822

Hawaii Chambers of Commerce

African-American Chamber of Commerce

733 Bishop St., Suite 170-717
Honolulu, HI 96813
(808) 947-7493 / fax (808) 947-7493

Australian American Chamber of Commerce (Hawaii)

P.O. Box 438
Honolulu, HI 96809
(808) 526-2242 / fax (808) 531-5142

Chamber of Commerce of Hawaii

1132 Bishop St., Suite 200
Honolulu, HI 96813
(808) 545-4300 / fax (808) 545-4309

Chinese Chamber of Commerce

42 North King Street
Honolulu, HI 96817
(808) 533-3181 / fax (808) 533-6967

Filipino Chamber of Commerce

735 Bishop St., Suite 301
Honolulu, HI 96813
(808) 533-0322 / fax (808) 521-3114

Filipino Chamber of Commerce of Hawaii, Maui Chapter

P.O. Box 2159
Wailuku, HI 96793
(808) 244-4609 / fax (808) 242-7615

Hawaii Hispanic Chamber of Commerce

91-050 Pahuhu Way
Ewa Beach, HI 96706
(808) 683-6644 / fax (808) 683-6644

Hawaii Island Chamber of Commerce

202 Kamehameha Ave.
Hilo, HI 96720
(808) 935-7178 / fax (808) 961-4435

Hawaii Island Portuguese Chamber of Commerce

P.O. Box 1839
Hilo, HI 96720
(808) 961-8215 / fax (808) 961-8248

Hawaii Korean Chamber of Commerce

1541 S. Beretania St.
Honolulu, HI 96826
(808) 945-3100 / fax (808) 945-3100

Honolulu Japanese Chamber of Commerce

2454 S. Beretania St.
Honolulu, HI 96826
(808) 949-5531 / fax (808) 949-3020

Irish Chamber of Commerce

1108 Fort Street Mall, Suite 14
Honolulu, HI 96813
(808) 533-0033 / fax (808) 599-5451

Japanese Chamber of Commerce & Industry of Hawaii

400 Hualani St., Suite 20B
Hilo, HI 96720
(808) 934-0177 / fax (808) 934-0178

Kailua Chamber of Commerce

P.O. Box 1496
Kailua, HI 96734
(808) 261-2727 / fax (808) 262-2449

Kauai Chamber of Commerce

P.O. Box 1969
Lihue, HI 96766
(808) 245-7363 / fax (808) 245-7363

Kona-Kohala Chamber of Commerce

75-5737 Kuakini Hwy.
Kailua-Kona, HI 96740
(808) 329-1758 / fax (808) 329-8564

Maui Chamber of Commerce

26 N. Puunene Avenue
Kahului, HI 96732
(808) 871-7711 / fax (808) 877-6646

Maui Japanese Chamber of Commerce

P.O. Box 2356
Wailuku, HI 96793

Native Hawaiian Chamber of Commerce

P.O. Box 597
Honolulu, HI 96809
(808) 531-3744 / fax (808) 536-8699

Portuguese Chamber of Commerce of Hawaii

P.O. Box 1381
Honolulu, HI 96807
(808) 988-6217 / fax (808) 988-6217

Vietnamese-American Chamber of Commerce of Hawaii

745 Fort Street Mall, Suite 1000
Honolulu, HI 96813
(808) 531-7174 / fax (808) 521-9994

Source: The Chamber of Commerce of Hawaii

Choosing a Legal Structure for Your Business

Steven L. F. Ho
Torkildson, Katz, Fonseca, Jaffe, Moore &
Hetherington, Attorneys at Law

Before starting a business, you need to make many important decisions. This chapter focuses on some of the legal decisions that you will have to make before you start your business. The legal structure of your business is important because your decision will affect your taxes, your organizational and management structure, your capital structure, and many other aspects of running your business. An attorney and/or accountant can help you make these important decisions. In addition, you can get information from the Department of Business, Economic Development & Tourism's publications entitled *Hawaii's Business Regulations: A Summary* and *Starting a Business in Hawaii* (see the *Suggested Resources* section at the end of this chapter), which provide an overview of Hawaii's business regulations and license requirements.



Some of the following information was prepared by Kansas State University's Small Business Development Center and has been adapted for use in Hawaii.

Forms of Business

In Hawaii, the legal structure of your business can take one of the following forms: sole proprietorship, general partnership, limited partnership, or corporation; and, beginning in April 1997, your business may also be structured as a limited liability company. Before you can select the form that your business will take, you should ask yourself the following basic questions:

- Will I be the sole owner or will someone else share in the ownership of the business?
- Which business form will result in the least amount of taxes?
- How important is it to limit my personal liability for the debts of the business or claims against the business?
- Which business form will be the simplest and least expensive to establish and maintain?

Sole Proprietorship

A sole proprietorship is a business which is owned by one (and only one) person. The sole proprietorship is the most common form of small business organization because of its ease of formation. To establish a sole proprietorship, you need only obtain whatever licenses

are necessary (see DBEDT books in *Suggested Resources* section at the end of this chapter) and begin operation.

Advantages

- easy to start and cost of organization is low
- few legal restrictions
- owner receives all profits
- owner has maximum control over operations
- tax advantages to the owner in the form of business expenses because business losses offset personal income from other sources

Disadvantages

- owner personally liable for all business debts
- illness/death of owner endangers the continuance of the business
- growth limited to personal motivation and experience of owner
- problem of mixing personal/business affairs
- difficult to obtain long-term financing
- more difficult to transfer business

General Partnership

A general partnership is where two or more persons carry on a business for profit. A general partnership is much like a sole proprietorship in many respects, except that it has two or more owners. The formation of a partnership can also be a simple matter since the law does not require any formal written documents (in fact, persons engaged in business together may have formed a partnership without even knowing it). As a practical matter, however, partners should have a written partnership agreement that addresses issues such as the purpose of the partnership, duties of the partners, capital contributions, sharing of profits and losses, procedures for the withdrawal of partners, and procedures for dissolving the partnership.

In a general partnership, each partner is an agent of the partnership and has authority to bind the partnership. Each partner is also personally liable for the debts and obligations of the partnership. A general partnership must file an annual tax return but it pays no tax. Instead, each partner reports his or her share of the partnership's income or loss on his or her individual income tax return.

Advantages

- easy to organize
- broader management base
- income taxed once at the partners' tax rates

- can establish fringe benefit programs for employee motivation or tax advantages
- financial resources available from and liability shared by all partners

Disadvantages

- personally liable for all business debts
- illness/death/bankruptcy of one partner can dissolve the partnership
- divided authority; one partner's decisions binding on partnership

Limited Partnership

A limited partnership is a special kind of partnership that consists of one or more general partners and one or more limited partners. A limited partnership allows the limited partners, who will not be actively involved in the business, to have limited personal liability. The limited partners risk only their agreed investment in the business, however, they must allow the general partners to exercise management and control over the partnership's business. Unlike a general partnership, a limited partnership is not formed until a certificate of limited partnership is filed with the state.

Advantages

- limited partners only liable to extent of investment
- general partners able to acquire more capital
- partnership can be continued despite the death or withdrawal of a partner
- limited partnership interests may be transferable

Disadvantages

- general partners have unlimited liability
- limited partners cannot participate in management and/or operation of business
- certificate of limited partnership must be filed with the state

Corporation

A corporation is a distinct legal entity, which is separate from the individuals who own it. Corporations exist only because state laws allow their formation. Consequently, articles of incorporation must be filed with the state before a corporation comes into legal existence. A business corporation issues shares of stock to evidence ownership of the corporation. Generally, these stockholders are only at risk to the extent of their investment in the corporation and are not personally liable for the debts and obligations of the corporation.

A corporation must file an income tax return and pay income taxes, unless an S corporation election form is filed with the Internal Revenue Service. Corporations that must pay income taxes are commonly known as C corporations. If stockholders withdraw money from a C corporation as dividends, the money will be subject to

double taxation (once by the corporation and once by the stockholders).

In order to avoid this double taxation, many small business corporations elect or choose to be taxed as a subchapter S corporation. An S corporation is no different from a C corporation except in its tax treatment. An S corporation pays no income taxes; instead its income is taxed to the stockholders, as if the corporation were a partnership. In order to be taxed as an S corporation, the corporation cannot have more than 35 stockholders (only individuals or estates), no nonresident alien stockholders are allowed, and only one class of outstanding stock may be issued. In addition, an S corporation election form must be filed with the Internal Revenue Service.

Advantages

- liability limited to amount of each stockholder's investment
- easy to raise capital because many stockholders can participate
- perpetual existence
- possible to offer more fringe benefit programs to employees
- more flexibility in tax planning
- more flexibility in transferring business
- profit or loss passed through to shareholder (S corporation)
- income is taxed only once (S corporation)

Disadvantages

- extensive record keeping and reporting
- heavily regulated by state and federal government; must file annual report
- more expensive to organize than other forms of business
- double taxation on profits passed through as dividends (C corporation)
- must be formally dissolved if you quit business
- limited to one class of stock (S corporation)
- limited to 35 shareholders (S corporation)

Limited Liability Company

A limited liability company ("LLC") is an entity which possesses both corporate and partnership characteristics. In general, an LLC possesses the federal income tax advantages associated with partnerships and the state law limited liability protection associated with corporations.

The ownership interest in an LLC is held by its members. Like shareholders of a corporation, an LLC's members are not liable for the obligations of the LLC beyond their investments. The members may actively participate in the business operations of the LLC or they may elect managers to operate the LLC.

LLC's are a new form of entity in Hawaii and may be formed beginning in April, 1997.

Advantages

- liability limited to amount of investment
- pass through tax treatment
- members may actively participate in the business
- membership interests may be transferable
- fewer statutory restrictions than corporations

Disadvantages

- organization costs may be high
- uncertainty due to lack of precedent

Nonprofit Organizations

A nonprofit organization may be formed as a corporation or an unincorporated association. A nonprofit corporation differs from a business corporation in that no part of the income or profit made by the corporation can be distributed to the members or management. An unincorporated association is similar to a partnership because all members are personally liable for the obligations of the association.

The formation of a nonprofit organization, however, does not automatically confer tax-exempt status on the organization. The exemption of a nonprofit organization from federal and state income tax and state general excise tax is dependent upon the organization meeting the applicable requirements of the Internal Revenue Code or the Hawaii Revised Statutes.

The most common type of tax-exempt nonprofit organization are section 501 (c) (3) organizations. In general, these organizations must be organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, and no part of the earnings of these organizations may inure to the benefit of any individual. These 501 (c) (3) organizations also have restrictions and/or prohibitions on their legislative and political activities.

Another type of tax-exempt nonprofit organization are section 501 (c) (5) labor, agricultural, or horticultural organizations. The purpose of these organizations is the betterment of conditions of those engaged in labor, agriculture, and horticulture, the improvement of the grade of their products, and the development of a higher degree of efficiency. Agricultural and horticultural activities are those involved with the art or science of cultivating land, including preparing the soil, planting of seeds, raising and harvesting of crops or aquatic resources, and the rearing, feeding and management of livestock.

The Bottom Line

As you can see, there are several alternatives for the legal structure of your business. The appropriate legal structure for your business will depend on a variety of factors which should be carefully considered with the consultation of your attorney and/or accountant.

Suggested Resources

Hawaii Department of Business, Economic Development & Tourism. 1995. *Hawaii's Business Regulations: A Summary*. Business Services Division. Honolulu, HI. Tel: (808) 586-2545.

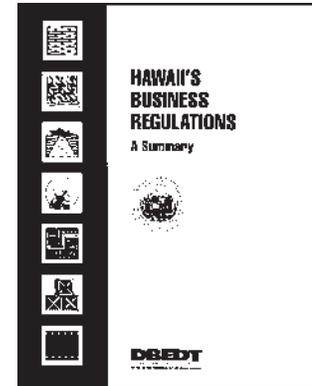
Hawaii Department of Business, Economic Development & Tourism. 1995. *Starting a Business in Hawaii*. Business Services Division. Honolulu, HI. Tel: (808) 586-2545.

Kansas State University. *Legal Considerations for Small Business*. Small Business Development Center, 2323 Anderson Ave., Suite 100, Manhattan, KS 66502-2912 Tel: (913) 532-5529.

Kondo, Dennis. 1995. *Business Basics in Hawaii: Secrets of Starting Your Own Small Business in Our State*. Dennis Kondo Publisher. Honolulu, Hawaii.

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Preparing Your Business Plan



Linda J. Cox
University of Hawaii at Manoa

Every business venture can benefit from the preparation of a written business plan. The business plan can:

- help you think through the business by considering all of your options and identifying any potential difficulties
- convince potential lenders and investors to put money into your business
- serve as an operating guide as you turn your ideas into a viable business

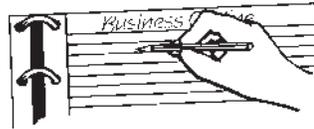
It's easy to get started—just get out a pencil and paper, and carefully work through the outline below, answering all of the relevant questions. There is also computer software available to help guide you through this process. You'll feel much more confident and in control once it is over, so get started today!

Business Plan Outline

Cover Sheet

What are the following?

- business name
- address
- phone number
- names and addresses of the principal owners
- date of the plan



Have you made your plan professional and easy to update by typing it on high quality paper and putting it in a loose-leaf binder?

Executive Summary

What are the important points of your business? (summarized in one or two pages) Will this plan be used as an operating guide or a financial proposal?

For an operating guide:

- Are you explaining all important functions?
- have you inadvertently disclosed any trade secrets?

For a financial proposal:

- who is requesting the funds and how much is needed?
- what will the money be needed for?
- how will the funds be repaid?
- what collateral will be offered to secure the loan?
- why does a loan or an investment make sense?

Table of Contents

Have you listed page references for all major topics?

Description of Business

What business are you in?

- What is the nature of the product(s) or service(s)?
- What will be special about your business?
- Do the seasons affect your sales?

What is the history of the business?

- If the business is going downhill, why?
- How can you turn it around?

Where is the business located and what are the facilities like?

- Does the business own or lease any land or buildings?
- what are the terms and length of the lease?
- How will your business affect your neighbors and community?
- How much can your business grow before you will be forced to move or expand?

Do you have the necessary licenses and permits?

- Is your business name registered?
- Have you considered local zoning regulations?

How will your management make the business more profitable?

What changes do you plan to make in the business?

Does your business have sufficient insurance?

- What are your potential business risks?
- What insurance coverage will you purchase to protect yourself?

Production

What is the production process?

- How much of each input is physically required to complete each step in the process?
- What is the cost of each input?
- Which inputs are most expensive?
- Is there any way to use less of any input, especially the expensive ones, without affecting quality?
- Are any inputs potential sources of problems now or in the future?
- What is the cost of production, including total variable and overhead cost per unit, assuming everything that is produced sells?

What is the potential production schedule, monthly, for two years?

How will you become aware of the latest technology?

What kind of production information system will you need?

Marketing

(see also the chapter on *Putting Together a Marketing Strategy*)

Who are your customers?

- What consumers' needs does your product fill?
- What is the age, sex, occupation, life-style, income, etc., of your potential customers?

What is the present size and growth potential of the market?

What percent of the market will you have now and in the future?

What is your competition?

- What products meet the same consumer needs as yours?
- What are the strengths and weaknesses in the marketing strategy of each competitor?
- How will you market your product so that people will buy your product?

What is your strategy for attracting and keeping your customers?

- How will your product, including packaging, meet your customer's needs?
- How will you price your product?
- How will you promote your business and your product?
- What market places will your product move through as it goes to the final customer?

How many will you sell at what price every month for the next twenty-four months?

Finance Data

(see also the chapter on *Managing Your Finances*)

What is your financial situation?

- Current balance sheet
- Cash Flow budget
 - detail by month, first year
 - detail by quarter, second year
 - notes of explanation and assumptions
- Projected income statement
 - detail by month, first year
 - detail by quarter, second year
 - notes of explanation and assumptions
- Projected balance sheet, two years
 - notes of explanation and assumptions
- Break-even analysis
- Relevant financial analysis, three years past and two years future

Management and Personnel

What is your business and management experience (in general and in this type of business)?

What technical and business education have you had, including both formal and informal?

What is your organizational structure?

What other management resources will be available (accountant, lawyer, banker)?

What are your anticipated personnel needs?

- What skills must your employees have?
- What are the job description, pay range, and evaluation plan for each position?
- Will you have to train people? What will the training program be and how much will it cost?

Supporting Information

What additional documents could help you understand your business?

- balance sheets, past three years
- income statements and/or tax returns, past three years
- personal resumes for all principals
- current balance sheet of all principals and past three years personal income tax returns of all principals
- letters of reference
- letters of intent from customers
- copies of all leases, contracts, agreements, deeds, licenses, permits, or other legal documents
- any other information that might help your cause or answer potential questions

The Bottom Line

After your plan is finished, don't let it collect dust. It's easy to get wrapped up in day to day operations, but try to revisit your plan regularly to make sure your business is still headed in the right direction. And, as time passes and the world changes, update your plan so your business is still looking to the future.

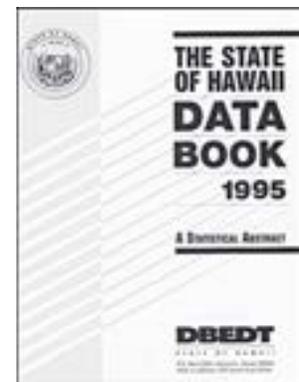
Suggested Resources

Books

Department of Business,
Economic Development
& Tourism. 1995.
*Starting a Business in
Hawaii*. Business
Services Division.
Honolulu, HI.
Tel: (808) 586-2545.



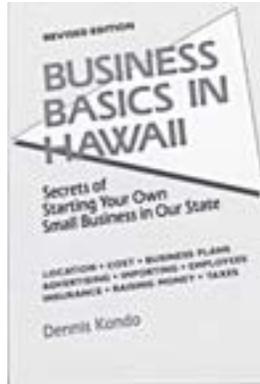
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of Hawaii Data Book: A
Statistical Abstract*.
Research and Economic
Analysis Division,
Statistics Branch.
Honolulu, HI.
Tel: (808) 586-2423.



Jenkins, Michael D. 1988.
*Starting and Operating a
Business in Hawaii*.
Michael D. Jenkins
Publisher.

Kondo, Dennis. 1995. *Business Basics in Hawaii: Secrets of Starting Your Own Business in Our State*. Dennis Kondo Publisher. Honolulu, Hawaii.

Computer Software
BizPlanBuilder by Jian.
Business Plan Writer by
Graphite Software.



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Acquiring Business Funding



Borrowing from a financial institution can be an effective means of expanding your business. However, repayment of the loan should not be an undue burden on you or your business. To help avoid this pitfall, you should work with the lender to design a loan best suited to your business. To do this, you should:



- provide evidence of your track record through financial statements or tax returns
- present a well-developed business and marketing plan (be sure its realistic and attainable)
- invite your lender to your operation. It can add credibility to your business plan
- ask for help in getting the best interest rates and repayment schedules

If your loan request is declined, ask if a government participated or guaranteed loan is applicable and if it would help the lender with your request. If your loan request is still denied:

- ask for the reason your loan was denied. Then, you can improve your loan package for your next request
- ask for a letter of declination. It will be required for application to government loan programs

You can get advice about borrowing through the Small Business Association (SBA), Office of Hawaiian Affairs (OHA), Department of Business, Economic Development & Tourism (DBEDT) and other institutions (see the chapter on *Business Assistance in Hawaii*).

There are several different types of funding available. The categories can be split into “private” and government lending. Some government lenders may require you to go to a private lender first and prove that you were denied a loan. Here is a listing of some of the more well-known lending institutions:

Private Lending

Commercial Banks

Commercial banks offer loans for the purchase of assets and equipment, and for operational expenses, in order to promote agricultural and business growth. They also provide other products and services for your personal and business needs.

Federal Land Bank Association of Hawaii

The Federal Land Bank Association of Hawaii, part of the Farm Credit System, is a member-owned cooperative that originates and services long-term real estate loans made for approved and qualified agricultural purposes. For more information, contact:

Oahu

Federal Land Bank Association of Hawaii
2828 Paa Street, Suite 2085
Honolulu, HI 96819
Tel: (808) 836-8009

Hawaii

Federal Land Bank Association of Hawaii
100 Pauahi Street, Suite 213
Hilo, HI 96720
Tel: (808) 961-3708

Hawaii Production Credit Association

The Hawaii Production Credit Association, another part of the Farm Credit System, is a member-owned cooperative that makes short- and intermediate-term loans for agricultural production and operating purposes. For more information, contact:

Oahu

Hawaii Production Credit Association
2828 Paa Street, Suite 2085
Honolulu, HI 96819
Tel: (808) 836-8009

Hawaii

Hawaii Production Credit Association
100 Pauahi Street, Suite 107
Hilo, HI 96720
Tel: (808) 961-3781

The Hawaii Small Business Loan Program

The Hawaii Small Business Loan Program (HISBLP) is a cooperative lending program supported by local financial institutions. Their purpose is to promote small business growth and economic development in Hawaii. This program provides loans for small business financial needs, such as purchasing new machinery and equipment, making leasehold improvements, acquiring working capital, or starting a new business. To qualify for a small business loan you need to meet certain criteria, including:

- management experience or education
- technical ability
- satisfactory credit and personal history

- equity in your business
- repayment ability
- available collateral
- personal guaranty of owners

The above information, and additional information regarding HISBLP, is provided by and can be obtained from:

HEDCO Local Development Corporation
222 S. Vineyard Street, PH-1
Honolulu, HI 96813-2445
Tel: (808) 545-5032/Neighbor Islands (800) 455-1888

Government Lending

Native Hawaiian Revolving Loan Fund

The purpose of this fund is to promote economic self-sufficiency for native Hawaiians through lending. The fund offers loans to local businesses owned by native Hawaiians with good credit, state residency, and some business experience. The program also provides free management and technical assistance. For more information, contact:

Office of Hawaiian Affairs
711 Kapiolani Boulevard, Suite #500
Honolulu, HI 96813
Tel: (808) 586-3777

Small Business Guaranteed Loan Program

This program offers loans to independently owned and operated businesses that are organized for profit and meet the Small Business Administration's requirements. Some requirements include:

- all loans must be secured (sufficient collateral)
- personal guarantees required of all owners holding 20 percent or more in the business

For more information, contact:

U.S. Small Business Administration
300 Ala Moana Boulevard
P.O. Box 50207
Honolulu, HI 96850
Tel: (808) 541-2990

USDA Farm Service Agency (FSA)

The Agricultural Credit Division of the FSA makes and guarantees agricultural loans and provides technical management assistance to eligible farmers or ranchers who will operate a family-size farm or ranch. Direct loans are processed, funded, and serviced by FSA to eligible applicants who cannot obtain a loan or guaranteed loan from a commercial lender. Guaranteed loans are processed by and funded with a U.S. government guarantee and serviced by the commercial agricultural lender. The following types of loans are available:

- *Farm Ownership Loans*
Used to purchase, improve, and enlarge farms for construction or repair of farm service buildings and for refinancing authorized debts.
- *Operating Loans*
Used for purchasing essential farm equipment, operating expenditures (fertilizer, seed, etc.) and refinancing authorized debts.
- *Emergency Loans*
Used to assist eligible farmers or ranchers to recover from a natural disaster, which was designated as eligible for emergency loans.
- *Guaranteed Loans*
Made by commercial agricultural lenders for farm ownership and operating purposes to applicants to whom they cannot provide a conventional loan due to risk factors.
- *Special Assistance for Beginning Farmers or Ranchers*
Provided by the Down Payment Farm Ownership loan program and the Special Operating loan program.

For more information regarding eligibility or applications, contact:

USDA Farm Service Agency
Agricultural Credit Division
300 Ala Moana Blvd., Rm. 5106
P.O. Box 50008
Honolulu, HI 96850
Tel: (808) 541-2642/Fax: (808) 541-2648

Hawaii Capital Loan Program (State of Hawaii)

This program offers financial assistance in the form of working capital loans to help you improve and/or expand your existing business. Small businesses in Hawaii can be eligible for a loan if they are unable to obtain private financing. The Hawaii Capital Loan Program gives preference to businesses:

- with job-creating potential
- that use local resources or by-products
- that displace imports
- that create export opportunities
- in the commercial or service sector
- in research and development
- involved in Pacific Basin activities

Hawaii Innovation Development Loan Program (State of Hawaii)

This program offers loans to promote the development of new or substantially modified products or inventions that have direct economic benefits for Hawaii. The applicant must:

- show that funding is unobtainable from financial institutions, including two rejection letters from financial institutions with your application
- demonstrate the ability to repay the loan with income from the proposed venture
- prove that the invention or product does not infringe on existing patents or copyrights
- provide clear title to the invention or product

Preference is given to businesses:

- that can demonstrate the nature of the product or invention
- with potential economic advantages to Hawaii
- with job-creating potential

The information contained above and/or additional information is provided by and can be obtained from:

Dept. of Business, Economic Development & Tourism
Financial Assistance Branch
P.O. Box 2359
Honolulu, HI 96804
Tel: (808) 586-2576
Neighbor Islands Tel: (800) 468-4644 ext. 6-2576

Agricultural Loan Program (State of Hawaii)

This program is offered by the Hawaii Department of Agriculture, a last resort lender. In order to promote agricultural development in Hawaii, this program makes more credit available to qualified producers, cooperatives, partnerships, or corporations. The following types of loans are available:

- *Insured Loans*
The state guarantees repayment for loans made by private lenders.
- *Participating Loans*
If private lenders cannot carry the full burden of a loan, then the State can take a share of that loan up to a legal maximum of 90 percent or up to the State's lending limit. In this case, the private lender services the loan.
- *Direct Loans*
If an applicant is unable to obtain any of the preceding loans, then direct loans from the State Agricultural Loan Revolving Fund will be considered.
- *New Farmer Loans*
Initial loans are available to qualified applicants starting a new farm business.

You may be eligible for any of the loans in the Agricultural Loan Program if you meet any of these qualifications:

- *Qualified Producer*
Individual producers with proven farming ability, who operate their own farms and have a record to show their repayment ability.
- *Partnerships*
At least 75 percent of the partners must individually qualify as borrowers.
- *Corporations*
At least 75 percent of each class of stock must be held by producers who individually qualify as borrowers, and at least 75 percent of the board of directors are individually qualified as borrowers.
- *Cooperatives*
At least 75 percent of the members and board of directors must individually qualify as producers.
- *New Producers*
The applicant need not have actual experience of operating their own farm, but must meet the age and citizenship requirements and have the education or work experience required. Such experience may include a two to four year college degree in agriculture, completion of the Future Farmers of America program, or a minimum of two years of acceptable agricultural work experience.

The information included above is provided by the Hawaii Department of Agriculture. For more information, contact:

Hawaii Department of Agriculture
Agricultural Loan Division
P.O. Box 22159
Honolulu, HI 96823-2159
Tel: (808) 973-9460

The Bottom Line

Growing your business can be very exciting. Often, however, this growth requires you to take out a loan to make your dreams come true. You will be more successful in your bid for a loan when you have a well-developed and written business and marketing plan. Just as important is that you show confidence in your business and business plan. After all, how can a lender have confidence in your business, if you don't? Finally, a good lender can keep you from getting in over your head, so work with them to come up with the best loan and repayment package you can.

Author Information

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Understanding Business Insurance

Pamela V. Brown
Insurance Factors

Opening a business can be exciting, but it is also a gamble. Business insurance can help transfer some of the risk from your own checkbook and place it with an insurance company. Buying business insurance can be tricky because it's intangible—no tires to kick, nothing to taste test—so start shopping early and find an insurance agent that you trust. Don't be afraid to ask lots of questions, so you're sure you understand what you're buying and how your policies will protect you.

Insurance Needs Checklist

- General liability
- Property
- Worker's compensation
- Temporary disability
- Medical
- Life
- Inland marine
- Ocean marine
- Crop

How to Find and Choose an Insurance Agent

You can find an insurance agent the same way that any of your customers find your company—either through the phone book or through friends or referrals.

One important aspect of choosing an agent is making sure that they have the patience to answer all of your questions. If they are too busy to answer your questions and educate you about your choices, then you should go to another company or another agent. Also, it may be important to find out if an agent is taking courses to keep up with their industry, because you want to find someone who is very informed about changes in their industry.

What Does Insurance Do For You?

Each type of insurance policy covers different risks, protecting you in different ways. You can buy insurance that will:

- reimburse you for tangible assets damaged by fire, lightning, hurricane, theft, or flood
- reimburse you for earnings lost because of fire, lightning, or hurricane damage to your inventory and other tangible assets
- pay the claim brought by someone who is suing you for injuries sustained on your premises
- pay the claim brought by someone who says they were injured by your product
- provide an attorney to defend you and pay defense costs for certain claims brought against your business
- pay for medical bills and lost wages of your employees if they're injured on the job

There are many types of insurance coverage. Some policies can be tailored to fit your specific needs.

Insurance cannot cover all of the risks associated with being in business. Here are some things that insurance normally *won't* cover:

- breach of contract by you or your customer
- customers who won't pay their bills
- damage caused by war, nuclear accidents, or wear and tear
- poor sales performance
- loss of earnings due to flooding
- intentional acts by you or your employees

Types of Insurance

Some insurance policies are required by law or contract, for example, by a lease that you sign or a purchase agreement that you make with a bank or other lending institution. Still other insurance policies may not be required, but you will find that they can provide good protection from other risks associated with business ownership. There are also types of insurance that are required by the State and Federal government and take the form of payroll taxes, such as State Unemployment Insurance (SUI), Social Security (FICA), and Federal Unemployment Tax Act (FUTA). These are not conventional insurance policies, and the costs are based on your total wages paid to employees. Here is a thumbnail sketch of some common types of insurance policies and what they cover:

General Liability Insurance

General liability insurance covers claims brought against you if someone is injured on your premises. Examples include a twisted ankle suffered in your parking area or a bite from one of your farm animals. Even if you operate a self-serve business, such as a U-pick fruit orchard, if a customer is injured on your property, you will likely be found liable.

Many general liability policies also include products liability, which covers you if a customer is injured by your product. Examples include a person becoming ill from a chemical you sprayed on your crop or a fire caused by a tool you manufactured or designed.

If you lease an office, a building, or some land, the owner will most likely require you to purchase general liability insurance before they give you the office key or let you begin cultivating the land.

Even if no one is requiring you to obtain general liability insurance, you'll do yourself a favor by buying it

anyway. Although common sense might tell you that you're running a safe business, many claims are not blatant. Courts frequently pass judgement against business owners for not being careful enough, given the circumstances. Because you cannot predict in advance how large of a liability claim might be brought against you, liability insurance is one of the safest ways to protect your business and your assets.

Property Insurance

This policy will cover your tangible assets (buildings, office contents, inventory) and will provide you reimbursement if that property is damaged by certain perils. Each policy is different, so make sure that you ask if the one you are buying includes hurricane and theft coverage.

If you are borrowing money to purchase a building or some equipment, the bank or credit union will require you to insure the property that you're buying. If you're leasing property, the leasing company will require the same type of insurance.

Worker's Compensation Insurance

This policy will pay for an employee's medical bills and a percentage of their lost wages if they are injured on the job. Hawaii State law requires you to carry worker's compensation, regardless of how few hours an employee works for you. There is no waiting period allowed—you must provide this coverage beginning the first day that your employee starts working for you.

Good, consistent safety precautions will help prevent the majority of industrial injuries, but it's difficult to predict all the ways a worker can be injured. An example of a "hidden" injury is of a field worker who discovers an illness was caused by three years of exposure to one of the chemicals he used on your crop.

Temporary Disability Insurance (TDI)

In many cases, you will also need to purchase temporary disability insurance for your employees. This policy will reimburse an employee for a little more than half of their lost wages if they are injured doing something that is *not* work-related.

TDI differs from worker's compensation because it is for injuries that are not work-related; it pays a lower percentage of lost wages than does worker's compensation; it has a weekly maximum of lost wages; and it does *not* pay for any medical expenses.

Medical Insurance

Hawaii State law requires that you provide medical insurance for any employee who works more than 20 hours per week for you. There are certain exemptions from this coverage. Check with the Hawaii Department of Labor and Industrial Relations, Prepaid Health Care Division at (808) 586-9191 for an updated list of exemptions, or in the Hawaii Revised Statutes, Chapter 393.5 at a public library.

Life Insurance

There are numerous varieties of life insurance policies, but the basic premise for all of them is the same—to provide funds for your family or business in the case of your death. If you have a business partner, you can name your partner as beneficiary so he or she will have enough funds to purchase your portion of the business from your family after your death. Similar arrangements can be made within corporations.

Sometimes a lender will require you to carry life insurance equal to the value of the loan being provided to you in order to protect the lender's interest. Other life insurance policies can build cash value that you can borrow against in later years.

Commercial Auto Insurance

Cars, trucks, and other vehicles owned by your company should be insured under a commercial auto policy to make sure you have coverages appropriate to the business use of your vehicles. In addition, by having vehicles insured under a commercial policy, writing off the premiums for tax purposes is much easier. Some commercial vehicles, such as dump trucks, can only be insured under a commercial policy.

Inland Marine Insurance

Tractors, bulldozers, and other farm and contractors' equipment is best insured on an inland marine policy. This type of equipment is often moved from one location to another, and this policy takes that into consideration, covering it even if damage occurs to the equipment when it's away from your home base.

Some farm and contractors equipment, such as cherry pickers or cranes, are unconventional "vehicles." To cover all your bases, you'll need a combination of two or three policies to cover the unit itself and the liability for operating it. Discuss your business in detail with your agent to determine if this situation applies to some of your equipment.

Importing and exporting businesses have special transportation insurance needs, such as insuring a shipment while it's en route to the Mainland. These needs can usually be met with an inland marine policy tailored to the specific arrangement you have with your shipping company and the receiver.

Ocean Marine Insurance

For the ocean-going business, an ocean marine policy can cover your boat and the equipment on it. Most ocean marine policies also include liability for crew and passengers, as well as for any third party that you may inadvertently hit while operating the vessel.

If you take out a loan to purchase or lease the boat, you'll most likely be required to insure it for hull value. While it may not be required, it's also wise to carry liability insurance to prevent an accident from costing

you out of your pocket. Many boat insurance policies will automatically include both hull and liability coverages in a package deal.

Crop Insurance

Crop insurance provides protection for producers in the event of a disaster and major crop loss. Your decision to purchase crop insurance should be based on your potential for crop loss (e.g., if you live in a high risk area), the total value of your crop, and the cost of the insurance.

Crop insurance is available through the Federal government and some private insurance companies, but is not available for all crops. Crop coverage is state and county specific, so coverage can differ between states and from county to county. In Hawaii, the three crops that are eligible for coverage under the USDA Farm Service Agency (FSA)'s Catastrophic Crop Insurance (CAT) policy are Macadamia nuts, Macadamia trees, and containerized nursery plants. There is no premium for CAT coverage. There is a \$50 filing fee per commodity per county. If you are interested in having your commodity covered by the CAT policy, contact your local FSA office for information (see below).

The FSA's Noninsured Assistance Program (NAP) offers disaster assistance for crops for which other insurance is not offered. The main difference from CAT coverage is that the NAP offers protection only in the event of area-wide losses. There are about 1,500 crops covered under the program. Most commercial crops that are not eligible for Federal crop insurance are eligible for NAP. However, in order to be covered in the event of a disaster, you must meet with your county FSA agent as soon as you decide to grow a crop. If you are not in the FSA records before a disaster occurs then you are not eligible for coverage.

Finally, there are some private insurance companies that offer crop insurance. Your county FSA agent may also be able to recommend a company, if you wish to purchase more coverage for your crop.

USDA Farm Service Agency county offices

Kauai: (808) 245-9014

Oahu: (808) 541-2642

Maui: (808) 244-3100

Hawaii: (808) 933-6963

How Much Does Insurance Cost?

Insurance premiums vary widely depending upon what you want to insure and how many policies you need or want. Some premiums are as low as several hundred dollars a year, while larger businesses with greater exposure to risk will pay considerably higher prices.

When and Where Should You Get Insurance?

You should start pricing insurance as soon as you have a good idea about what type and size business you will have. You will need insurance estimates to plug into your budget—many bankers will require this before they'll approve your loan.

You can purchase insurance from any licensed insurance agent in Hawaii. Sometimes you can find insurance agents or companies that specialize in insuring your type of business. Find an agent that you believe you can trust and with whom you feel comfortable. Insuring your business is a very important step, so make sure that your agent takes the time to explain to you what is and is not covered by different policies. Then you can make the best decisions for your company.

Deciding Your Insurance Needs

You will need to examine your insurance options on a case-by-case basis. Of course, you must purchase insurance that is being required of you by law, lease, loan or other agreement. But with each policy that you can voluntarily purchase, the choice is yours.

You should weigh the annual premiums against any potential claim that you could have that would be covered by that policy. The greater the difference between the cost of a potential claim and the cost of the premiums, the more valuable that policy will be to you. You can reduce premiums by carrying a high deductible and paying for very small claims yourself.

And remember, as your business grows and changes, so will your insurance needs. Some changes in your business or personal life that may prompt you to review your insurance program include:

- buying more buildings, boats, tractors, trucks, or other inventory
- expanding into different or more risky aspects of business operations
- experiencing a substantial increase in income
- hiring or firing employees
- moving the business to a new location
- raising children, providing for your family

Stay in touch with your insurance agent, and let him or her know what changes you are making in your business, so you can find out how those changes will affect your insurance program.

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Putting Together a Marketing Strategy

Linda J. Cox
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A market is made up of buyers and sellers, both bringing different perspectives to the marketplace. In marketing your product, you must remember that it is much easier to sell something that people want or value, at a price *they* are willing to pay, rather than trying to convince them to buy something that you produce at the price *you* want to charge.

Your Customers

You may or may not be directly selling to those people that actually use your product. There may be others, often called middlemen, who handle your product as it moves from you to the final customer. The pathway that your product follows to get to the final customer is called your *marketing channel* (see diagram in chapter on *Marketing Your Seafood Products*).

Each middleman provides services to their customers and is paid for those services by selling your product at a higher price than they paid for it. You may or may not want to use middlemen, but you must remember that your final customers want the services that the middleman provides. At the same time, the middleman controls

which products go to the final consumer and is, therefore, also one of your customers. In order to make the most of your situation, you should stay informed about what influences the buying and selling decisions of the middlemen that handle your product. In the long run, keeping informed will help you sell your product to additional middlemen in your marketing channel. Then you can make price comparisons and be more aware about the industry. For instance, you can be a regular user of the Hawaii Department of Agriculture's Market News Service 24-hour Wholesale Market Hotline, Tel: (808) 973-9581.

You must also know your final customers. You should construct a profile of your final customer, which includes information about their age, gender, race, income, family status, values, cultural associations, spending patterns, and shopping habits. Although you have many different customers, try to group them using their similar characteristics. This will help you understand who buys your product, so you can direct your product into the correct marketing channel and focus your marketing efforts.

Market Research Basics

Anytime you start to answer questions about your customers, your competition, and your marketing strategy, you are doing market research. Getting a list of specific questions that you need answers to is a good beginning. Then, you do research by collecting data and analyzing it in order to answer all of your questions. Your research data will come from either primary or secondary sources.

You can get **primary data** from current or potential customers, employees, suppliers, or anyone else involved in your business. You can get this data using a survey, holding a group discussion, or by talking to people individually. Primary data is costly because it takes time and/or money to ask specific questions about your business.

Secondary data may be less expensive than primary data because it already exists. It comes from sources like government reports and trade publications, which will not give you information specifically about your business, but it may still be useful. A library is a good place to start looking for secondary data.

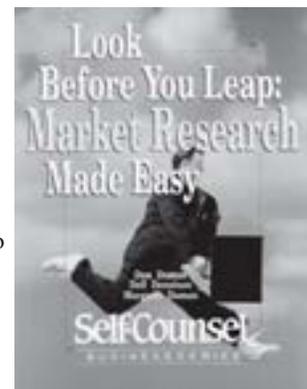
There are two types of primary or secondary data: quantitative and qualitative. *Quantitative data* is expressed as numbers that tell you who your customers are and what they are doing. Demographic data that describe people, like age, gender, income, and education are the most common

type of quantitative data used in marketing research.

Qualitative data is about people's feeling and perceptions and cannot be turned into numbers. While quantitative data cannot be put in a table or a chart, it does help you understand what motivates your customers.

Psychographics, the most common form of qualitative data, describe what groups care about, what they value, and how they live.

The most effective marketing strategies first identify the demographic groups that are most likely to buy your product, and then, use psychographics to reach them. After all, to sell any product, you want to know why and how people decide to buy it.



Source: Doman, Don, Dell Dennison, Margaret Doman. 1993. *Look Before You Leap: Market Research Made Easy*. International Self-Counsel Press Ltd.

Your Competition

The first step in evaluating your competition is to determine which competitive products are available to your customers that meet the same needs as your product. You need to determine all of the strengths and weaknesses of these products by examining everything about them including their characteristics, price, distribution system, and media/advertising.

Then, compare your product to the competitor's. These comparisons will help you identify your product's unique qualities. The advantages can be capitalized upon, and the disadvantages can be corrected or avoided. It is vital to the success of your business to be continually "shopping the competition" by comparing your product to the competition's product.

Your Marketing Strategy

You need to develop a company image and message that will convince your customers that your company and

your product can best meet their needs. Your marketing strategy should be based on what your market research told you about your customers and your competition. Your marketing strategy should address four major areas:

Product

Your product needs to meet your customer's needs. If your customers want high quality, then your product should meet this need. At the same time, you may need to distinguish your products or services from the competition's. The development of new products or services keeps customers interested in a company and nurtures the ongoing success of that business.

Price

You should choose a pricing strategy that suits your company objectives and the quality of the merchandise and service (see the chapter on *Your Cost of Production and Product Pricing* for more information). In many

Figure 1. NoKaOi Candy of Hawaii's Kings *Kulolo* Products—Condensed Marketing Plan

1. The Product

- ❖ Traditional *kulolo* made of taro, coconut cream, and sugar.
- ❖ Innovate by adding macadamia chunks and mixed dried Hawaii fruit to develop a three-product *kulolo* line.

2. The Customer

- ❖ 15–70 years old
- ❖ \$15K to \$80K annual household income
- ❖ Has contact or had contact with Hawaii
- ❖ Likes fudge-like products

3. The Competition

- ❖ Chocolate-covered macadamia candy
- ❖ Fresh made brownies and cookies
- ❖ Mackinaw fudge
- ❖ Other *kulolo* products

4. The Marketing Strategy: The 4 P's

Price

- ❖ Calculate cost of production to determine minimum selling price
- ❖ Establish price lists based on potential sales outlets and volume

Place

- ❖ Sell to Hawaii hotels
- ❖ Sell at festivals, craft fairs
- ❖ Sell at Las Vegas hotels
- ❖ Sell to airport stores
- ❖ Sell to local stores

Promotion

- ❖ Give free samples to media (w/ company info)
- ❖ Advertise in Office of Hawaiian Affairs newspaper
- ❖ Give tours of factory to clubs and other groups
- ❖ Custom pack for fund raisers
- ❖ Work with hotel chefs to include in picnic baskets
- ❖ Advertise in mainland "Voice of Hawaii" newspaper
- ❖ Combine with other company's gift packs

Product

- ❖ Innovative packing: plastic-wrapped 8 oz packages, and nostalgic 2 lb miniature Hilo-style cracker cans
- ❖ Caffeine and chocolate free
- ❖ Fun food
- ❖ Can be sectioned and distributed easily
- ❖ High-energy product
- ❖ Product package designs traditional, yet contemporary
- ❖ Evokes nostalgic feelings
- ❖ A traditional and tasty Hawaii product

cases, you may not have any control over how much you can charge for your product. If you sell your product to a middleman, you may be *quoted* a price. If you are in this market, you must be sure that the price you will be given is high enough for you to make a profit. If you sell directly to your final customers, you may be able to *set* the price you would like to charge. But remember that your customers may not be willing to buy all that you have to sell if your prices are too high.

Place (Distribution)

The marketplaces in which your products are sold affect your sales volume, the final selling price of your product, and your product image. You need to be sure that your product ends up in places where your customers shop.

Promotion

Your promotional strategy should be determined by whom you want to reach and how you want to reach them. You should think of a specific message that you want to tell your customers. Then, look for the most efficient way to get this message out.

Promotion can take many different forms, such as word of mouth, print, radio, or television. Word of mouth is the most effective and most inexpensive but the hardest to generate and control. Therefore, whenever you, your employees, or your product come into contact with the public your message should be clear.

An Example

In order for you to see how relatively straightforward market plan development can be, look at the example in Figure 1 of *kulolo* (a pudding or fudge-like product made from taro) for NoKaOi Poi, a fictitious company. With a lot of soul-searching, some careful research, and some customer interviewing, they came up with a plan which will act as a guidepost for their product development and marketing.

The Bottom Line

The key to marketing is keeping an eye on your customers—what they need and what they are buying. What may work for one product or company may not work for another. The profitable business is the one that is observant, proactive, and innovative.

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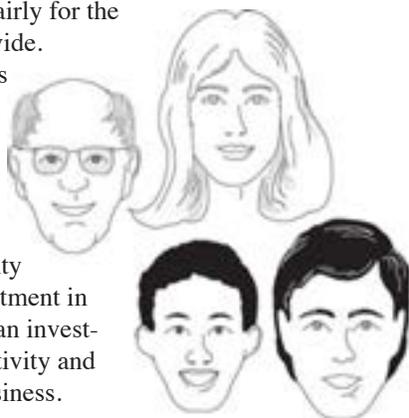
Department of Agricultural and Resource Economics
College of Tropical Agriculture and Human Resources
University of Hawaii at Manoa
3050 Maile Way, Gilmore Hall 115
Honolulu, HI 96822



Employees: Your Key to Success

In any business, employees are very important. You should establish a mutually beneficial relationship with your employees through communication. First, however, you must know what you want to accomplish in your business overall. Then, you must show your employees what they need to do to help the company succeed. At the same time, you can meet your employee's needs by making sure that they are satisfied and compensated fairly for the work that they provide.

Unsatisfied workers can cause many problems in your business, including low productivity, a high turnover rate, and poor quality products. An investment in your employees is an investment in the productivity and success of your business.



Selection

When hiring a new employee, you should ask yourself how they will help you meet your business goals and if they will provide a return on your investment in them. In selecting an employee, you will need:

- a job description
- a detailed application form
- their references
- their resume

The nature of agricultural work may not allow for all of the above, but that is the ideal.

Since agriculture typically involves manual labor, you may need to make sure your employees are physically fit. Pre-employment physical examinations cannot be used as a screening device, but the physical requirements of the job should be clearly outlined in the job description. In addition, you need to know and follow all areas of legislation, such as Equal Employment Opportunity (EEO) and American Disabilities Act (ADA) (see the section *Suggested Resources* at the end of this chapter).

What Makes a Good Employee?

Some of the essential elements of a good employee are:

- interest in the work
- experience and/or the desire to learn

- adaptability
- good attitude
- reliability

It has been said that there is very little difference between people, but that little difference is a big difference. Most likely that “big difference” is in the area of attitude rather than I.Q., because a person's attitude *can* make a big difference.

Training

Technical training is popular among employees because they gain more marketable skills, but any training that you offer should have a specific purpose. In other words, training an employee should result in increased productivity and/or profits for the company.

In training a new employee, it is important not to skip the “basics.” Training should include establishing good work habits, as well as job safety and accident prevention. People in the agricultural industry face a variety of hazards, that can be minimized through proper training and awareness. A good place to get information is the Hawaii Occupational Safety & Health Division (HIOSH) of the Department of Labor and Industrial Relations (see the section on *Suggested Resources* at the end of this chapter).

Since employers are responsible for job training and employee safety, most employers need to give careful consideration to the following areas:

- Safety training—to conform to State and Federal regulations. With increased mechanization in agriculture, higher levels of skill and safety training are necessary.
- Sexual harassment training—with male and female workers together in agriculture or in any business, there is the possibility of sexual harassment. As an employer, you are responsible for making sure that all of your employees are treated equally. If someone is not treated equally, then you can incur liability, which may be costly. To limit your liability, you must be aware of the law and adequately train yourself and your managers and make your employees aware of the law (see the section on *Suggested Resources* at the end of this chapter).
- Back injury prevention training—the cost of a disk operation can reach \$10,000 and a spinal fusion can be \$65,000. In agriculture, there can be numerous kinds of occupational injuries, which are very costly.

- Chemical and environmental training—mandatory in many cases. To protect our environment, the use of pesticides and chemicals is being controlled and regulated more strictly every day. The College of Tropical Agriculture and Human Resources and the Hawaii Department of Agriculture have programs that deal with pesticide safety.
- Skin cancer prevention—most agricultural workers are exposed to the sun on a daily basis. Employees must be aware of the dangers of sun exposure and be informed about ways of reducing their risk of skin cancer. There are 600,000 cases of skin cancer in the U.S. every year.

Expectations and Goals

You should tell your employees your expectations at the start and make sure that they know how to meet the goals that you set out. Your goals should be:

- realistic (with limits)
- specific and measurable
- communicated to employees

Once the goals are established and communicated, you may want to have a “score board” to display accomplishments and goals met. For example, display a sign that says, “104 days with no accidents” or “252 orders delivered on time.” In this way, employees can gauge their progress.

Union vs. Nonunion

Whether your area of business is unionized or not will be a significant factor in how your business is run. In some areas, levels of pay, benefits, and training may be set by union contract. In general, smaller operations are more likely to be nonunion. This issue should be carefully considered if you are starting a business.

Contract Workers

In some agricultural activities it is common to use contract workers, or independent contractors. One example is the forestry industry, where contract planters put the forest in; liquid pollination is done by specialists; independent pruning services trim the trees; and independent loggers harvest the crop. Trucking to market may also be done by contract workers. The reason for this development in any agricultural activity is efficiency and specialization. The cost of labor is usually the highest element in the product’s cost, and using independent contractors may improve efficiency and productivity and therefore may save money.

Seasonal Workers

In addition to your regular employees, it is customary to use seasonal help in agriculture. Depending on the crop,

harvesting may take place in a relatively short, labor-intensive period, followed by a period in which there is little need for large amounts of labor. The nature of the crop, the issue of unionization, and laws regarding unemployment compensation and layoffs will all impact the decision to use seasonal workers.

Supervision vs. Self-Directed Teams

It is a general truism that “people work for people.” Of course, it is true that people work for money, but ultimately humans want relations with other people. It is important that the employer realize the significance of interpersonal relationships, because at work people spend the best part of their week relating to one another. If you and the managers or foremen demonstrate interest, concern, and care for your people, you will likely have a return of loyalty and service.

Lately, there has been a lot written about “self-directed teams.” People often work better in groups or teams. If this is possible in your business, there is extensive literature on how to develop teams with self-direction. With proper leadership in a group, people tend to produce more, rather than let the team down.

Retention

Employees will stay with an employer for many reasons, including personal development, adequate pay, good benefits, recognition, advancement, personal relationships, and new challenges. Most people respond to new challenges and like to participate in ownership. If a person can feel that they are a partner in the business, then they are more likely to stay with it.

Pay and Other Rewards

Many business people feel that they can estimate their budget by base pay scale alone; however, there are many other costs associated with having employees. A general rule is that there is a 30–70 percent addition to the hourly rate to cover mandated benefits, taxes, and insurance. Table 1 shows estimates of the “real cost” of paying employees different wages. The figures in Table 1 may vary depending on the industry and other factors.

Although cash incentives are important in acknowledging an employee’s positive contributions to the company, you may not always be able to offer them. There are a number of nonmonetary ways in which you can reward or recognize work that is well done, such as a:

- handwritten note
- mention in a company newsletter
- comment during “appreciation time” in a staff meeting
- picture on a plaque
- few words of approval over a company radio system used to broadcast information to employees

Table 1. Estimated Effective Full-Time Wage Rates for a Variety of Initial Hourly Wage Rates (based on a 52-Week Year)

	\$5.25	\$6.00	\$7.00	\$8.00	\$9.00	\$10.00	\$11.00	\$12.00
Yearly Wages (40 hr/wk, 52 wk/yr)	\$10,920	\$12,480	\$14,560	\$16,640	\$18,720	\$20,800	\$22,880	\$24,960
Payroll Taxes								
Fed. Insurance Contributions Act. (FICA)	835	955	1,114	1,273	1,432	1,591	1,750	1,909
State Unemp. Ins. + Emp. Training Assmt. (SUI)	333	381	444	508	571	607	607	607
Fed. Unemp. + Training Assmt. (FUTA)	56	56	56	56	56	56	56	56
Temporary Disability Insurance (TDI)	66	75	87	100	112	125	137	145
Workers' Compensation	983	1,123	1,310	1,498	1,685	1,872	2,059	2,246
Medical (1 person, employer pays 100%)	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
	4,073	4,389	4,812	5,234	5,656	6,051	6,410	6,763
Percentage of benefits relative to yearly wages	37.3%	35.2%	33.0%	31.5%	30.2%	29.1%	28.0%	27.1%
Yearly Labor Cost Totals	\$14,993	\$16,869	\$19,372	\$21,874	\$24,376	\$26,851	\$29,290	\$31,723
Effective Hourly Wage Rate	\$7.21	\$8.11	\$9.31	\$10.52	\$11.72	\$12.91	\$14.08	\$15.25

Note: Percentages are taken from ranges and should only be viewed as approximations.

Praise should be given as immediate and often as required. Like a reprimand given to correct a problem, postponing acknowledgment for a deed well done reduces its effectiveness. In addition, recognizing and praising an employee before colleagues can increase the effectiveness of the comments and can motivate more than one person at a time. One of the best parts about such activities is that it won't cost you anything more than a little time and attention for your employees. And, in return, you will gain much more in the form of renewed efforts and a better workplace. A good source for more ideas about managing your employees is *1001 Ways to Reward Employees* (see the section on *Suggested Resources* at the end of this chapter).

Benefits

Most employees have an interest in the benefits that a company offers in addition to basic pay. Health care for the family, in addition to mandated benefits and insurance, such as worker's compensation and unemployment, is important. Employees will be interested in the company's willingness to provide health care, and perhaps life insurance, for their families.

Production pay, profit sharing, and bonuses based on the profitability of the enterprise will be extremely attractive to employees. Because people are living longer, they are going to need to provide for their long-term future. Pension plans, or at least 401(k) plans, are highly desirable.

The critical issue for you, as the potential employer, is to have a production or services unit that is efficient enough to provide levels of profit that will pay for the cost of capital, a fair rate of return for yourself, and fair wages and benefits for your employees. The skill is in managing your enterprise to achieve this.

Suggested Resources

These resources may be helpful to employers:

Checklist for Employers in Hawaii

(table of contents)

INTRODUCTION

AT THE BEGINNING: BEFORE YOU HIRE

Step 1: Determine Whether the Worker is an "Employee"

Step 2: Obtain Federal Employer Identification Number

Step 3: Obtain Hawaii Employer's Withholding Identification Number



HIRING THE EMPLOYEE

- Step 4: Comply With Immigration Law Verification
- Step 5: Complete Unemployment Insurance Reports
- Step 6: Obtain Hawaii Workers' Compensation (WC), Temporary Disability Insurance (TDI), Prepaid Health Care Coverage (PHC)

WITHHOLDING AND PAYING FUNDS

- Step 7: Obtain Employee Withholding Allowance Information
- Step 8: Withhold Employee's Share of FICA Tax and Matching Funds
- Step 9: Deposit Federal Income Tax, FICA and FUTA Withholdings
- Step 10: Deposit State Income Tax Withholdings

FILING REPORTS

- Step 11: File Federal Quarterly Withholding Return
- Step 12: File Federal Unemployment (FUTA) Tax Return
- Step 13: File State Unemployment Tax Return
- Step 14: Provide Form W-2 to Employees and Others
- Step 15: File Federal Income and Tax Statements
- Step 16: File Hawaii Reconciliation of Income Tax Withheld

BEING AWARE OF LABOR LAWS

- Step 17: Know Pension Programs
- Step 18: Know Employee Safety Programs
- Step 19: Know Applicable Employment Practice Laws
- Step 20: Know the Individual Rights of Employees

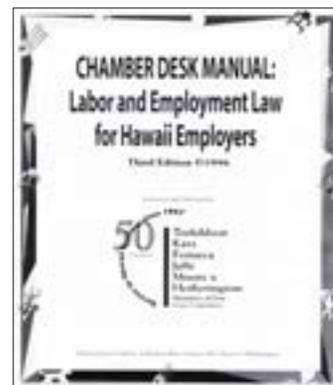
For a copy of *Checklist for Employers in Hawaii*, contact:

Business Action Center
1130 N. Nimitz Highway, Suite A-254
Honolulu, HI 96817
Tel: (808) 586-2545/Neighbor Islands (800) 225-6723

Chamber Desk Manual: Labor and Employment Law for Hawaii Employers
(1996, 3rd Edition)

(chapter headings)

- (1) Government Labor Relations Agencies
- (2) Wages, Garnishment, and other Deductions
- (3) Wage and Hour Law
- (4) Workers' Compensation
- (5) Unemployment Insurance
- (6) Temporary Disability Insurance



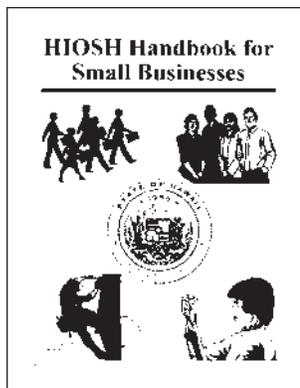
- (7) Prepaid Health Care Act
- (8) COBRA Requirements
- (9) Dislocated Workers/Plant Closing
- (10) Retirement Plans
- (11) Employee Retirement Income Security Act (ERISA)
- (12) Occupational Safety and Health Act (OSHA)
- (13) Equal Employment Law
- (14) Affirmative Action Law
- (15) The Immigration Reform and Control Act (IRCA)
- (16) Rights of Veterans and National Guard Members
- (17) Government Contracting
- (18) NLRB Elections and Election Procedures
- (19) Collective Bargaining and Labor Negotiations
- (20) Discipline and Discharge
- (21) Individual Employee Rights
- (22) Alcohol and Drug Testing
- (23) Acquired Immune Deficiency Syndrome (AIDS)

For a copy of the *Chamber Desk Manual: Labor and Employment Law for Hawaii Employers*, contact:

Chamber of
Commerce of Hawaii
1132 Bishop Street, Suite 200
Honolulu, HI 96813
Tel: (808) 545-4312

For a copy of the *HIOSH Handbook for Small Businesses*, contact:

Hawaii Occupational
Safety and Health
Department of Labor and
Industrial Relations
830 Punchbowl Street
Honolulu, HI 96813
Tel: (808) 586-9100



Nelson, Bob. 1994. *1001 Ways to Reward Employees*. Workman Publishing, New York, NY. 274 pp.

U.S. Department of Education. *Choosing the Right Training Program: A Guidebook for Small Business*. Tel: (202) 512-1800.



Computer Software

Employee Appraiser

This software makes writing employee evaluations easier. To order, call the Austin-Hayne Corporation at (800) 809-9920.

Review Writer

This software makes writing employee performance reviews easier. To order, call Avantos Performance Systems at (800) AVANTOS.

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Your Cost of Production and Product Pricing

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Knowing your cost of production is very important because it helps you calculate the minimum price that you can accept for your product without losing money. At the same time, some producers assume that the actual amount that they receive for their product should be based on their cost of production, but *this is not the case*.

Cost of Production \neq Value in the Marketplace

The price that you receive for your product is not based on your cost of production, but rather it is determined by the marketplace and what consumers are willing to pay for it, i.e., how much they value it. The price that you receive from a buyer (or middleman) reflects the retail price *minus* the costs for their services.

The market used by you and other producers probably has many sellers and a few big wholesale buyers. The sellers are competing against each other, so the buyers have their pick of whose goods to buy. In this type of market, the seller's cost of production is likely to be almost equal to what buyers are willing to pay. If you are one seller with many buyers, you may have the power to set your price higher than your cost of production. But sellers with a large market share should always expect other sellers to try to break into that market.

Because it isn't easy to maintain a large market share, many sellers face markets in which price will be nearly equal to their cost of production, including expected profits. Therefore, you need to compare the price that you are offered to the total cost of producing your product in order to make sure that you will cover your production costs. If your costs are covered by the amount that you are offered, then you and your business are heading in the right direction. However, if your costs are not being covered by the price of your product, then you need to consider making some changes in your business

(see the section on *Business Options* at the end of this chapter). The steps for calculating your cost of production are given here.

Identifying Your Costs

Ideally, identifying your costs, calculating your cost of production, and product pricing should take place on paper *before* you get into business. However, even if your business is in full swing, you can use this cost information, so it's never too late.

To figure out your cost of production, you have to collect information and calculate how much it costs to plant, grow, harvest, catch, process, market, and deliver your product. You can get some of this information from your company's past income statements (see the chapter on *Managing Your Finances*). If you don't have these figures at your fingertips, you can gather information from income statements of similar businesses within an industry, or by reading about an industry at the library, or by asking people in the business, or doing small experiments.

Common types of production, processing, and retail costs are found in the table below. Once they are collected, these costs can be divided into two categories: variable cost per unit and overhead/fixed costs. However, some expenses may fall into both categories, depending on your industry and company. You may have to put part in one category and the remainder in the other.

Operating/Variable Cost Per Unit

Operating cost, or variable cost, per unit (see Table 1 below) includes all costs that are directly related to *each* unit produced. For example, you need to have a system for calculating the cost of all the feed, seed, labor, fertilizer, insecticide, packing materials, some equipment, and so forth that you use to produce or process each flower, vegetable, fruit, chicken, or fish.

As you identify the category that each cost belongs in,

Table 1. Common Types of Costs

Operating/Variable Costs			Overhead/Fixed Costs		
<u>Production</u>	<u>Processing</u>	<u>Retail</u>	<u>Production</u>	<u>Processing</u>	<u>Retail</u>
Cost of equipment	Cost of equipment	Advertising cost	Insurance	Insurance	Insurance
Transportation	Transportation	Transportation	Accounting	Accounting	Accounting
Labor	Labor	Labor	Mgt. salaries	Mgt. salaries	Mgt. salaries
Agric. chemicals	Raw materials	Travel/Buying	Office supplies	Office supplies	Office supplies
Packaging	Packaging	Packaging	Utilities	Utilities	Utilities
Taxes	Taxes	Taxes	Rent	Rent	Rent
		Cost of goods sold	Debt expenses	Debt expenses	Debt expenses
			Educ. events	Educ. events	Educ. events
			Assoc. dues	Assoc. dues	Assoc. dues

you will want to think about which portion of the expense can be tied to the production and sale of a product (see Table 2 below for details). In the case of the phone bill, for example, only your long distance charges may be variable because they depend on how much you can produce and sell. Your monthly charge is always the same, and that cost should not be considered an operating/variable cost.

Overhead Costs/Fixed Costs

Overhead costs (see Table 1), or fixed costs, represent all business expenses that you have not included in your variable costs because overhead costs do not change when output increases or decreases (e.g., even if you are not producing, you still need to cover the cost of rent).

Two of the biggest overhead/fixed costs, which are often overlooked, are the cost of using your money to

Table 2. Example Calculation of Operating (or Variable) Costs

GROSS REVENUE, Σ:	Quantity/acre	in units of	@ \$/unit =	Gross revenue/crop =	% of gross	
1992 TYPICAL yield & price	23,000	pounds	\$0.431	43.1 \$ per acre	100.0%	
OPERATING COSTS, Δ (by activity):	Quantity/acre	in units of	@ \$/unit =	Operating costs/crop =	% of gross	
A. Pre-harvest costs:	Note: Pre-harvest labor/hr. = \$10.00			c per lb.	\$ per ac.	
1 Land Preparation =				3.7	\$849.20	8.6%
a Labor to clear patch	28.30	hours	\$10.00	1.2	283.00	2.9%
b Fertilizer: Lime, if necessary	0.00	bags	\$13.00	0.0	0.00	0.0%
c Labor to machine till	4.36	hours	\$10.00	0.2	43.60	0.4%
d Labor to machine rough level	4.36	hours	\$10.00	0.2	43.60	0.4%
e Machinery operating costs	8.70	hours	\$30.00	1.1	261.00	2.6%
f Custom rototilling	0.00	hours	\$95.00	0.0	0.00	0.0%
g Labor to hand level	21.80	hours	\$10.00	0.9	218.00	2.2%
2 Planting (given spacing) =	27	16 inches		1.3	\$305.00	3.1%
a Seed (huli) @ sq.ft./plant of	2.8	15,488 huli	\$0.00	0.0	0.00	0.0%
b Labor to raise & plant seedlings	30.50	hours	\$10.00	1.3	305.00	3.1%
3 Fertilization =				3.7	\$850.45	8.6%
a Fertilizer: 15-15-15	22.00	bags	\$14.80	1.4	325.60	3.3%
b Fertilizer: Super Phosphate	1.30	bags	\$0.94	0.0	1.22	0.0%
c Fertilizer: Muriate of Potash	26.10	bags	\$11.71	1.3	305.63	3.1%
d Labor to apply fertilizers	21.80	hours	\$10.00	0.9	218.00	2.2%
e Mechanized Operations	0.00	hours	\$20.00	0.0	0.00	0.0%
4 Pest Control =				13.2	\$3,035.45	30.6%
a Herbicide: Round-up	0.57	gallons	\$85.00	0.2	48.45	0.5%
b Labor to spray herbicide	39.20	hours	\$10.00	1.7	392.00	4.0%
c Labor to hand weed	240.00	hours	\$10.00	10.4	2,400.00	24.2%
d Labor to machine mow	6.50	hours	\$10.00	0.3	65.00	0.7%
e Fungicide: Ridomil	0.00	pounds	\$14.39	0.0	0.00	0.0%
f Other pest control expense	0.00	pounds	\$0.00	0.0	0.00	0.0%
g Other pest control expense	0.00	pounds	\$0.00	0.0	0.00	0.0%
h Labor to apply other pesticides	0.00	hours	\$10.00	0.0	0.00	0.0%
j Mechanized Operations	6.50	hours	\$20.00	0.6	130.00	1.3%
5 Irrigation =				0.5	\$120.00	1.2%
a Water	0.00	acre inches	\$0.00	0.0	0.00	0.0%
b Labor to apply water & maintain system	12.00	hours	\$10.00	0.5	120.00	1.2%
6 Operating interest @ APR	10.0%	6.67% per crop on	\$5,160	1.5	\$344.01	3.5%
A. Total pre-harvest cost =				23.9	\$5,504.11	55.5%
B. Harvest costs:	Note: Harvest labor/hr. = \$8.00					
1 Harvesting, grading & packing =				7.9	\$1,827.95	18.4%
a Labor, w/ huli @ bags/hr. =	1	193.60 hours	\$8.00	6.7	1,548.80	15.6%
b Labor, w/o huli @ bags/hr. =	3	31.30 hours	\$8.00	1.1	250.40	2.5%
c Bags, @ 80 lbs./bag =		288 bags	\$0.10	0.1	28.75	0.3%
d Mechanized Operations		0.00 hours	\$10.00	0.0	0.00	0.0%
2 Shipping =				0.8	\$175.57	1.8%
a Labor to transport to market/shipping pt.	7.00	hours	\$8.00	0.2	56.00	0.6%
b Mechanized Operations	7.00	hours	\$10.00	0.3	70.00	0.7%
c Commissions & excise tax	0.50%	of gross revenue		0.2	49.57	0.5%
d Freight, storage & other shipping costs	0.00		\$0.00	0.0	0.00	0.0%
B. Total harvest cost =				8.7	\$2,003.52	20.2%
TOTAL OPERATING COSTS OF PRODUCTION, Δ (A+B) =				32.6	\$7,508	75.7%
GROSS MARGIN (Gross revenue minus operating costs, $\Sigma - \Delta$) =				10.5	\$2,405	24.3%

Source: Fleming, Kent. 1994. *The Economics of Commercial Wetland Taro Production in Hawaii*. CTAHR, AgriBusiness No. 7

finance your business and the cost of the owner’s labor and management skills. These two costs are paid from the profits that you expect the business to earn for you. Ideally, you want to earn enough to pay a return on the money that you have invested in the business, and you want to earn enough to pay you for all of the time that you put into the business. The business will not automatically do this unless you recognize these as costs and get a plan to pay your expected profits.

Estimating the “Cost” of Using Your Money and Time

To estimate the “cost” of using your money for your business, first calculate how much you have invested in your business, then decide on your desired return rate. To help you decide, examine alternative investments, or the *opportunity cost* of your capital (money). For example, if you invest in the stock market, over a twenty-year period you can expect to earn about a 13.5 percent average annual return, but there is no guarantee. Alternatively, the interest on a savings account is smaller, but you can be sure that you will earn the interest promised to you. In determining the “cost” of using your money, you should remember that the higher the average desired return, the greater the risk of getting less than the average during any given year.

You also need to know how much time is spent running the business (time that is not already counted in the cost of producing and marketing a specific product), so that you account for the money you want to earn for running your business. You should multiply the number of hours that you worked times your desired wage rate to estimate the cost of running your business. In setting a wage rate, you might think about what it would cost your business to hire someone else to do the work for you.

Calculating Your Cost of Production

Once you know your annual variable and overhead/fixed costs, you can add them up and get your total business costs. If you divide total business costs by the number of units that you make and sell in a given time period—your current production output—then you can get the break-even price for one unit. That unit cost can be compared with the price you are offered or can get in the marketplace.

Total Business Costs = Variable Costs + Overhead Costs

$$\text{Break-Even Price} = \frac{\text{Total Business Costs}}{\text{Total Production Output}}$$

The break-even price is your product’s minimum selling price. The actual selling price of your product must be equal to or larger than the break-even price of the product or losses will occur. In order to estimate your actual selling price, you need information on the prices in the market in which you will be selling (for instance, see the

chapter on *Production and Market Statistics—Tools for Better Decision Making*). If you know the selling price of each unit, then the minimum number of units that you must sell to pay expenses, or the break-even quantity, can be calculated:

$$\text{Break-Even Quantity} = \frac{\text{Total Business Costs}}{\text{Selling Price}}$$

The break-even quantity tells you how many units you have to sell to pay expenses. The break-even quantity may be less than the maximum quantity that you can produce, but if the break-even quantity is more than your maximum, you will not be able to cover all of your costs because you can’t produce and sell enough. Remember that your expected profits have been included as part of your total business costs, so your actual selling price or actual number of units sold will not need to be much greater than the break-even estimate.

Value in the Marketplace

While your break-even price tells you what you must receive to cover all of your costs (i.e., your minimum selling price) it does not mean that that price must be the sales price of your product. Your selling price is also determined by your customers and your competition.

Some consumers may not be willing to pay as much as others. You can give special discounts to consumers that are more sensitive to price by lowering your prices during certain days of the week or months of the year, for certain customers, or for a certain volume of purchases. For example, Kama’aina rates, Mele Kalikimaka airplane fares, and buy two, get the third free offers are all ways to attract customers that might not buy otherwise.

At the same time, you might want to offer a lower price to one big buyer than you would offer many small buyers because it really is cheaper to sell to one rather than many buyers. Some businesses also sell products that complement each other or sell products as a group in order to make larger sales. For example, flower stores often sell balloons or stuffed animals and give small price discounts if these items are purchased as part of a flower arrangement. Supermarkets often sell a few products at or below cost, just to bring in consumers who will also buy other, more profitable products.

Sometimes, you may need to sell some products at a price lower than break-even just to keep your market share or to get through an unexpected increase in supply or decrease in demand. Then, you can make up for the short-term loss later when market conditions are better. For example, demand for fluid milk in Hawaii usually decreases in the summer. A dairy producer would generally plan to produce less in the summer, but would probably sell any excess at a lower price to an ice cream processor, rather than dump the milk.

The prices of your competition are also important in

your pricing decision because the customer can always buy someone else's product. You will need to decide whether your product is different enough to get a higher price. If your product is fresher or tastier, consumers may be willing to pay more for it. For example, Kona coffee can only be grown in Kona and this makes it unique. As a result, Kona coffee is sold at premium prices. Ultimately, the consumer decides what they are willing to pay, but if your product is unique you may have more control of the price of your product.

Business Options

If you find yourself in a situation where you will be losing money or you are not satisfied with your selling price, you have four choices. You can:

- lower your cost of production
- change the quality of your product, so you can get a higher price
- lower your expected profits
- get into another form of business

Remember that your product's actual selling price reflects what customers think it is worth to them. Customers don't know, and probably don't care, about your cost of production. It is up to you to prepare for any unexpected expense. The more information and experience you have, the better prepared you will be to price your product profitably.

Suggested Resources

Fleming, Kent. 1994. *The Economics of Wetland Taro Production in Hawaii*. College of Tropical Agriculture and Human Resources, University of Hawaii at Manoa, Honolulu, HI. Agribusiness #7.

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Managing Your Finances

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You need an organized system to help you manage your finances, so you can get the information that you need to make better decisions. If you have a computer, there are some excellent software programs available to help you with your financial management and they are worth the price (see the listing under *Suggested Resources* at the end of this chapter).

Financial Statements

The first step in the financial management process is to collect the information to go into a *balance sheet*, *income statement*, and a *cash flow budget*. Then, you can analyze these three financial statements using ratio analysis to determine the financial health of your business.

Balance Sheet

A balance sheet shows your firm's financial position at a specific point in time and reflects the following basic accounting relationship:

$$\text{Assets} = \text{Liabilities} + \text{Net worth (Owner equity)}$$

Assets: Resources or items of monetary value that are controlled by the business. Assets are listed in order of their liquidity, i.e. when they will be used up.

Current assets, listed first, will be converted to cash or consumed during the upcoming year. Intermediate assets come second and provide services to the business over time but they are used up (depreciated) or sold (liquidated) within two to ten years. Long-term or fixed assets are last and are those items which normally do not wear out or are not intended for sale within the next 10 years.

Liabilities: Debts owed by the business. Liabilities are listed on the balance sheet in order of when they will come due.

Current liabilities, listed first, will be due during the upcoming year. Intermediate liabilities, come second and are debt obligations due within two to ten years. Finally, long-term or fixed liabilities are those debts due in more than ten years.

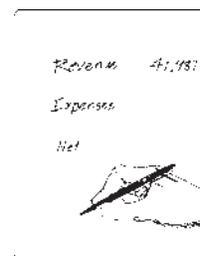
Net worth, or owner's equity: The current value of the owner's investment in the business. This figure will



include investments by the owner in the business and profits that have been retained in the business rather than withdrawn by the owner.

Income Statement

An income statement summarizes the revenues and expenses of your business during a specified period of time, generally a year. Many businesses use the profit-and-loss statement from their income tax form as their income statement.



Cash Flow Budget

A cash flow budget estimates all the cash coming in and going out of your business over a year. To make these forecasts you must anticipate all of the following cash flows each month:

Cash In

- + cash sales
- + payment for credit sales
- + new loans
- + owner's investment
- + asset sales

Cash Out

- operating expenses
- interest and tax payment
- loan payment
- owner's withdrawal
- assets purchases

After it is completed, the budget can be used to project the firm's balance sheet and income statement in the future. You might want to anticipate what you will do if sales aren't as high as you expect or if an unplanned expense occurs, so you are prepared for cash flow problems that might occur.



Financial Analyses

There are two types of financial analyses commonly used by a financial analyst. These are break-even analysis and ratio analysis.

Break-even Analysis

Break-even analysis estimates the minimum number of units that a firm must sell, or the minimum selling price that the firm must receive, in order to pay all of its expenses. To calculate the minimum selling price or minimum number of units, see the chapter on *Your Cost of Production and Product Pricing*. Knowing the number of units that you must sell to pay your expenses, or your minimum sales price, is useful because it is a goal you

can shoot for. However, there are other financial goals that are important, and ratio analysis allows you to look at them.

Ratio Analysis

Ratio analysis uses information from your balance sheet and income statement to compute ratios that describe your financial position.

You can analyze your current performance using a *current* balance sheet and income statement. Or, look into your *future* by using your projected balance sheet and income statement.

Applied Ratio Analysis

There are four financial goals that are important to your business. Ratios can be used to determine where your business stands in each of these areas.

Liquidity: The ability of a business to pay bills and debts as they become due over the next year.

The most widely used liquidity indicators are the cash flow budget and the current ratio. Since the cash flow budget is done a year in advance, any cash shortage can be anticipated.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

A low current ratio, say 1:1, means your business is barely liquid and you may not be able to pay your debts when they become due this year. A high current ratio of 3:1 means your business is very liquid. This may reduce your business's profitability because current assets generally earn less than intermediate and long-term assets.

Solvency: The ability of a business to pay off all debts over the life of the business.

The most common solvency measure is the leverage ratio.

$$\text{Leverage ratio} = \frac{\text{Total liabilities}}{\text{Net worth or owner's equity}}$$

If your leverage ratio is large, say 2:1, your business has a large amount of debt and could go bankrupt quickly. On the other hand, 1:5, a small leverage ratio, means that your risk of bankruptcy is much smaller, but your opportunities to grow and make profits are also smaller.

Profitability: The ability of the business to earn profits.

Two common measures of profitability are Return On Assets (ROA) and Return On Equity (ROE). In calculating ROE, the figure subtracted for unpaid labor will

depend on how much you think this labor is worth. Generally, you should think in terms of how much it would cost to hire someone to do the work that you or a family member currently does (see the chapter on *Your Cost of Production and Product Pricing* for more information).

Return on assets =

$$\frac{\text{Net income} + \text{Interest paid} - \text{Total unpaid labor}}{\text{Total assets}}$$

ROA indicates the *before-tax rate* of return earned by the assets of the business. The interest paid on debts is added back in before ROA is calculated. The ROA of a business must be greater than the interest rate on borrowing or the assets are not earning enough to pay for themselves.

Return on equity =

$$\frac{\text{Net income} - \text{Total unpaid labor}}{\text{Total net worth}}$$

Remember that the ROE tells you how much your business is earning on the money you have invested in it. Looking at the returns you could get from other investments will help you decide if your ROE is acceptable.

Financial Efficiency: The value of inputs as compared to the value of the output they produced.

Operating expenses ratio =

$$\frac{\text{Total expenses} - \text{Interest paid} - \text{Depreciation}}{\text{Sales}}$$

Various efficiency ratios calculated with data from your income statement determine how much of each sales dollar is paid out for expenses or remains as profit. If large expenses such as labor go up without sales increasing at the same time, then you will know that your business is less efficient.

Things to Remember When Using Ratio Analysis

- Examine the ratios computed from data contained in your firm's financial statement to determine if this value is consistent with your goals. For example, if you want to pursue a goal of high profitability, you may want to be sure your Current Ratio is *not* high.
- Compare your business with other similar businesses in the industry. Get information at the library, from trade magazines or associations, and from lenders.

-
- Do not use only one ratio for decision making. Moving toward one goal may result in movement away from another. For example, a movement toward profitability might be a movement away from high liquidity.

Analyze your ratios over time and make decisions on the trends, rather than on one year's performance. Make a chart and see how things change over time. Be sure that you have your business' financial data at your fingertips, and check it often. You can congratulate yourself on things that went according to plan and correct problems before they get out of hand. You might also want to reassess your goals periodically if your business goals have changed over time.

Suggested Resources

Books

Barry, P., J. Hopkin and C. Baker. 1994. *Financial Management in Agriculture*. Interstate Printers & Publishers, Inc.

Computer Software

QuickBooks by Intuit

M.Y.O.B. Small Business Accounting by BestWare

Peachtree Accounting by Peachtree Software

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Production and Market Statistics— Tools for Better Decision Making

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One of the best things you can do for your new or existing business is to learn how to find and understand local production statistics and market prices. The Hawaii Agricultural Statistics Service (HASS) and the Market News Service (MNS) of the Hawaii Department of Agriculture provide these types of data for a great array of crops. If you are armed with such information you can make more informed decisions in an effort to “plan before you (re)plant.”

Hawaii Agricultural Statistics Service

The Hawaii Agricultural Statistics Service (HASS), a partnership between the Hawaii Department of Agriculture and the U.S. Department of Agriculture’s National Agricultural Statistics Service, has been providing a comprehensive program of farm production and related statistics for Hawaii agriculture since 1955. The forerunner for this cooperative program in Hawaii was the efforts of the Agricultural Extension Service at the University of Hawaii, which began providing similar information in 1946.

What is HASS Information and When is it Available?

HASS data relates to farm production, acreage, farm gate prices and value, and related statistics for a wide array of commodities for a given period. Data is collected through mail-out surveys and on-site visits. Also, HASS frequently includes in their reports information from other sources such as the USDA Economic Research Service (ERS) that describe conditions, situations, and outlook for U.S. and world agriculture when it impacts Hawaii farmers.

The frequency of the reports varies from a weekly report of weather and general crop conditions to monthly vegetable, fruit, and livestock reports, quarterly taro millings, annual livestock inventories, crop production, and flowers and nursery products. See Table 1 for a complete listing of reports. Subscription forms and reports can be obtained by contacting us at (808) 973-9588 (Oahu) or (800) 804-9514 (neighbor islands).

Who Uses HASS Information?

There is a great range of people and organizations who subscribe to HASS reports in order to make more informed decisions. They include:

- growers, farmers, and ranchers
- farm organizations and grower associations
- agricultural marketers
- banks and lending institutions

- universities and researchers
- government and policy makers
- agricultural input suppliers
- transportation industry managers

Putting HASS Information to Work for You

You need both historical and projected data to guide you in your planning. This planning can range from establishing operational procedures to developing marketing strategies in order to maximize your profits. Information is just one of the tools you will need in the increasingly complex agricultural business.

Growers can use various reports to look at the track record of crops they are considering and answer the following questions:

- What have past levels of production been, and what is the trend?
- If monthly figures are available, what has been the seasonality of production?
- What average farm price might be expected and how has it fluctuated from month-to-month, year-to-year?
- What have yields per acre averaged in the past, reflecting the effects of weather, disease, pests and other factors?
- Where have the markets been, local or export or both?
- What has been the Hawaii market share versus inshipments?
- What future local supplies might be expected, based on how much and when acreage was planted, typical historic yields, expected time of harvest, and recent weather conditions?
- How might competing crops and other producing areas affect them?

Many people have also used this type of information to develop the financial part of their business plans (see the chapter on *Preparing Your Business Plan*) in order to estimate economic feasibility or in anticipation of applying for a loan. University of Hawaii agricultural economists have long used HASS data to develop cost-of-production estimates on certain commodities.

For growers planting short-term commercial crops, such as vegetables and melons, monthly information on acres planted, knowledge of the usual time from planting to harvest, and expected yields could be used in projecting future supplies. Growers could use this knowledge in determining a marketing strategy or to adjust planting schedules accordingly. While it may not always be possible to predict the exact amount that will be harvested

several months in advance, it may be possible to determine whether production will be going up or down, about when to expect the change, and whether it might be a large or small change—and that can be useful knowledge!

Example: If you wanted to grow head or romaine lettuce, you could estimate what would be available in the market in coming months. The figures included in the November 1994 vegetable release of the *Hawaii Vegetables*—

Acreage, Production, and Farm Price monthly report (see Table 2) showed increases in the State totals of new planting during October for lettuce and romaine. Knowing the usual length of time from transplant to harvest, it could have been expected that in about two months there would be increases in the supply of these two crops. Sure enough, supply began to increase dramatically for both crops when those “October acres” began to be harvested in December.

To continue the example, that data is collated,

Table 1. Hawaii Agricultural Statistics Service (HASS) List of Reports

Title and Description	Release date
CROPS	
AVOCADOS: Annual summary of acreage, yield, production, farm price, and value	May
BANANAS:	
- Monthly report on sales, farm price, and production forecast	Second week of month
- Annual summary of acreage, yield, production, farm price, and value	May
COFFEE:	
- Preliminary season estimates of acreage, yield, production, farm price, and value	January
- Final season estimates of acreage, yield, production, farm price, and value	September
FRUITS:	
- Annual summary of fresh and processed fruit production, acreage, farm price, and value	June
- Annual summary of tropical specialty fruits - acreage, production, and value	June
GINGER ROOT: Annual summary of acreage, yield, production, farm price, and value. Planting intentions for next season	August
GUAVAS: Annual summary of acreage, yield, production, farm price, and value	June
HERBS: Annual summary of fresh production, farm price, and value	August
MACADAMIA NUTS:	
- Preliminary season estimates of acreage, yield, production, farm price, and value	January
- Final season estimates of acreage, yield, production, farm price, and value	July
PAPAYAS: Monthly data on acreage, utilization, farm price, and four-month production forecast	Mid-month
PINEAPPLES: Annual summary of acreage, production, farm price, and value	February
SUGARCANE: Estimates of acreage and production for all major U.S. producing areas	August-November
TARO:	
- Quarterly summary of taro milled for poi	Jan., Apr., Jul., Oct.
- Annual estimates of acreage in crop, production, and farm prices for Chinese and wetland taro varieties	January
VEGETABLES:	
- Monthly estimates of acreage, sales, and farm price for 15 major vegetable and melons.	
- Includes forecast of production and harvested acreage	Second week of month
- Annual summary for all vegetable and melons. Contains data on acreage, production, and value	April
- Annual summary of quantity and farm price for commercially processed daikon and Chinese cabbage	March
FLORICULTURE AND NURSERY PRODUCTS	
ANTHURIUMS: Monthly report of mainland and foreign sales	Mid-month
FLORICULTURE AND NURSERY PRODUCTS: Annual summary of area, production, and value	June
POINSETTIAS: Fall report of plant inventory and past year sales	October
LIVESTOCK	
LIVESTOCK: Monthly hog and cattle slaughter, cattle shipments, pasture conditions, number of milk cows and milk production, number of layers and egg production, and farm prices.	Last week of month
CATTLE: Annual report of inventory and calf crop as of January 1	February
HOGS: Annual report of inventory and pig crop as of December 1	January
HONEY: Annual summary of number of colonies, production, yield, farm price, and value	February
OTHER PUBLICATIONS	
CROP WEATHER: Weekly comments on weather and crop conditions. Rainfall data for selected stations	First working day of week
FARM LABOR: Quarterly report on number of workers by type and average wage rates	Feb., May, Aug., Nov.
STATISTICS OF HAWAIIAN AGRICULTURE: A statistical summary of the State's agricultural sector	October
<p><i>To order any of the above reports, contact: the Hawaii Agricultural Statistics Service, P.O. Box 22159, Honolulu, HI 96823-2159, (808) 973-9588.</i></p>	

updated, and put into the annual *Statistics of Hawaiian Agriculture* (see Table 3). The same type of historical information on romaine, for instance, could allow you to get a long-term perspective on production and demand. Seasonal patterns are now more obvious (where the data is collected) and trends can be spotted.

The differences between the above two sources of information in October (i.e., Tables 2 and 3) arise from the newsletter having estimated data (to be used as an indicator) for the short term and the data from the annual report having been revised for the book.

The Market News Service: Taking the Daily Pulse of the Market

The Hawaii Department of Agriculture's Market News Service (MNS) strives to provide a wide variety of market information to all members of the agricultural sector, from grower to retailer. Unlike the Hawaii Agricultural Statistics Service (HASS), which deals with data in periods of a month or longer, the MNS provides information on wholesale prices (in contrast to HASS collecting "farm gate prices"), supplies, movement, and market conditions as they relate to the day-to-day operations of the marketplace.

Table 2. Vegetable Acreage for Lettuce, State of Hawaii, November 1994

ISLAND AND DISTRICT	ACREAGE PLANTED				ACREAGE FOR HARVEST		ACREAGE HARVESTED			TOTAL ACREAGE IN CROP	
	SEP 1994		OCT 1994		NOV 1994	DEC 1994	NOV 1993	SEP 1994	OCT 1994	OCT 1 1994	NOV 1 1994
	1-15	16-30	1-15	16-30							
LETTUCE, HEAD											
HAWAII	*	0	0	0	*	0	*	*	*	*	*
VOLCANO						0					
WAIMEA	4	4	6	3	8	9	7	8	7	15	17
MAUI	1	1	2	2	1	4	1	1	1	2	5
STATE	5	4	8	5	9	13	9	10	9	18	22
LETTUCE, ROMAINE											
HAWAII											
MAUI	3	2	3	2	4	5	3	5	5	9	9
STATE	2	2	3	3	4	6	8	5	4	9	10
STATE	5	4	5	6	9	11	10	10	9	18	20
TOMATOES²											
HAWAII	3	3	3	3	6	6	4	8	8	16	9
MAUI	3	3	3	3	6	6	4	8	8	16	9
STATE	8	6	7	6	14	13	9	12	12	23	24

Source: Hawaii Vegetables—Acreage, Production, and Farm Price, November, 1994.

Table 3. ROMAINE: Acreage, production, and price, State of Hawaii, 1990–94

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Total or average
Harvested acres[†]													
1990	15	16	15	14	18	14	16	15	14	13	9	11	170
1991	10	16	16	16	18	14	14	15	13	10	11	7	160
1992	12	12	13	18	9	10	10	8	13	12	12	11	140
1993	11	10	12	16	14	16	15	14	15	11	12	14	160
1994	15	15	14	14	15	15	11	11	10	12	13	15	160
Production[†] - 1,000 pounds													
1990	145	95	137	175	203	158	143	183	139	126	85	111	1,700
1991	92	166	156	163	197	157	170	176	115	106	105	97	1,700
1992	104	146	137	214	147	110	84	90	103	84	83	98	1,400
1993	78	109	152	194	156	188	170	129	113	63	97	151	1,600
1994	228	199	124	203	159	168	127	93	81	81	78	159	1,700
Farm price - cents per pound													
1990	36.9	37.5	33.5	31.8	29.2	26.5	29.5	39.6	40.1	44.5	41.2	52.5	36.0
1991	43.6	39.4	36.8	33.8	30.2	36.0	33.3	37.2	40.4	41.0	45.2	44.5	37.5
1992	42.2	38.4	38.8	39.1	40.5	41.6	39.8	44.0	40.3	36.4	37.6	42.3	40.0
1993	42.4	45.3	36.7	34.7	35.2	37.4	34.8	35.0	38.9	44.0	44.7	32.8	37.5
1994	30.5	29.7	40.0	39.2	38.8	36.5	39.4	45.0	46.1	45.6	46.4	45.3	38.5

[†] Sum of monthly estimates may not add to State total due to rounding.

Source: Statistics of Hawaiian Agriculture, 1994.

What the Market News Service Measures and What Information it Provides for You

Market News Service reporters record vital data from the current marketplace. Some important market cues that we track are:

- **Movement.** This term refers to the tempo of the market. Is the market brisk? Slow? Normal for this time of the year? The reporter observes and records the movement of products through marketing channels
- **Price.** Are wholesale prices high compared with an earlier date? Are prices low? Or are prices steady?
- **Supply.** Are the pipelines of the market overfilled, nearly empty, or adequate for the time? The amount of product moving through any market or in inventory profoundly affects prices. The supply aspect of market news is a fundamental requirement
- **Demand.** Demand concerns the needs of the marketing system for available supplies. Do buyers want more product? If so, demand is high (strong). Are buyers more cautious than normal? If so, demand is low (weak)

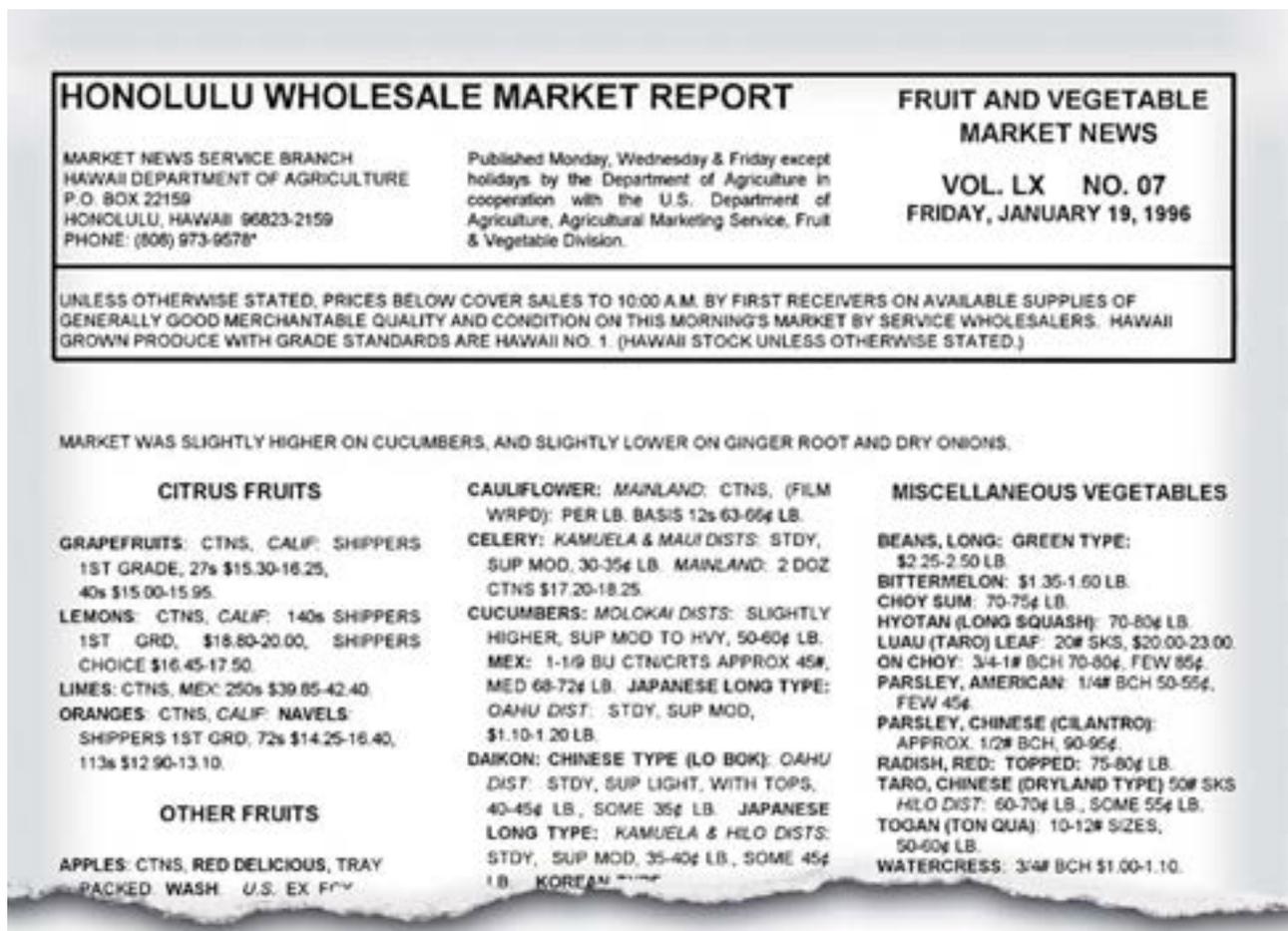
Figure 1 shows part of a Honolulu Wholesale Market Report. Because this information is so time-sensitive, there are only a few ways that you can usually put this data to work for you, including:

- getting a second opinion on the prices offered by wholesalers
- where your products have some on-farm shelf life, you can make minor adjustments to harvesting schedules
- if you sell to a number of markets, these daily prices can help you determine the best markets for your crops given transportation conditions

How Are Market News Reports Different from Other Market Reports?

Market information in its broadest sense includes all information relating to the market, but only *current* market conditions are considered *market news*. Other related statistical series such as HASS crop reports, ERS situation and outlook reports, and farm price reports are marketing. However, the basic functions of the Market News reports are much different from those of the more purely statistical or economic reports.

Figure 1. An Example of a Honolulu Wholesale Market Report



How Is Market News Data Collected and When Are Market News Reports Available?

Our data is collected primarily from on-site visits, though we often use the telephone to communicate with other sources of information. The MNS has a number of individual and cooperative reports available throughout the year, which include:

- *Honolulu Wholesale Market Report*, reports the amount or weight of selected fruits and vegetables arriving into the Honolulu Wholesale Market. The report also contains wholesale prices, as well as supply and demand information for tracked commodities. It is available Monday, Wednesday, and Friday each week by mail, fax, or recorded code-a-phone message.
- Each Wednesday egg, poultry, pork, and selected floriculture information is promulgated.
- Weekly neighbor island wholesale fruit and vegetable prices are reported on Tuesdays after 2:00 p.m. Call (808) 871-5819 Maui; (808) 974-6510 Hawaii; (808) 241-3302 Kauai.
- Special periodic reports summarizing annual Honolulu price and quantity data are provided when resources permit.
- Annual Statewide in-shipment data for U.S. mainland and foreign fruits and vegetables are included with HASS data in the HASS annual publication, *Statistics of Hawaiian Agriculture*, in the Market Supply table.

Contact (808) 973-9578 to subscribe to these services. To reach the 24-hour recording for Honolulu Wholesale Market information call (808) 973-9581 Monday, Wednesday, and Friday after noon. You can also find out what is happening in the Los Angeles Wholesale Market by calling (808) 973-9582 daily after 2:00 p.m.

Limitations of Market News

Market News Service and market reports have limitations peculiar to specific commodities or inherent in different methods of trading. Time limitations require judgments by reporters to find the most adaptable way of providing adequate market coverage. Extent of coverage is also guided by marketing practices, which differ among commodities.

Most Market News Service reports show a range of prices for each variety and grade, reflecting different sizes, qualities, and other factors that affect prices. Reporters usually cannot obtain weighted-average prices for all pertinent transactions. Time and available staffing

limit the extent to which reporters can obtain information on many commodities. However, within these limits, experienced judgment is exercised, so reporters do weight prices on the basis of reported or observed volume of sales. This results in the use of terms such as “mostly,” “few,” or “some”, when price ranges are shown in Market News Reports.

Agricultural Statistics on the Internet

The U.S. Department of Agriculture’s “Economics and Statistics System” provides easy access to agricultural statistics on the Internet. The system includes data sets with agricultural data in Lotus 1-2-3 (.wk1) format and reports of crop estimates and economic forecasts issued by the USDA’s economic agencies. The Internet address is gopher://usda.mannlib.cornell.edu/. Also, the National Agricultural Statistics Service (NASS) has made data from the *1994 Agricultural Statistics* book available on the Internet. You can find this data at the NASS home page: <http://www.usda.gov/nass/>. These two sources of information provide a long-term view of market trends for certain crops.

Two other websites with statistics from the U.S. Department of Agriculture provide more short-term data for agriculture. For livestock: <http://ianrwww.unl.edu/markets/> and for fruits and vegetables: <http://www.milcom.com/fintrac/prices.html>.

The Bottom Line

As information becomes more readily available and timely, you have the opportunity to use it to your advantage. With current market information, you can respond more quickly to changes in demand, therefore enhancing your ability to capture certain markets and increase revenues.

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The Business of Production Agriculture

One of the most important aspects of being a successful producer is planning production to take advantage of market opportunities.

Before you begin production, the development of a production/sales calendar can help you coordinate your production schedule with market demand, or your buyer's needs. Without a market to generate a profitable return, there is no real reason to grow a crop. *So, you have to plan before you plant.* However, once a market is identified and a buyer is found, good production practices are essential for bringing the product to market on time and in marketable condition.

This chapter discusses some ideas about planning for market opportunities, the use of your production/sales calendar, and techniques for overcoming a number of obstacles to production.

Planning for Market Opportunities

In order to successfully market your product, you should:

- know your product
- know your competition
- know your market
- develop a marketing and business plan and follow it (see the chapters on *Putting Together a Marketing Strategy* and *Preparing Your Business Plan*)

The main concern of commercial food buyers in Hawaii is the ability to obtain year-round consistency in quantity and quality. Nearly 70 percent of the fresh food consumed in Hawaii is imported. Where a plant's growing requirements can be met, there is an opportunity to replace some of these imports with local production. Also, market "windows" exist at times of the year when product demand is high and when outside producers are unable to provide Hawaii buyers with a steady supply of product (see the chapter on *Production and Market Statistics—Tools for Better Decision Making* to see how the use of statistical data can help you identify opportunities). In addition, a number of export market opportunities may exist for growers looking to expand their sales beyond the state (see the chapter on *Exporting Your Hawaii Product to a Foreign Market*).

In seeking to satisfy your buyers, plan ahead and make sure that you can provide your product in a reliable and timely fashion. Communication with buyers, the use of a production/sales calendar, and proactive production techniques are necessary tools for meeting market commitments.

Communication and Your Production/Sales Calendar

Communication with product buyers is a key factor influencing the success or failure of your business. For this reason, a producer should seek out buyers before initiating production to determine market needs and to discuss delivery options. You and the buyer should agree on:

- quantity of your product
- quality of your product
- a price (in general)
- when and where delivery will occur
- terms of payment

This information should be penciled in on your production/sales calendar (you'll need to buy a 16 month calendar, see Figure 1). Then, counting *backwards* through the days, weeks, or months that it takes to

Figure 1. Kim's Production/Sales Calendar—Month 1

S	M	T	W	T	F	S
28 Talk to Buyer Get agreement on the sale	29	30	1 Fallow	2	3	4
5	6	7	8 Fallow	9	10	11
12	13 Land Preparation	14	15 Plant crop	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30 Weeding	31	1

Month 4

S	M	T	W	T	F	S
28	29	30	1 Call Buyer to confirm price and quantity	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16 Harvesting and Post-Harvest Handling	17	18 Delivery to Buyer or pick up by Buyer
19	20	21	22	23	24	25
26	27	28	29	30	31	1

What to Produce?

The question “what to produce?” is often asked but is never easily answered. To answer this important question, you need to first line up information about:

- your business goals
- your business and production abilities
- your production conditions (e.g., soil type, water availability, temperature ranges, etc.)

Once you have gathered your business and production information, you can begin your search for potentially suitable crops. This task requires a lot of background work, including making phone calls, meeting people, visiting places, and reading. Here are some steps to follow:

- ① Gather market information (i.e., find out what is being sold in the market and what crops have the highest demand), and make a list of potential crops
- ≠ Collect production information about the crop you are considering
- ③ Compare your production conditions (from a soil test or other information) with your potential product list to see which ones are feasible
- ④ Make a quick budget to decide, in general, whether you will make enough profit to cover the costs of production
- ∞ Go out and talk to buyers of the product(s) you are considering, before you actually start production, to get some more in-depth information on the market for that product
- ± Establish a test plot of the most salable crops
- ≤ Continue to work on your relationships with buyers, so you can *sell before you sow!*

Although you must ultimately decide what you will grow, here are some resources that may help you with your decision. For new crops, you might want to check out Purdue University’s new crop website at: <http://www.hort.purdue.edu/newcrop/home>. Also the book, *A Profile of Economic Plants* by Roecklein and Leung, provides some basic production and market parameters for hundreds of crops. And for some insight into what has been tried in Hawaii before, David Crawford’s 1937 book *Hawaii’s Crop Parade* and Perry Philipp’s 1953 book *Diversified Agriculture of Hawaii*, provide for some interesting and informative reading. *Remember, all new crop introductions are subject to Hawaii and USDA quarantine restrictions.*

produce a crop, you should note on the production part of the calendar where land preparation, planting, weeding, watering, other cultural practices, and harvest should take place.

Your buyer(s) will also have a calendar to keep track of their different suppliers and the dates and quantities agreed upon. To ensure a strong working relationship with your buyer, only make an agreement that you can

uphold. When you commit to a certain volume of production, take into account your expected losses in yield and plan accordingly. Once an agreement between you and your buyer is reached, then all parties must uphold their side of the agreement (for information on how you are protected in the selling process, see the chapter on *Protection and Regulation in the Produce Industry* and also the book *A Farmer’s Legal Guide to Production Contracts* in the section on *Suggested Resources*). If you have production losses that you didn’t predict and that will interfere with your supply commitment, you should make a backup plan. For example, you could fill the order by buying some from a fellow grower, just so you don’t let your buyer down.

In reality, keeping your supply commitment is much more difficult in practice than on paper, because of the many production problems that may occur during the crop cycle. In the worst case, pest outbreaks can destroy your entire crop and leave you without a product to sell. Recognizing, anticipating, and fixing production maladies are essential elements in guaranteeing timely market delivery.

Overcoming Production Obstacles

Some factors that can hinder production include pests, climate, soil conditions, and infrastructure at the production site. Following are some ways in which these constraints can affect production and some suggestions for dealing with these problems.

Pests

Year-round conditions favorable for crop production also favor on-going pest problems. Pests may limit production through direct yield losses, decreased product quality, or total crop failure. Pests can be dealt with in a variety of ways, but two general factors can alleviate and prevent problems before they start, including:

- know your crop—inform yourself about the pests that can damage your crop
- good field preparation and sanitation—minimize pest impact by providing the most favorable growing conditions for your product, not the pest

Climate

Climatic factors that affect crop growth include:

- temperature
- rainfall
- relative humidity
- wind
- sunlight

For example, in Hawaii it is difficult to grow many protea varieties below 2,000 ft. elevation because of cool temperature requirements for proper growth and flower production. For livestock, high summer temperatures cause decreased milk production in dairy cows and reduce the productivity of egg-laying hens. Also, many tropical fruits, such as mango and lychee, produce flowers during the winter. Fruit set is adversely affected when excessive wind and rainfall, which occurs in winter, leads to flower loss. These types of factors need to be considered when making market commitments.

Production Environment

Some suggestions for adapting to the production environment include the use of windbreaks and appropriate crop varieties. Shelter and shade provided by windbreaks can have a positive impact on both crops and livestock. The reduction of flower drop in fruits and nuts protected by windbreaks can lead to higher yields, while animals can benefit by having refuges from high temperatures. While it is commonly thought that windbreaks harbor pests, they are more likely to serve as refuges for beneficial organisms that prey on crop-destroying pests.

Appropriate Species

You should choose a crop variety that best suits your production environment. The use of adapted varieties can alleviate production problems related to pests and unfavorable environmental conditions. Varieties adapted to heat and cold are available for many crops. For example, the broccoli variety “Emperor” does well during cool weather or at high elevations, while “Packman” is more adapted to warm conditions and low elevations.

Crops have specific environmental growing requirements. Crops can often be classified as warm- and cool-season crops. Examples of warm-season crops are sweet corn, tomato, eggplant, and pepper. Cool-season crops are exemplified by head cabbage, carrot, celery, lettuce, and broccoli. Some plants, like bulb onions, are day-length sensitive, and only the so-called “short” or “intermediate” day-length varieties can be grown in Hawaii. Also, resistance to insect and disease can be an important characteristic to consider when choosing varieties for a particular growing area.

Soil Conditions

Soil conditions can limit production and affect your production calendar. Proper soil preparation, prior to planting, includes:

- lab testing of soil for pH and fertility and making adjustments accordingly
- providing good drainage and aeration
- preparing and following a soil conservation plan to minimize erosion of valuable topsoil in plowed fields

Two good places to get assistance and information about soil conservation, as well as many other areas, are the Natural Resources Conservation Service (NRCS) and the Farm Service Agency (FSA). These agencies can assist you in preparing, and in some cases, in funding the implementation of a conservation plan. For example, the FSA administers the Agricultural Conservation Program (ACP), which has funds available for eligible producers who want to develop a conservation plan. A conservation plan can help you in a variety of areas, including reducing erosion, establishing/improving vegetative cover, establishing/restoring field windbreaks, conserving irrigation water, and many others. Both agencies have specialists to help you (see addresses in the section on *Suggested Resources* at the end of this chapter).

Infrastructure and Labor Management

The importance of infrastructure in the production/sales scheme is often overlooked. Some questions to ask yourself during the planning stages include:

- Are production inputs readily available?
- Is the water service adequate for your irrigation needs?
- Are power and other utilities accessible?
- Does the product require special post harvest treatment?
- Do you have the necessary labor force?
- If several family members are involved in the operation, have tasks and responsibilities been clearly defined? Has a chain of command been clearly defined?
- Is your crop protected from intruders?

In addition to production concerns, an important aspect of getting your product to market is transportation. You should be knowledgeable about your transportation options and plan for transport before you harvest (see the chapters on *Preparing Your Fresh and Processed Products for Transport* and *The Basics of Transporting Your Product*).

The Bottom Line

Although many production problems can cause drawbacks and delays, try to prevent them by adopting production methods suitable to the particular growing environment. The most important aspect of successful farming is product delivery to the buyer at the specified time and in the specified condition.

In order to be successful, proactive producers must also be effective business people. Some important factors in reducing business risk are knowing your production and personal capabilities and planning ahead by finding a buyer for your product *before* beginning production. Once the first sale is completed, you should seek feedback from your buyers to determine how you can improve your product or services. Remember—if you are not willing to provide a quality product to your market, there will always be someone else who is.

Suggested Resources

Books

Crawford, David Livingston. 1937. *Hawaii's Crop Parade: A Review of Useful Products Derived from the Soil in the Hawaiian Islands, Past and Present*. Advertiser Publishing Co., Ltd., Honolulu, HI. pp 305.

Hamilton, Neil. 1995. *A Farmer's Legal Guide to Production Contracts*. Top Producer Book, Center Square West, 1500 Market Square 28th Floor, Philadelphia, PA 19102-2181.
Tel: (215) 557-8963. \$16.95

Philipp, Perry F. 1953. *Diversified Agriculture of Hawaii: An Economist's View of its History, Present Status, and Future Prospects*. University of Hawaii Press, Honolulu, HI. pp 226.

Roecklein, John C. and PingSun Leung (Ed.) 1987. *A Profile of Economic Plants*. Transaction Books, New Brunswick, NJ. pp 623.

Small Farm Center (Ed.) 1994. *Small Farm Handbook*. University of California, Davis. ANR Publications, Division of Agriculture and Natural Resources, University of California, 6701 San Pablo Ave., Oakland, CA 94608-1239. \$20.00

Software

Knowledge Master

(Windows-based pest information software)

Department of Entomology
University of Hawaii at Manoa
3050 Maile Way, Gilmore 310
Honolulu, Hawaii 96822
Tel: (808) 956-7076

Farmer's Bookshelf

(Mac and Windows production information software)

Department of Horticulture
University of Hawaii at Manoa
3190 Maile Way, St. John 102
Honolulu, Hawaii 96822
Tel: (808) 956-8351

Organizations

Cooperative Extension Service

College of Tropical Agriculture and Human Resources
3050 Maile Way, Gilmore Hall 203
Honolulu, HI 96822
Tel: (808) 956-8397

Hawaii Agricultural Statistics Service (HASS)

Hawaii Department of Agriculture
P. O. Box 22159
Honolulu, Hawaii 96823-2159
Tel: (808) 973-9588

Hawaii State and Pacific Basin

Farm Service Agency (FSA)
U.S. Department of Agriculture
PJJ Federal Building, Room 4202
P.O. Box 50008
Honolulu, HI 96850
Tel: (808) 541-2644
Fax: (808) 541-2648

Natural Resources Conservation Service (NRCS)

U.S. Department of Agriculture
PJJ Federal Building, Room 4316
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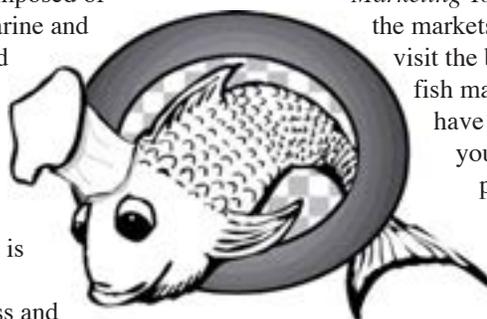
The Business of Aquaculture

Aquaculture is one of the fastest growing segments of agriculture in the United States. It is a form of agriculture, whereby animals and plants are commercially cultivated with water as the medium instead of soil. Aquaculture has a long history in Hawaii, dating back some 600 years to a time when indigenous Hawaiians constructed and used coastal fish ponds to cultivate fish and crustacean species. Today, Hawaii's diverse aquaculture industry is composed of over 200 farms raising over 50 marine and freshwater aquatic species for food or display (i.e., aquarium species), with an estimated value of \$29 million in 1995.

First Things First

Although commercial aquaculture is expanding in Hawaii, it is still a relatively new agricultural business and should not be rushed into without serious planning. Aquaculture encompasses many disciplines, including water chemistry, animal husbandry, system mechanics (construction, plumbing, carpentry, electricity), economics, business management, and marketing, all of which play a vital role. Without a good understanding of how these disciplines interact and a plan to manage those interactions, the risk of problems can be high. For example, the importance of being prepared for emergencies is often overlooked. By having the proper backup systems (e.g., generators, water pumps, and aerators) and operational procedures in place, you can avoid many potential disasters. You can also reduce some of the risk associated with commercial aquaculture by developing and following a well-organized business or operational plan for your aquaculture enterprise (see the section on *Suggested Resources* for the book *Business Planning for Aquaculture—Is It Feasible?* by Strombom and Tweed and the chapter on *Preparing Your Business Plan*). A business or operational plan will also help to show the people you do business with that you are organized, reliable, and knowledgeable about your business.

Once you have “fleshed out” your business or operational plan, you will want to start with a “pilot,” or small-scale operation, which can range from a large fish tank to a small earthen pond. A pilot-scale operation will allow you to learn from your successes and mistakes on a limited investment and provide insight on how to scale up into a commercial business venture. Then, as your markets expand or are developed, business expansion can



be carefully implemented (see the section on *Assistance in Aquaculture* below to obtain more information).

Know Your Market

Before you begin producing, you need to do some market research to find out what product you can produce profitably. Talk to your buyers about what is in demand, in what quantities, and at what price (see the chapter on *Marketing Your Seafood Products*). To get an idea of the markets that you would like to enter, you can visit the big wholesale markets, the Chinatown fish market, or fish and pet stores. Once you have the market information, you can look at your resources and estimate your cost of production, and then determine if you can profitably produce what the markets demand (see the chapter on *Your Cost of Production and Product Pricing*).

We encourage you to *sell before you stock*; in other words, make arrangements with a buyer before you stock your ponds. Of course, selling before you stock will be much easier once you have established your farm and reputation, but it should always be part of your overall plans.

Know Your Species

Knowing the biology of the animal that you want to culture is important in determining if you have all the right resources available to successfully raise that particular species. For instance, people often ask if they can raise prawns in their backyard swimming pool. The answer is NO, if profits are your objective, because prawns can be cannibalistic and tend to eat each other if cramped into a confined tank, such as your pool, or small pond. For an appreciable return from prawns, a 1/4-acre pond is the minimum size. Therefore, you should be very familiar with the specific requirements of the species that you plan to raise. For each species, you should know:

- the production system suited for good growth and survival (e.g., intensive, tank, pond, or cage)
- optimal water quality requirements for good growth (e.g., temperature, pH, oxygen level)
- growth and survival rates (e.g., grams/day or time to market size, hatchery to market)
- reproductive biology (e.g., number of larvae/spawning, temperature, strategies)
- optimal stocking density for system (e.g., number of fish or pounds/m³)

Knowing the optimal biological conditions required by an aquatic species for good growth and survival, the farmer can then design a system and management plan to maximize production and profits for available resources. See Table 1 below for a list of species typically raised in Hawaii.

Table 1. List of Commercially-Produced Aquatic Species in Hawaii in 1995

Marine Species	
<u>Common Name</u>	<u>Scientific Name</u>
Marine shrimp	
–white	<i>Penaeus vannamei</i>
–blue	<i>Penaeus stylirostris</i>
–tiger prawn	<i>Penaeus monodon</i>
Tilapia	<i>Oreochromis sp.</i> (hybrid)
Seaweeds	
–ogo	<i>Gracilaria sp.</i>
Milk fish	<i>Chanos chanos</i>
Moi	<i>Polydactylus sexfilis</i>
Mullet	<i>Mugil cephalus</i>
Brine shrimp	<i>Artemia sp.</i>
Clams	<i>Mercinaria mercinaria</i>
Oysters	<i>Crassostrea virginica</i>
Abalone	<i>Haliotis sp.</i>
Micro algae	<i>Spirulina, Dunaliella</i>
Baitfish	Various species
Freshwater Species	
<u>Common Name</u>	<u>Scientific Name</u>
Freshwater prawn	<i>Macrobrachium rosenbergii</i>
Tilapia	<i>Oreochromis sp.</i> (hybrid)
Carp	
–grass	<i>Ctenopharyngodon idella</i>
–bighead	<i>Aristichthys nobilis</i>
–silver	<i>Hypopharyngodon molitrix</i>
–koi	<i>Caracius auratus</i>
Baitfish	Various species
Catfish	
–channel	<i>Ictalurus punctatus</i>
–Chinese	<i>Clarias fuscus</i>
Trout	<i>Salmo gairdneri</i>
Snails	<i>Ampullaria sp.</i>
Ornamentals	Various aquarium species

Types of Aquaculture Operations

There is no such thing as a standard aquaculture facility, because each site has different attributes and resources. An aquaculture business or farm can range from a “backyard” operation to a large operation with many acres. The scale of the operation is based on available financial, water, and land resources and market demand. There are two basic systems of aquaculture, and within those systems there are varying degrees of production intensity.

The first system is called an “open” system, where water goes into a tank or pond and flows out as effluent (or used water). Typically, larger production facilities

utilize earthen ponds with an open system design because it is too costly to recirculate water through large, expensive filtration systems. One example of an animal that is typically raised in an open system is *Macrobrachium rosenbergii* (freshwater prawn). This species requires ponds of 1/4 acre or larger stocked at a semi-low density to minimize its cannibalistic behavior. The open system is probably the simplest design to manage; however, a significant amount of inexpensive water and appropriate discharge outlets are required.

The second system is a “semi-closed” system, where water is partially reused by incorporating biological and mechanical filtration systems. This system is usually smaller than the open system and is commonly contained in a tank-production facility. The main benefit of this system, which recycles water, is that it provides for more control over water quality parameters and aquatic pests or pathogens and is well suited for areas that have limited water or discharge capabilities. The semi-closed system requires close monitoring of water quality parameters and is not suited to all species. Many aquarium species such as tiger barbs, guppies, swordtails, and gouramis and food species such as tilapia grow well at high densities in a semi-closed, recirculation system.

Both of these systems can also be classified further into three levels of production—extensive, semi-intensive, or intensive (based, respectively, on increasing stocking densities, i.e., the number of fish per gallon or cubic foot of water). As a general rule, intensive culture systems require greater capital investment and highly skilled personnel to reduce risk and generate a profit. Intensive systems that are under-financed often result in failure. Typically, intensive systems require higher levels of inputs, such as water, energy, and management, and consequently they have higher associated risk factors. Conversely, extensive systems, or less-intensive systems, require more land resources to make a profit. A return on investment can usually be seen within three to four years on small farms; however, this can be highly variable between species cultured and the time required to get a species to the marketable size.

Typical Cost Items

For most aquaculture systems, the biggest cost items include:

- land (lease, fee simple)
- equipment (water and aeration pumps, and netting)
- infrastructure construction (hatchery, ponds, tanks, processing and storage sheds)
- maintenance (vehicle, plumbing, motors)
- management (accounting, supervisor, quality control)
- feed
- obtaining permits
- initial seed stock

A typical range of fixed costs is difficult to quantify and is highly dependent on the size of an operation. Small-scale, “backyard” operations can cost between \$2,000 and \$5,000, with larger operations running into the millions of dollars!

Permits

In order to protect the environment and communities, the discharge of effluent (used water) is usually regulated by the government. Effluent from salt or brackish water aquaculture facilities usually requires several federal, state, and county permits. Effluent from freshwater aquaculture facilities can also cause certain problems, and therefore may require certain permits. One safe alternative use for freshwater effluent is to irrigate crops, rather than return the water directly to streams or lakes. There may also be other permits that might be required for certain sites such as grading, plumbing, electrical, area-use zoning variance, well, and building permits (see the section on *Suggested Resources* for the book *Permits and Regulations for Aquaculture in Hawaii: A Brief Guide* by J.H. Bay).

A potential aquaculture site should be evaluated by the Hawaii Department of Agriculture, Plant Quarantine Station (contact 808-586-0844) for possible species containment concerns. Potential escapement of non-indigenous species is a high-priority issue that should be closely scrutinized during facility planning and submission for permits. Large-facility developments may require an Environmental Impact Statement (EIS), which can be time-consuming to prepare. The permit process can seem overwhelming, but don’t let that discourage you.

Production Responsibilities

To maintain an aquatic environment suitable for good growth, you will need to be aware of all operational functions, which closely interact with each other, such as stocking densities, feeding rates, oxygen consumption, water exchange or filtration rate, breeding methods, and crop rotation. Whether you choose the “open” or the “semi-closed” system to produce an aquatic species, aquaculture is farming, and there are many tasks that need to be performed on a daily basis. Some of these tasks include:

- tending your stock 24 hrs/day–7 days/week
- maintaining the proper water conditions through testing and system adjustment
- feeding the stock two to three times per day (auto feeders can reduce this activity)
- checking broodstock (mating parents) for spawning condition
- preparing nursery ponds and tanks for stocking
- maintaining hatchery and spawning fish
- facility maintenance and capital improvements

- keeping a logbook of observations about your facility (expenses, sales, crop growth, temperature, oxygen level, algae density, pH, total biomass, feed amounts, and so forth)

“Murphy’s Law” seems to always pop up in an aquaculture businesses when you least expect it. (Murphy’s Law states: If it can happen, it will. If you are an aquafarmer, you can add this to Murphy’s Law: It will also happen at night when you are sleeping!). Being aware of all your farm’s interwoven biological and mechanical parts on a daily basis will help you prevent future problems and increase profitability.

Assistance in Aquaculture

Even if you have an established aquaculture operation, you should keep asking questions and learning by attending workshops and seminars and reading about ways to improve your operation. If you need help or have questions about getting started in aquaculture, permits, types of operations, or other information regarding aquaculture, contact an aquaculture extension agent or the Aquaculture Development Program at:

University of Hawaii at Manoa
Sea Grant Extension Service
1000 Pope Rd., MSB #226
Honolulu, HI 96822
Tel: (808) 956-8191
Fax: (808) 956-2858

Hilo County—Tel: (808) 959-9155
Maui County—Tel: (808) 553-5177

Hawaii Department of Land and Natural Resources
Aquaculture Development Program
335 Merchant St., Rm. 348
Honolulu, HI 96813
Tel: (808) 587-0030
Fax: (808) 587-0033

Suggested Resources

Bardach, J., J. Ryther, and W. McLarney. 1972. *Aquaculture: The Farming & Husbandry of Freshwater & Marine Organisms*. John Wiley & Sons Interscience Pub., New York, NY. 868pp.

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The Business of Commercial Fishing

Samuel G. Pooley
National Marine Fisheries Service

Many people go into commercial fishing because they have enjoyed recreational fishing or it is a family tradition. To those and other people, fishing may appear to be an attractive, independent life-style. In reality, commercial fishing can be a very difficult, frequently lonely, potentially dangerous, and sometimes quite an expensive way to make a living. In addition, commercial fishing is very different from agriculture or aquaculture because of the natural limits on the availability of marine (or ocean) fish and the physical demands of working at sea. Earning a (probably modest) income at fishing is one thing, but running a professional commercial fishing enterprise takes the ability to balance all of the typical business decisions with the risks and uncertainties particular to fishing. To overcome some of these obstacles, you should:

- conduct at-sea operations safely
- conduct and use market research
- network and communicate with buyers
- comply with and have knowledge of fishing and marketing regulations
- have knowledge of oceanography, fish populations, and ecology
- have adaptable fishing strategies and equipment
- combine your ability to catch and handle fish (including the development of an effective work team) with the skills needed to sell that fish and manage the financial side of your business

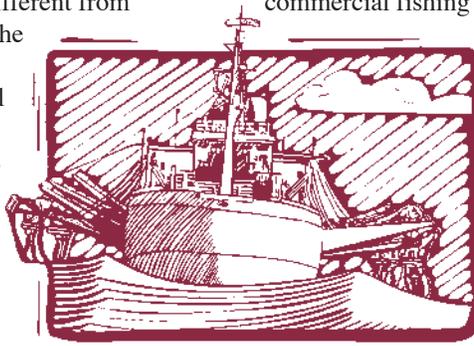
If you are willing to commit yourself to the above types of responsibilities and are prepared for the life-style, then you might want to take a closer look at commercial fishing in Hawaii as a business option. This chapter focuses on what is unique in commercial fishing, but complements the chapters *Planning for Profits: Production Agriculture* and *Marketing Your Seafood Products*.

About Hawaii's Fisheries

Commercial fishing is a small but visible industry in the State, with the majority of revenue generated by offshore marine fishing. Hawaii's modern commercial fishery grew rapidly in the 1970s with the expansion of small boat commercial trolling and handlining for tunas (known locally as *ika shibi* and *palu ahi* respectively) and with the development of several large-vessel, distant-water

fisheries based in Honolulu (primarily *longline* fishing for tuna and swordfish and Northwestern Hawaiian Islands (NWHI) fisheries for lobster and bottomfish). However, these fisheries have all stabilized, and opportunities for continued growth are uncertain.

Although Hawaii has an incredible diversity of marine life, and fresh fish is highly valued in the market, commercial fishing in Hawaii faces severe limitations



based on the shape of our coastlines and the biology of the fish that live there. The Hawaiian islands were born out of volcanoes, so their submersed sides are steep relative to the long continental shelves that other sub-tropical places, like Florida, enjoy. As a result of this topography, most marine fisheries in Hawaii's near-shore coastal waters have small populations and

delicate, narrow environments. Nonetheless, there are still opportunities for development, and for competitive *value-added* product development (processing or treating your catch in some unique way) within existing fisheries. Other opportunities may include participation in the distant-water fisheries for tuna and swordfish (thus requiring more initial investment for longer-range vessels) or exploring for new types of fisheries, such as squid or deep-sea shrimp, which would increase investment risk.

Other types of fishing businesses in Hawaii are charter fishing, including sports fishing tournaments and dive fishing, and aquarium fish collecting. Charter fishing is in many ways "fishing for people," although most charter operators sell their fish or take commercial fishing trips. Also, many of the principles involved in commercial fishing would also apply to aquarium fishing, but we're not addressing these types of fishing in this chapter.

At-Sea Production

Fishing in Hawaii's oceans involves many risks. These risks can include danger to your personal safety, as well as potential damage and loss of your primary capital assets (i.e., the fishing vessel, its gear, and its equipment). A rocking boat means that simple production activities, such as picking up fish coolers or traps and moving them across the deck, have increased safety risks at sea. Furthermore, the competitive pressures facing commercial fishers and the isolation associated with being away from home for days on end may tend to "push" day and

night fishing operations harder than might be advised. Medical services are often far away and replacements for equipment that breaks down or is lost at sea won't show up via FedEx! For these reasons, it is important to reduce risk by investing time and money in the following areas:

- knowledge of seamanship (including navigation) and safety
- training of crew
- reliable equipment (e.g., the vessel and its engines, radios, safety equipment, etc.)
- preventive maintenance

Because of these risks, insurance rates are high for commercial fishing. The U.S. Coast Guard (808-541-2900) is a good place to start gathering information about fishing safety.

Planning Ahead

Of course, in order to successfully plan your fishing expedition, you need to know a lot about *fishing* and plan your fishing strategy, but you should also plan the entire fishing *process*. You should:

- know where you plan to sell your catch
- know how much ice and fuel to buy
- know how to deal with changing weather conditions
- know how to lay out equipment and supplies on your deck to maximize safety, production efficiency, and product quality
- have adequate supplies of replacement parts for your vessel and its equipment while at sea

Investment in reliable communication equipment is important in terms of at-sea safety, hearing about changing fishing conditions, and making sure that your supply lines and market channels stay open while you're out fishing. And, a simple issue like mooring your vessel or launching it from a trailer in Hawaii requires research and communication, because harbor space is very limited and there can be long waits at launching ramps (both going out and coming in) when the fish are running at a particular location.

Fishing Costs and Returns

Commercial fishing requires a substantial initial investment, especially for “flexible” fishing vessels (i.e., those outfitted with various types of equipment, enabling the owner, captain, and crew to fish for a number of species) and for distant-water fishing vessels. It is *common* in commercial fishing to require expected returns on investment (ROI) in the range of 30–40 percent to meet the financial risks that this industry involves. An average NWHI mid-sized bottomfish boat with the major equipment starts at around \$140,000; a longline boat starts at about \$385,000; and a troll-handline boat starts at about

\$59,000 (see Table 1). Fishing is also a labor-intensive business. Wages are often paid on the “share” system, whereby the more successful a vessel is on a particular trip, the more its crew gets paid.

Maintenance costs can also be substantial in Hawaii, and for larger vessels it is not uncommon for operators to take their vessels to the Mainland for annual repairs. Additionally, equipment and supply costs can be higher in Hawaii, relative to many Mainland ports. Therefore, successful networking with local and Mainland suppliers can have a substantial impact on your bottom line.

The income statement in the Table is an average for three types of commercial fishing vessels in Hawaii fishing as many days as possible. Some boats do better, and many don't do so well. Three factors tend to reduce the number of days a boat will fish, and hence reduce a vessel's ability to cover fixed costs:

- the personal rigors of being at sea that many days a year
- maintenance problems
- weather conditions

The ability to generate the revenues identified in Table 1 is *not* automatic because the catchability of fish fluctuates seasonally and annually, and prices vary widely between periods and between fishers. Note the Net Revenue figures in the middle of the Table, which represent the total profit on investment.

Natural Resource Availability and Protection

Fish populations, like some agricultural crops, have seasonal and inter-annual cycles, and their availability is driven by oceanographic conditions and their own internal population dynamics. Very few types of seafood are available in commercially-viable quantities in Hawaii throughout the year—or at least not in convenient locations. In addition, many of the coastal fish populations are currently in decline or are greatly depressed. These conditions reemphasize the need for a *flexible* fishing vessel.

While seasonal cycles in marine fish populations are generally predictable, there is still potential for great variability between years. Currents and weather can dramatically affect the ability of a fishing vessel operating in a particular area to catch the fish that are in the sea that year. For example, the catch rates of swordfish in the longline fishery dropped 20 percent from 1993 to 1994, even though there is no evidence that the swordfish populations actually declined that much. This demonstrates that a fisher cannot “harvest” fish the same way that a farmer harvests a crop, because fishing vessel owners and captains can seldom “invest” in the fish population as a farmer can invest in land, fertilizer, and so forth. These types of obstacles can severely affect a commercial fishing operation's ability to cover fixed

Table 1. 1994 Income Statement for Full-time Maximum Capacity Fishing Operations in Hawaii

	NWHI Bottomfish	Longline	Troll Handline Pelagic
Revenue	\$185,899.00	\$486,944.00	\$47,468.00
Fixed costs	\$34,939.00	\$97,672.00	\$13,053.00
Capital	\$10,751.00	\$28,875.00	\$4,458.00
Annual repair	\$12,715.00	\$35,845.00	\$3,995.00
Vessel insurance	\$7,443.00	\$24,482.00	\$3,026.00
Administrative	\$4,031.00	\$2,479.00	\$1,574.00
Other	\$0.00	\$5,991.00	\$0.00
Operating costs	\$155,753.00	\$347,366.00	\$34,842.00
Fuel & oil	\$16,746.00	\$43,593.00	\$9,805.00
Ice	\$4,548.00	\$7,334.00	\$2,663.00
Bait	\$6,512.00	\$44,936.00	\$3,511.00
Handling	\$18,600.00	\$56,500.00	\$4,700.00
Provisions	\$7,236.00	\$12,190.00	\$2,179.00
Gear and supplies	\$9,820.00	\$44,213.00	\$5,084.00
Other (trip basis)	\$8,890.00	\$0.00	\$0.00
Crew income (total)	\$34,200.00	\$100,000.00	\$5,900.00
Captain's income	\$49,200.00	\$38,600.00	\$1,000.00
Total cost (annual)	\$190,692.00	\$445,038.00	\$47,895.00
Net revenue (annual)	(\$4,793.00)	\$41,906.00	(\$427.00)
Average total investment (vessel & major equipment)	\$140,000.00	\$385,003.00	\$59,500.00
Average annual operating characteristics			
Trips	21.00	12.00	167.00
Sea days per trip	10.80	14.20	1.00
Sea days per year	227.00	170.00	167.00
Fishing days per trip	6.00	7.50	1.00
Fishing days per year	126.00	90.00	167.00
Catch per day (lbs)	532.00	2,309.00	187.00
Catch per trip	3,192.00	17,318.00	187.00
Annual catch	67,032.00	207,810.00	31,229.00
Ex-vessel price/lb.	\$2.77	\$2.34	\$1.52

Source: Compiled from various NMFS and University of Hawaii research studies.

costs, such as equipment, and recoup its investment in “bad” years. Local knowledge of fishing grounds, methods, and conditions is critical, because lessons learned on the continental shelves of the U.S. mainland do not readily apply to mid-Pacific island fisheries.

*Common Property and
Restrictions on the Fishing Resource*

Fish populations in the United States have historically been *common property* resources, meaning that they have been freely available to anyone at no cost. While the concept of common property has its benefits, it also means that if you found a new, plentiful fishing ground,

you could also count on many people following you out to your site, outfitting their boats with your type of equipment, and in general catching “your” fish. It’s a little like all the farmers of a town planting and harvesting from the same field once the word got out that the land was fertile. At first a common property resource seems like a great idea, but after a while you realize that the demand for the resource quickly outstrips the supply.

The significant effect of all this fishing pressure is not only the direct competition between fishers (similar to what you would find in any small-business environment) but, more importantly, the response of the fish populations to this competition: as a fishery develops and more

people are attracted to it, the productivity (fish caught per unit of effort) of each individual participant goes down. Yet, at the same time, natural population dynamics will still tend to drive productivity down. Fish populations are a finite (although renewable) natural resource. Each fish taken out of the population reduces catch rates by a fraction, and if too many fish are taken out, then the natural recovery of the fish populations may take years, with catch rates and the productivity of the fishing vessel diminished. It is not unusual for these competitive pressures to drive fish populations below commercially-viable levels. Many good fishers have moved successfully between different fisheries as these pressures build, but the number of available fisheries is getting smaller and smaller, thus limiting the effectiveness of this strategy.

In order to resolve some of these pressures and to protect marine fishery populations for future generations, government has traditionally placed restrictions on commercial fishing. Quotas, gear restrictions, size limits, fishing seasons—we've all heard of these types of restrictions. So, going into commercial fishing means learning what rules apply when and accepting that they could change at almost any time! *And* accepting that the making of regulation is a political process, a process that requires your own investment of time and energy to make sure that the realities of everyday fishing practices are recognized in the regulatory process.

Licenses and Permits

Most of the typical government regulations that apply to land-based businesses also apply to commercial fishing. But because fisheries are common property resources and the demand for fish is far greater than the supply of fish, there are additional regulations facing commercial fishing. These regulations may place restrictions on the amount of permits issued, the number of fish that can be caught, the number of days to fish per year, or the type or quantity of equipment that can be used in a certain fishery.

Licenses and permits required by the State and Federal government may include, but are not limited to:

- State commercial marine license
- State fishing vessel registration (or Coast Guard documentation)
- Federal limited entry permit

Almost all Federally-regulated fisheries (fisheries that extend beyond the 3-mile territorial sea out to the 200-mile limit) are *limited entry* fisheries, meaning that only a controlled number of fishing permits are issued. Over 75 percent of Hawaii's commercial fisheries are Federally regulated. You can't fish without a permit, and permits may not be freely available or may not be available at all! It is vital to know what kind of commercial fishing

permits are required, whether any are available, and what conditions apply to their sale or transfer before you make an investment in a commercial fishing venture.

The best place to start to find out about federal fishing regulations and permits is the National Marine Fisheries Service's Pacific Area Office in Honolulu (808-973-2937). This office is responsible for Federal fishing permits, as well as Federal fishing regulations. State of Hawaii fishery regulations, which may overlap with the Federal ones, are maintained by the Department of Land and Natural Resources' Division of Aquatic Resources (808-587-0100). Another good source of general information on our fisheries is the Western Pacific Regional Fishery Management Council (808-522-8220).

Building and Keeping Business Relationships

In addition to all the rigors of fishing and complying with regulations, fishing is also a full-time business. This means that you will have to work well with your:

- seafood buyers
- employees
- banker(s)
- insurance agent(s)
- accountant or bookkeeper
- extension agents and service providers

Building these relationships will take more than giving each a New Year's onaga! A good place to start is developing and following a well-organized business plan that reflects the risks and uncertainties of commercial fishing. It is important to establish trust by showing the people you do business with that you are organized, reliable, and knowledgeable about your business and the seafood industry (see the chapters on *Marketing Your Fresh Produce to a Wholesaler* and *What it Takes to Be Successful in Small Business* for more information about building business relationships).

Seafood Marketing

Fresh fish is the preferred product in local seafood markets, and this gives the Hawaii fishing industry a comparative advantage over competing, less-fresh imports from the U.S. mainland and foreign countries. But, because fish is perishable and supply varies daily, ex-vessel (off the boat) fish prices can change by 50 percent in one day. Planning "production" within those parameters is difficult, but we see that some fishermen are consistently successful and some are not. In order to be successful, you will need to know what type of fish are in demand, who's buying them, and what price they are going for *before* you start fishing. You can find this information by talking to different buyers or other fishers and by visiting the auctions. In addition, it is a good idea to check out what your buyers want before you set out to sea. In other words, *sell before you sail!*

The relationship between commercial fishers and seafood wholesalers and retailers is often strained, because wholesalers and retailers tend to stabilize price for the final buyer, but not for the fisher. In addition, fishers see the marked-up price that customers pay for the final product and feel that they should have received a higher price. But it is important to realize that wholesalers and retailers provide a service, and final buyers pay extra for that service. Therefore, any attempts to market your catch on your own (such as trucking it around to restaurants) represents an additional labor cost to your business operations. Are you willing to make that investment? Would you make a profitable return on that investment? It is recommended that, in most cases, you let a professional market your fish and that you invest your time in developing a good relationship with a wholesaler or retailer and in delivering high-quality fish. *If your expertise was in marketing fish, then why go into commercial fishing?!*

Because Hawaii's seafood market pays a premium for high-quality fresh fish, this means that trip length, type of fishing gear, at-sea water temperature, and on-board handling procedures can dramatically affect quality, and hence price. For example, it is hard to imagine a successful commercial fishing vessel captain in Hawaii taking on *too much* ice. Keeping the fish fresh with careful on-board handling is a good way to distinguish your product. As with any production process, there is a trade-off between receiving a higher price and the cost required to get that price. However, unless you can catch a lot of fish, an investment in quality (freshness) is probably worth the effort because quality is valued in the local market (see the chapter on *Marketing Your Seafood Products* for more information about successfully positioning your product). In addition, the U.S. Food and Drug Administration, in cooperation with the U.S. Department of Agriculture, has spent the past five years preparing a whole new set of seafood inspection and quality control procedures, known as Hazard Analysis Critical Control Point (HACCP), that are expected to come on line in 1997. For more information, call the U.S. Food and Drug Administration's local contact at 808-541-2662. So, now there may be regulatory pressures as an additional incentive for an investment in seafood quality (freshness) over quantity!

If you can be adaptive to market demand, like delivering quality over quantity as discussed above, you can adapt your business as market trends change. To do this, you need to be aware of these changing trends. For example, throughout the world today, with the number of fish limited by natural availability, more and more

emphasis is going into *value-added* production (e.g., preparing fillets, canning the product, flash-freezing the catch, vacuum-packing ready-to-eat portions), which often means processing your fish on-board (a much more labor-intensive activity). In the past, this kind of *value-added* activity has *not* been widely successful in Hawaii, but investment in *value-added* production may now be a good way to get ahead in today's increasingly competitive and resource-limited fishing environment in Hawaii.

The Bottom Line

Commercial fishing as a business requires you to combine the ability to catch and handle fish (including the ability to develop an effective work team), with the capability of managing the financial side of your business. It means negotiating agreements, building up reliable business relationships, establishing rapport with your fishing crew and captains (for those owners planning to hire someone else to run your boat while you stay ashore). But probably above all, it means being willing to invest in a broad range of knowledge, so that you can "manage" the risks involved in commercial fishing. *Never stop learning*, including learning about yourself and your motivations and interests. As one of my colleagues puts it, "*Do you love fishing that much?*" This may sound negative, but it is really just meant to dispel any romanticism that might cause you to make a major investment without realizing what this occupation involves. Commercial fishing has a very great appeal to many of its participants and many are successful, spending their lives at sea, but it's a tough business.

Additional Resources

Smith, Frederick J. 1975. *The Fishermen's Business Guide*. International Marine Publishers, Co.: Camden, ME.

Marine Fisheries Review. 1993. *Fisheries of Hawaii and U.S.-Associated Pacific Islands*. Vol 55(2).

The National Marine Fisheries Service Internet website at <http://kingfish.ssp.nmfs.gov>

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Hawaii's Livestock Products and Markets

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The various livestock industries in Hawaii have a loyal following among many Hawaii buyers and consumers for certain “niche” market products. Yet they also face a great deal of competition from U.S. mainland and foreign imports. The key to market growth with livestock products will be in matching or bettering some aspects of the very cost-competitive, imported products.

There may also be potential for livestock producers to obtain additional revenue from marketing their animal by-products. The industry produces a large amount of manure, which can potentially be made into compost, a valuable soil amendment for plants and lawns, for the local market. The market for locally-generated compost is not fully developed, but Hawaii imports compost from the Mainland, so the potential is there.

In order to determine if your operation is or can be competitive in your livestock market, and to remain competitive, you must use information to your advantage. A few good sources for investigating what prices are offered for livestock products at the farmgate and elsewhere are the *Statistics of Hawaiian Agriculture* and *Hawaii Monthly Livestock Review*, which are put out by the Hawaii Department of Agriculture and the U.S. Department of Agriculture. For information about marketing and approaching buyers, see the chapters on *Marketing to Institutional Buyers* and *Marketing Your Fresh Produce to a Wholesaler*. In addition, your local College of Tropical Agriculture and Human Resources (CTAHR)/Cooperative Extension Service office can give you up-to-date information about production technologies and existing marketing channels.

The following information can give a potential or current livestock producer a better idea about what the market looks like for the various livestock products in Hawaii. In addition, the general areas that are regulated are listed at the end of the chapter, along with the regulatory agencies.

Beef

The beef cattle industry utilizes 1,085,000 acres of land for beef production, or one-fourth of the total acreage in the state, with 900 cattle owners listed in 1994. The island of Hawaii ranks as the most important beef cattle production area in the state, with approximately 76 percent of the state's cattle herd. In 1994, Hawaii's beef industry contributed more than \$25 million in gross sales to the state's economy, representing 10 percent of all sales of diversified agricultural products.

For Sale to Mainland

Since the early 1990s, and due to the closure of many local feedlots and slaughterhouses, Hawaii's ranching industry is predominantly cow-calf—that is, a cow breeding herd maintained to produce calves. Soon after weaning, these calves are marketed to the Mainland for finishing and slaughter. Calves are sent to the Mainland at around 8 months when they weigh around 500 lb. Calves can either be sold to buyers before shipment or ranchers can retain ownership through shipping, finishing, and slaughter. The beef is then imported back to Hawaii.

When buying calves for shipping, commercial calf buyers look for uniformity in size, age, and weight. Calves should not be fat, but should show sufficient

leanness so that additional growth

will occur once the calf is put in the feedlot. Good genetics for growth potential is also an

advantage. To prevent sickness and death loss during shipping, most calves are preconditioned before shipping.



Preconditioning includes branding, castration, dehorning before weaning, treatments with vaccines and dewormers, and holding calves three to four weeks after weaning to permit them to be accustomed to bunk feeding and drinking from water tanks before shipping.

For Local Consumption

Due to the expense of imported feed, limited feedlots, and small slaughterhouses, there is no significant “fat cattle” (i.e., grain-fattened cows that are ready for slaughter) market in Hawaii. However, some ranchers continue to develop “grass-fed” or “grass-fattened” local calves because there is a small, local market for this type of beef. Some advantages to grass-fed beef include that it can be cheaper for the consumer, because there is no middleman, no imported feed costs, and lower transportation costs, and may produce leaner meat. The disadvantages of grass-fattened calves are lack of a consistent supply and carcass quality to the packer, slower growth rates of cattle on grass, and marginal consumer acceptance. Consumers prefer grain-fed beef. A grass-fattened steer or heifer typically produces a 550–625 lb carcass (1000–1100 lb live weight), and should be less than two years of age at slaughter, compared to the Mainland grain fed calf with a 700–800 lb carcass (1100–1300 lb live weight) at the same age. Slower growing, older cattle generally result in less tender meat and thus do not grade

out as well. Heavier, larger frame cattle are often discounted by Hawaii packers as well. In addition, some cattle are processed through the cull cow/bull market. This is the common outlet for retired breeding stock, and most of these animals are processed for ground beef.

Constraints and Opportunities for Growth

The major constraints to growth in the beef industry include servicing of existing and potential markets with the desired quantity and quality of product and the high costs of various inputs including transportation, grazing lands (acquisition and maintenance), labor, and more efficient production practices.

Some opportunities for growth include creating a niche market for local, grass-fed beef by telling people that it may look and taste different than grain-fed Mainland beef, but it is fresher because it's from Hawaii. Opportunities also exist to market locally-produced primal cuts to hotels and restaurants. In addition, there is also an opportunity to expand cow-calf sales to the Mainland as demand expands with population growth.

For more information about the beef industry in Hawaii, contact:

Hawaii Beef Industry Council
P.O. Box 1166
Ewa Beach, HI 96706
Tel: (808) 672-5914

Milk

Hawaii's dairy industry is made up of concentrated, animal-intensive operations with most dairy farms on 9–12 acres and an average working herd size of more than 500. In 1994, the sales of milk totaled 142 million lb, of which 100 million lb were produced on Oahu and 42 million lb on the neighbor islands. From that production, the value of milk sales was \$22.8 million for Oahu and \$9.1 million for all other islands, resulting in a state income of \$32 million.

The commercial dairy industry in Hawaii is mostly involved in the production, processing, distribution, and marketing of fresh fluid milk. It has geared its milk production toward Class 1 milk, the highest quality milk. About 80 percent of the fluid milk consumed in Hawaii is produced by dairy farms on the Big Island, Kauai, Maui, and Oahu. The majority of the milk cows located on Oahu are in the Waianae district.

The price paid to the dairy farmers for milk is determined by the monthly consumption of fluid milk within the state. Hawaii's dairy industry is not under the federal Milk Marketing Order and does not receive federal milk price supports. As a result, surplus milk cannot be sold to federal milk "storage" programs and must be dumped. Prevention of milk surpluses is monitored through the application of a state quota system. Each dairy farmer is granted a quota based upon production guidelines. Not reaching a quota can result in

loss of the quota. Exceeding a quota in times of surplus can result in the dumping of milk.

Constraints and Opportunities for Growth

Some constraints to growth in the milk industry include the high cost of local milk, low-cost imported fluid milk, and competition from imitation milk. The cost of producing milk in Hawaii is relatively high, primarily because of the large amounts of expensive imported feeds and the high cost of labor. Due to the large numbers of animals on relatively small acreages, waste management is also a growing cost and a concern to dairy producers. In addition, milk production in dairy cattle is negatively affected by climatic conditions. For instance, the cost of alleviating heat stress, due to the many months of high temperature and humidity in Hawaii, must be factored in when estimating production costs.

Although Hawaii faces tough competition, the milk industry is capable of producing what the market demands. Growth in the fluid milk market in Hawaii is expected to be based on population increases, which is about 2 percent per annum. Some other possibilities for increasing demand include nutrition education about the importance of milk consumption, growth in the visitor industry, and improved advertising and marketing of milk. There is also potential for replacing some of the "filled" milk, normally referred to as imitation milk and accounting for approximately 7.5 percent of the milk consumed in the state, with fresh fluid milk.

For more information about the milk industry in Hawaii, contact:

Fresh Milk Industry of Hawaii
94-210 Pupukahi St., Room 210A
Waipahu, HI 96797
Tel: (808) 677-9104

Pork

Locally produced pork represents approximately 13 percent of the market share. The Hawaii swine industry is unique in the United States in that it produces "hot pork," pork that is not chilled or frozen before cooking, for a local, "niche" market. The swine industry in Hawaii has around 450 farms with a total of 6,000 breeding sows and is characterized by relatively small farms (the 37 largest farms range from 50 to 300 sows). Most farms are on 3–5 acres.

The swine industry can be divided into two categories, farmers that feed pigs grains (imported) only, and farmers that feed garbage, i.e., restaurant by-products and cull fruits and vegetables (with or without supplemental grain). Garbage must be cooked before feeding.

About three-fourths of the farms in Hawaii raise swine to market size, and one-fourth produce feeder pigs only. Farmers can market several kinds of pigs: suckling pigs (100–120 lb), roaster pigs (150 lb), or table pigs (200 lb). Hogs sold for the "hot pork" market, either roaster or

table pigs, are between 150 and 200 lb and are approximately 4–6 months old. Feeder pigs, sold to other farmers to raise to market size, are 50–60 days of age and weigh 35–40 lb when sold. Retired breeding stock are sold for luau or kalua pork and weigh from 250 to 500 lb.

The swine industry generates \$6,300,000 in market pig sales and contributes to Hawaii's economy in other ways. Like other livestock industries, the swine industry creates jobs in various parts of the economy, from retail sales and hotel luaus to veterinary supply. In addition, pig farms use food and agricultural by-products (garbage, cull macadamia nuts, cull fruits and vegetables) that may have been turned into "waste." Swine production also has cultural importance in Hawaii, because pigs were brought to Hawaii by the migrating Polynesians. Pigs still play a vital role in Hawaiian culture, as well as in the cultures of the Pacific Islands and Asia.



Constraints and Opportunities for Growth

Increased demand for housing is resulting in more rural lands being converted for residential use. With this conversion comes more housing near swine farms and complaints about odors, noise, insects, and animal wastes. The farmer is often compelled to move to a different locale, provide high-cost remediation methods to soothe neighbor complaints, or shut down because neither is financially feasible.

Currently, approximately 14,000 live Mainland hogs are imported every year for local slaughter because local production cannot meet demand. As a result, there is an opportunity to replace those imports with local sows. An increase in the local sow population by about 1,000 sows would be required to replace the import of live hogs with local production. An expansion larger than this would require an increase in demand.

For information about the pork industry in Hawaii, contact:

Hawaii Pork Industry Association
94-403 Ukee St.
Waipahu, HI 96797
Tel: (808) 676-9100

Poultry—Eggs and Meat

The present commercial poultry industry in Hawaii is composed of the chicken egg (layer) and meat (broiler) segments. No other species of fowl is being raised in significant numbers for commercial purposes. Income is principally from the sale of "shell," or fresh, eggs and ready-to-cook young chicken meat and, to a lesser extent, from the sale of stewing hens. According to 1994 Hawaii Agriculture Statistics Service statistics, the total number of all chickens was 981,000 birds, 3 percent lower than the previous year and the lowest since 1959. The number

of laying hens was 796,000, a decrease of 2 percent from 1993 and the lowest level since 1964.

Eggs

Egg production for 1994 totaled 195.8 million eggs, down 7 percent from the previous year. Returns from egg sales were \$14 million, again a 7 percent decline.

Most of Hawaii's egg production is on Oahu, with 19 operations, and the remainder of farms (36) are on other islands. Market share for Hawaii egg producers has gradually dropped from 89 percent in 1990 to 80 percent in 1994. The Hawaii market is often subject to "dumping" of Mainland eggs on Hawaii when eggs are in oversupply there, forcing local producers to lower their prices. Imported eggs are required to be stamped to identify them as imported. No eggs are exported. The majority of eggs are marketed as shell eggs—i.e., fresh eggs. There is one "egg-breaking plant" on Oahu, which will take some eggs for the processed product market.

The Local Chicken Market

The number of broiler chicken meat production operations in the state are so few that to maintain state statistics on them would reveal individual operation information. The most recent statistics (1991) for the broiler meat industry showed that 1.4 million birds were sold with the farmgate value of \$3.2 million dollars. Broiler producers generally are either owned by processors or contract producers for the processors.

Local poultry meat, albeit small in quantity, is marketed to a variety of local markets. These markets include the lightweight broilers for the "huli-huli" chicken fund-raiser market and the fresh, ready-to-cook grocery store market; fryers for the grocery store market; and heavier roasters for the restaurant or oriental market sales. While often more costly than imports from the vertically-integrated Mainland chicken processors, local chicken is preferred by many Hawaii consumers due to its freshness and appearance. The whitish flesh and skin color of the local birds is often preferred to the yellowish color of the Mainland imports.



Constraints and Opportunities for Growth

Constraints for the local industry are costs of feed, litter, flock health, labor, and waste management. Importation of expensive chicken feed for both the layer and broiler industries represents 60–70 percent of production costs.

As Hawaii's population grows, there will continued need for locally produced eggs and chicken meat. The local industries offer fresher alternatives to Mainland imports. If feed costs can be lowered through locally produced feeds or lower-cost imported feeds, greater opportunities for growth of the poultry industry may be realized. Consumer demand for eggs and especially

chicken meat is growing. Local poultry products offer Hawaii consumers greater freshness and an identifiable product difference from Mainland imports. As long as these differences can be maintained, opportunities for growth in the poultry industry will be available.

For more information about the egg or chicken industries in Hawaii, contact:

Hawaii Egg Producers Association
Davies Pacific Center, Suite 850
841 Bishop St.
Honolulu, HI 96813
Tel: (808) 668-2359

Meat and Poultry Association of Hawaii
2146 Puuhale Place
Honolulu, HI 96819
Tel: (808) 842-3550

Regulations

Typically, livestock production is regulated by monitoring the following:

- waste water/manure runoff from farms and pastures
- harmful chemical residues in livestock products

These would include regulations about the quality of the groundwater surrounding a farm (see *Appendix A* for the Hawaii Department of Health publication about waste management) or the use of insecticides and herbicides. The consequences for violation of or noncompliance with regulations vary. In the case of the milk industry, farmers are subject to fine, being forced to dump milk, or closure for violations. In the other industries, residues found at slaughter or processing can result in condemnation of production, resulting in loss of income and/or fine.

Livestock producers should try to avoid contamination of products by residues of drugs, chemicals, and pesticides. To avoid residues, producers must strictly follow label instructions on any product used. The use of certain veterinary drugs or treatments may require a withdrawal period, i.e., some time for the drugs or treatments to leave the animal's system, before slaughter or sale of product. The producer should always follow label directions or contact their veterinarian about withdrawal times.

The U.S. Department of Agriculture and the Food and Drug Administration are working to establish a new food safety program for meat, poultry, and seafood. The new system, known as Hazard Analysis Critical Control Points (HACCP, pronounced "hassip"), will focus more on preventing contamination that could cause food-borne illness or death than does the current system, which has traditionally been more reactive. The new HACCP requirements may increase slaughter and processing costs to producers. These costs may be offset by greater consumer confidence in meat, poultry, and seafood products, resulting in greater demand. For more informa-

tion about HACCP, contact the Western Regional Office of USDA's Food Safety and Inspection Service at 510-337-5047, or in Washington at 202-720-9113, or visit the website at www.usda.gov/agency/fsis/homepage.htm.

The regulatory agencies for livestock operations in Hawaii include:

Hawaii Department of Agriculture
Milk Control Branch
P.O. Box 22159
Honolulu, HI 96823-2159
Tel: (808) 973-9575

Hawaii Department of Agriculture
Pesticides Branch
1481 S. King St., Room 431
Honolulu, HI 96814
Tel: (808) 973-9401

Hawaii Department of Health
Wastewater Branch
P.O. Box 3378
Honolulu, HI 96801
Tel: (808) 586-4294

U.S. Department of Agriculture
Natural Resources Conservation Service
PJK Federal Building, Room 4316
300 Ala Moana Blvd.
Honolulu, HI 96813
Tel: (808) 541-2600

U.S. Department of Agriculture
Food Safety and Inspection Service
PJK Federal Building, Rm. 6306A
Honolulu, HI 96813
Tel: (808) 541-1796

The Bottom Line

Raising livestock in Hawaii can be a risky yet very rewarding venture. To work with and care for animals requires hard work, compassion, and patience. These days, however, it takes more than just the desire to raise livestock to survive. Knowledge of marketing, having a solid business plan, and awareness of the regulatory requirements are crucial to the success of any livestock venture. Understanding the strong principles of business is just as important as knowing the needs of the animals.

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Intellectual Property Rights— Protecting Your Ideas and Inventions

Jay Dratler, Jr.
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You have come up with an idea for a great new product, but you want to protect your idea from the possible encroachment on your *intellectual property rights*. Intellectual property rights are legal rights that allow you to control the use and commercial exploitation of certain innovations, recorded expression, and commercial symbols. Matter protected by these rights, known as “intellectual property,” falls into four general categories:

- *Commercial symbols*, including trademarks, service marks, and trade names
- *Copyrighted works*, such as books, articles, films, sound recordings, audio- and videotapes, and computer programs
- *Inventions and discoveries*, which may be eligible for patents or plant variety protection
- *Trade secrets*, which may include any information that has limited availability and economic value and is properly guarded

Different laws protect each of these forms of intellectual property against unauthorized use and commercial exploitation. Both the nature of protection and what must be done to secure it vary considerably among the categories.

Commercial Symbols

The most commonly protected commercial symbols are trademarks, service marks, and trade names.

Trade mark™ Trademarks and service marks are essentially the same, except that trademarks identify goods while service marks identify services.

A trade name is different: it identifies neither goods nor services, but the business that produces them. A trade name may be a company name, a firm name, or a “doing business as” (dba) or fictitious name.

Everyone knows what trademarks are, but few realize the breadth of the term. Almost anything can be a trademark—even sounds, features of packaging, product configurations, and fragrances.

In order to qualify as a trademark, a symbol or product feature must be distinctive enough to serve as a brand identifier. That is, it must differ enough from symbols used by others to identify a product or service as coming from a particular source. Symbols that are functional (perform a utilitarian purpose) or that are merely ornamental cannot serve as trademarks.

In the United States, the first person to use a commercial symbol in a particular application in a particular

geographic area has rights of priority under the common law. The basic rule is “first in time, first in right.” Since 1988, however, an application for Federal registration can take priority over common-law rights, as long as the registration eventually issues, and applications may be filed on the basis of an intention to use a trademark or service mark. There is no Federal registration of trade names.

Benefits of Registration

Federal registration provides such great advantages that it is indispensable for serious regional, national, or international marketing. Among other things, it confers nationwide priority (dating back to the application date), provides strong Federal relief against infringement, permits exclusion of infringing imports, and serves as a basis for international priority. Since most other countries do not recognize rights based upon use, international priority based upon Federal registration is imperative for international marketing.

In contrast, registration in Hawaii with the Department of Commerce and Consumer Affairs (DCCA) provides none of these advantages. Its only advantage is that it costs less than Federal registration. In trademark registration as in other commercial endeavors, however, you get what you pay for.

Doing a Search

Before filing an application for registration of a trademark, most firms do a “trademark search” to see whether their proposed commercial symbol—or anything similar—is already in use. Many firms commission a search even before choosing a trademark.

Commercial searchers do comprehensive nationwide searches at prices ranging from \$200 to \$350. Informal trademark searches can be done using various databases (such as the Dialog database), or by searching telephone and trade directories. Informal searches, however, are often unreliable and are no substitute for a thorough commercial search.

Once a search has verified the absence of significant conflict, applying for Federal registration is relatively easy. Since 1988, Federal law has permitted applications to be filed in advance of any actual use of a mark.

Applying for Registration

An application for Federal registration requires a \$245 filing fee for each class of goods or services. Trademark attorneys may charge an additional \$200 to \$1,000 to analyze a trademark search and prepare and file the

application for registration.

Legal advice is helpful in preparing the application for registration. The Patent and Trademark Office does not provide forms for registration, and therefore the application must be prepared from scratch. Moreover, trademark law is a complex and rapidly changing field. Unlike patent attorneys (see below), trademark attorneys need no special qualifications, but it is best to retain an attorney who has knowledge of trademark law and experience in applying for trademark registration.

Although applying without legal advice may be risky, trademark owners can prepare and file their own applications for registration. For information and applications for federal registration, contact:

Commissioner of Patents and Trademarks
Trademark Office
Washington, D.C. 20231
Tel: (703) 557-4636

Trademarks, service marks, and trade names can be registered in the State of Hawaii through the Department of Commerce and Consumer Affairs, Business Registration Division, P.O. Box 40, Honolulu, HI 96810. Tel: (808) 586-2727. There is a nonrefundable application filing fee of \$25.

Unlike Federal registration, State registration provides no right of priority outside of Hawaii and no right of priority even within Hawaii outside areas of actual use. As a result, relying on State registration to protect trademarks or service marks may be a false economy, even for businesses whose activities are confined to the State. Registration of trade names in Hawaii, however, may be useful because there is no Federal registration of trade names as such.

Copyright

Copyright (©) protects original expression recorded in any tangible medium. Its coverage is extremely broad.

Among other things, it protects books, magazines, newsletters, music, film, videotape, computer programs, and directories. The recording medium does not matter. Copyright protects works on paper, film, tape, record, CD, or laser disk, as well as in any new form of recording developed in the future.

Three Basic Principles

Three basic copyright principles are important to understand. First, copyright protection arises automatically. An author or artist does not have to do anything to enjoy copyright protection; copyright protection arises the moment original expression is recorded in a tangible medium. The protection, however, can be strengthened by registering the copyright, as described below.

The second principle is an important limitation:

copyright protects only the *form* of expression. It does not protect underlying ideas, concepts, or facts. For example, if you write a book describing a new cure for cancer, copyright will prevent someone from plagiarizing your words, but not from using the cure. To claim exclusive rights to practice the cure, you must get a patent.

The final important principle of copyright relates to copyright notice. Since March 1, 1989, copyright notice is no longer required in the United States. This means that you will not lose copyright protection if you fail to put copyright notice on your own published works. It also means, however, that you cannot tell whether someone else's recorded work is copyrighted by looking for a copyright notice. The absence of copyright notice no longer suggests the absence of legal protection.

Even though copyright notice is no longer required, it is still useful. It warns people that you are serious about protecting your rights, and it provides certain limited legal advantages. If you wish to protect your recorded works against unauthorized copying and commercial exploitation, you should include a copyright notice.

A proper copyright notice consists of the circle-C symbol (©) (or the word "Copyright" or abbreviation "Copr."), the name of the copyright owner, and the year of first publication of the work. Thus, a typical copyright notice might read as follows: "© 1995 XYZ, Inc." The proper place for the copyright notice varies with the type of work, but for most works the notice should appear on the cover or title page or screen.

Registration

Another precaution—copyright registration—is much more important than copyright notice. If you wish to protect a copyrighted work against unauthorized copying or use, you should register the copyright with the Copyright Office in Washington, D.C.

Copyright registration is one of the great bargains of intellectual property law. The application for registration is a two-page form (which comes with instructions), and the filing fee is only \$20. All you must do in order to register is to submit the form, the fee, and one or two copies of the work whose copyright you are registering. (Generally the law requires two copies for published works and one for unpublished works.)

Forms for applying to register a copyright may be ordered through the Copyright Office at the following address:

Copyright Office
Library of Congress
Washington, D.C. 20559
Public Information Number: (202) 707-3000
Forms Hotline: (202) 707-9100

There are four types of registration forms, as follows:

- *Form TX*
 (“textual works”—the most commonly registered kind), for non-dramatic literary works, including books, magazines, stories, articles, poetry, directories, and computer programs
- *Form PA*
 (“performing arts”), for musical and dramatic works, pantomimes, choreography, movies, and other audiovisual works
- *Form VA*
 (“visual arts”), for architectural works, pictorial and graphic works, and sculpture, including fine arts, photographs, prints, maps, charts, globes, technical drawings, diagrams, labels, and advertisements; and
- *Form SR*
 (“sound recordings”), for literary, dramatic, and musical works embodied in aural form in sound recordings.

If your work is complex, part of a periodical, constantly under revision, developed in new media (computer programs or multimedia), or derived in whole or in part from an earlier work, you should have a competent copyright lawyer help you fill out the form.

Whether or not you register your copyright, you have the right to prevent others from copying, distributing, modifying, adapting, publicly performing, and publicly displaying your work without your permission. Registration, however, gives you important additional rights. If you register, you may be able to recover statutory damages (damages without proof of loss) if you are forced to sue to protect your rights. You also may be able to recover your attorneys’ fees (which can be considerable) from an infringer. Therefore, if you are afraid that someone will copy or use your work without your permission, you should register the copyright as soon as possible.

Copyright Law

Copyright law is tricky in an important respect: determining who owns the copyright. If an employee creates a copyrighted work within the scope of his or her employment, the employer owns the copyright unless there is a written agreement to the contrary. But if a work is created by an independent contractor, he or she owns the copyright unless there is a written agreement to the contrary. Independent contractors include free-lance copywriters, artists, programmers, and consultants.

These rules of ownership create traps for the unwary business owner. If you hire a free-lancer to create a copyrighted work for you, the free-lancer owns the copyright, regardless of how much you pay for his or her work. You of course have a license, express or implied, to use the work for the purpose for which it was created.

But unless there is some additional agreement, you cannot use the work for any other purpose, because the free-lancer who created it owns the copyright unless you have a written document that says otherwise.

For example, if you hire a computer programmer to create an accounting program for your business, and if there is no written agreement regarding copyright, the programmer owns the copyright in the program. You have the right to use it, but you do not have the right to market it or use it for purposes not understood when you hired the programmer. *These legal rules make written agreements about ownership and use of copyrighted works imperative, especially when the works are created by independent contractors, that is, by those who are not employees.*

There is no State office for registration or protection of copyright. However, the Hawaii Department of Business, Economic Development & Tourism has more information on copyrights in a brochure distributed by its Products Promotion Branch. For a copy of the brochure, call (808) 587-2717.

Patents and Plant Variety Protection

Patents and plant variety protection cover, respectively, ideas and concepts applied to certain inventions and discoveries and new plant varieties. They require that the idea, concept, or plant variety be disclosed, in detail, in the patent or in a certificate of plant variety protection.

Often legal protection of trade symbols (such as trademarks) and recorded expression (through copyright) is not enough to protect a firm’s intellectual assets. Neither of these forms of protection reaches the substance of products and services, i.e., what makes them work. If you wish to protect ideas, principles, concepts, systems, processes, or discoveries used in your business, you must consider patents or plant variety protection (or, if you can exploit the idea in secret, you may protect it as a trade secret, as discussed below).

There are three types of patents: utility patents, design patents, and plant patents. The utility patent, which is the most common, is what most people think of simply as a “patent.” It covers useful inventions and discoveries in general.

In contrast, design patents cover only ornamental designs for articles of manufacture. They are used for such things as tennis shoes, clothing accessories, and ornamental shapes of consumer products and industrial articles.

In the field of botany, there are two special forms of protection—plant patents and plant variety protection. Plant patents cover newly-discovered varieties of cultivated plants that can be reproduced asexually, such as by cuttings, callus culture, or meristem cloning. Plant variety protection covers newly-discovered varieties of cultivated plants that are reproduced sexually (by seeds).

The two forms of protection differ in important

respects. Plant patents, like utility and design patents, are administered by the Patent and Trademark Office in Washington, D.C. Plant variety protection is administered by the U.S. Department of Agriculture.

Protecting these forms of intellectual property is considerably more complicated than protecting commercial symbols, copyrights, or trade secrets. Patent protection and plant variety protection are available solely by government grant and are evidenced by a patent or certificate of plant variety protection. The application for a patent or such a certificate must describe the invention or discovery in detail.

Applying for Patents or Plant Variety Protection

Although you can apply for patents or plant variety protection yourself, doing so is not advisable. The laws governing these kinds of protection are complex and tricky, and the strength of protection that you receive depends upon how skillfully your application is prepared and prosecuted. Accordingly, before seeking patent or plant variety protection, you should consult with a qualified and competent patent attorney or agent. (Only specially qualified personnel who have passed a special examination may represent others in preparing and filing patent applications.)

If your invention or discovery involves a new plant variety, even more specialized help is advisable—a patent attorney who specializes in plant variety protection. Your regular attorney should be able to refer you to an appropriately specialized professional.

Doing a Search

Before you decide to file a patent application or an application for plant variety protection, you should do a search to determine whether you are actually the first person to discover the invention or plant variety. You can either do the search yourself or hire a patent attorney or agent to do it for you. If you do the search yourself, here are a few places to begin:

- the Government Documents section of the main branch of the Hawaii State Library or the Hamilton Library at the University of Hawaii at Manoa
- the main branch of the Hawaii State Library on Oahu, in the patent database
- search on the Internet

These and other facts about patents are explained in a federal government publication called *General Information Concerning Patents*. For a copy, write or phone:

Government Printing Office Bookstore
505 South Flower Street
Los Angeles, CA 90071
Tel: (213) 239-9844

The U.S. Department of Agriculture also offers the Patent License Program, which makes government patents available to the public through patent licenses. For more information, obtain Program Aid No. 1369 entitled *Agricultural Inventions: How to Apply for a Patent License* from the Agricultural Research Service of the U.S. Department of Agriculture, Tel: (301) 504-6786.

Trade Secrets

Trade secret protection is probably the cheapest form of intellectual property protection. It requires no application or fee, and no government grant or certificate is available for it. Whether it exists at all depends only upon the nature of the information protected and the care that its owner takes to keep it secret.

Almost any information may be a trade secret. It may be something as sophisticated as an industrial process, a computer program, or a mathematical algorithm. Or it may be a simple recipe, a cost estimate, or a record of expenses. Trade secrets need not involve high technology—business and financial information may constitute trade secrets as well.

Protection of Your Trade Secret

There are only three requirements for legal protection of a trade secret. First, the information must be secret in the sense that it is not generally available or readily ascertainable to those who can profit from its use. Second, it must have commercial or economic value. Finally, its owner must take reasonable effort to keep it secret and prevent its unauthorized use.

To meet this last requirement, the secret should be kept in a secure location, such as a safe or password-protected computer environment, and access to it should be controlled. In addition, any tangible material containing the trade secret should be marked as confidential and proprietary and its circulation limited to those with a need to know.

If information meets the three basic requirements—limited availability, economic value, and protection with reasonable effort—state law will protect it from unauthorized acquisition or use. In Hawaii, the relevant State law is the Hawaii Uniform Trade Secrets Act, Haw. Rev. Stat. Ch. 482B.

The protection that State law provides, however, is weak. The law protects trade secrets only from acquisition by improper means, such as breach of contract, eavesdropping, industrial espionage, bribery, and breach of confidence. Discovery of a trade secret by legitimate means is not prohibited.

The most common legitimate means of acquiring a trade secret are independent development and reverse engineering of products purchased freely in the marketplace. A person who discovers a trade secret by such means has a right to use it as he or she pleases. Moreover, if that person also keeps the secret, he or she may be treated as a co-owner of it.

Trade Secrecy vs. Patent Protection

Trade secrecy has a reciprocal relationship with patent protection. Because patents disclose the inventions that they cover, patent protection is incompatible with trade secrecy. When a patent issues (or, in foreign countries, when a patent application is first published), the disclosure of the invention voids trade secrecy. For this reason, patent applicants must decide, before a patent issues (or, in foreign countries, before a patent application is published), whether to continue to seek patent protection or to abandon the patent application and retain trade secret protection.

Whether to rely on trade secret protection or seek patent protection is often a difficult choice. For information that cannot be patented—such as a customer list or business data—the choice is easy. But if patent protection may be available, the best course of action may not be obvious. Among other things, it may depend upon how easy it will be to get a patent, how strong the patent likely will be, the likely breadth of patent coverage, and a number of other variables. If the invention or discovery is commercially important, the best course of action is to seek the advice of a competent patent attorney.

The Bottom Line

Protecting your ideas can be a somewhat complicated matter, but with thorough research and good advisors you can successfully guard your intellectual property. In many cases, it is worth the effort.

Suggested Resources

Department of Commerce. 1993. *Basic Facts About Patents*. Patent and Trademark Office. Government Printing Office Bookstore. Tel: (415) 512-2770.

Department of Commerce. 1993. *Basic Facts About Registering a Trademark*. Patent and Trademark Office. Government Printing Office Bookstore. Tel: (415) 512-2770.

U.S. Department of Agriculture. 1995. *Agricultural Inventions: How to Apply for a Patent License*. Agricultural Research Service. Program Aid No. 1369. Tel: (301) 504-6786.

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What You Should Know About Office Equipment, Services, and Supplies

Philip T. Hollyer, Hollyer and Schwartz, Inc. and James R. Hollyer, University of Hawaii at Manoa

In this age of technology, many small businesses are considering the purchase and use of computers, copiers, fax machines, answering machines, and the like, to allow them to be more efficient. While the choices of products may seem bewildering, a little homework can make the decisions easier.

Office Equipment

When evaluating a piece of office equipment, the first thing to ask yourself is whether or not the piece of equipment will make your business either more efficient or more effective at generating revenues. While performing this analysis, it is important to remember that time spent administering your business (i.e., doing paperwork or bookkeeping at your desk) costs you money. For instance, if you figure that a computer and printer can save you an average of three hours a week on your paperwork and your time is valued at \$10/hr, then you would be saving about \$1,500 per year. So, a computer that will cost somewhere from \$1,500 to \$3,000, but will last at least five years, may well be worth the investment.

The important question is whether you can save more time, and thus money, on the office side of your business by getting a piece of machinery that helps you do your work faster, neater, and more accurately. With these general concepts in mind, let's take a look at each piece of equipment separately.

Computers

Computers (and software) are not magic or mystery or anything to be afraid of. The worst thing that they can usually do to you is to make you frustrated. What is more important, is what they can do for you, such as:

- reduce administrative overhead by automating bookkeeping, invoicing, and payroll tasks
- help you easily maintain a clearer and up-to-the-minute financial picture of your business (receivables, payables, cash flow, etc.)
- allow you to easily track and locate information about all of your customers
- provide you with professional-looking correspondence (letters, invoices, quotes, etc.)
- allow you to produce high-volume mailings easily

When choosing a computer for your business, you must first decide what type of computer to use. Today, there are two basic families of computers that are well suited



for small business use. They are the:

- Apple Macintosh (Mac) product line from Apple Computer Inc. and now from manufacturers that produce Apple compatible computers using the same operating system, or
- Personal Computers (PC) made by manufacturers including IBM, Compaq, Zenith, and others

Whether you buy a Mac or PC, you will be served well. There is plenty of good business software for each machine. Cost of software and peripherals (printers, CD ROMs, FAX boards, scanners, etc.) are comparable, and both service and support are readily available for each. However, the cost of a Macintosh tends to be slightly higher than that of a similarly equipped PC, but it also tends to be easier to configure and use. This edge in ease of use comes from the main differentiating feature between these two machines—the *operating system*.

In the simplest terms, the operating system is the mechanism that controls how things are presented to the user and how the user interacts with computer software. In addition, it specifies the nuts and bolts behind how programs talk to each other and how they store data (e.g., how a word processor stores a letter you wrote).

The Macintosh uses an operating system commonly referred to as the *Mac O/S*, while the PC typically uses a combination of *DOS* (which stands for disk operating system and rhymes with “moss”) and *Windows*, which are independent products both produced by Microsoft Corporation. This hybrid approach used by the PC is one of the reasons it tends to be harder to use—it creates confusion and causes some configuration headaches. Microsoft has released a new operating system called *Windows 95* which may serve to eliminate this confusion and make the PC as easy to configure as the Mac. However, it is suggested that you “test drive” each machine in a computer store before deciding which one is right for your needs.

Besides power and other attributes, you might also want to consider if you want your computer to be portable. Portable computers are now as powerful as larger desktop models and allow you to carry around programs and data that may help you to make faster decisions. You can also reach home office computers with your portable using a built-in modem. Faxing is



also a snap with an on-board fax card. Some portables also have “docking stations” that allow you to plug your small computer into a full-sized keyboard and monitor when you are in the office. In order to decide whether you want a desktop, portable, or both types of machines, consider how often you will be using both and what your needs are for computing power. There is one additional risk associated with owning a portable—they are easy pickings for thieves when you are on the road, so keep an eye on them.

For the beginner, it is recommended that you buy a complete system with all necessary software pre-loaded on the hard drive. In addition, make sure all optional peripherals are pre-installed and configured. Finally, be sure good service and support are available if you run into trouble. A fully configured system comes with these items:

- computer or CPU (Central Processing Unit)
- hard disk drive and a floppy disk drive for storing data
- monitor, like a TV screen
- keyboard and special pointing device called a mouse
- manuals, cables, and power cords for the above

Optional items include:

- printer (see the section on *Printers*)
- modem (see the section on *Modems, the Internet, E-mail, and On-line Services*)
- fax board (see the section on *Fax Machines and Computer Fax Boards*)
- CD ROM and sound card for multimedia software
- network card (if you want to share information between two or more machines)
- pre-loaded software such as a word processor, spreadsheet, database, or financial package

When you receive your fully configured computer, you can just turn it on and begin learning. Read the manuals and explore the on-line help and tutorials that come with your software. For additional training, there are many classes available through community colleges and other adult education centers.

Computer Software

Computer software (or “programs”) is what really makes a computer valuable to your business. There are hundreds of software packages, each tailored to meet certain needs. For example:



- a *Word Processor* is used for writing correspondence (letters, quotes, brochures, invoices, etc.); examples: Microsoft Word, Corel WordPerfect, Lotus WordPro

- a *Spreadsheet* is used to easily manipulate and analyze numbers (for preparing bids, doing payroll, tracking time, etc.); examples: Microsoft Excel, Lotus 123, Corel QuattroPro, ClarisWorks
- a *Database* is used to store information about your customers or products (names, addresses, orders, ingredients, etc.); examples: Claris FileMaker Pro, Microsoft Access, Microsoft FoxPro, Borland Paradox, Borland dBase
- a *Project Manager* is used to estimate and track projects of all types; examples: Microsoft Project, Symantec TimeLine
- a *Financial Package* is used for doing bookkeeping, accounting, and payroll; examples: Microsoft Money, Intuit Quickbooks
- a *Graphics Package* is used for drawing complicated pictures (presentations, flow charts, etc.); examples: Microsoft PowerPoint, ClarisImpact and Harvard Graphics

Several of the above packages come bundled together in a single product called a “suite.” Popular suites include ClarisWorks, Microsoft Works, Microsoft Office, Lotus SmartSuite, and Corel PerfectOffice. This is often the most economical way to purchase several pieces of software. In addition, the products in a suite generally share the same “look and feel”, which provides for easier learning.

Printers

There are three basic types of printers that you can use to transfer your documents onto paper. They are:

- dot matrix
- ink jet
- laser



While understanding the exact differences between these printers is not important, you should know that increased cost and better quality go hand in hand. Generally, dot matrix printers have the poorest quality but are very inexpensive (\$100-\$300). Inkjet printers are a bit more expensive (\$300-\$900) but have much higher quality. Laser printers have the best quality, but also carry the highest price tag (\$400-\$2,000). Color is available on printers in each of these three categories. It is fairly inexpensive on dot matrix and inkjet printers, but you will generally have to pay a lot for color on laser printers.

If most of your printing is done for internal consumption only, you may want to buy an affordable dot matrix or ink jet printer. You can take your documents to a computer/copy center if you want them printed on a high quality laser or color printer.

Modems, the Internet, Email and On-line Services

Modems are devices that allow you to access files and email on electronic bulletin boards and on the Internet via your telephone line. Modems come as either internal computer cards or small external boxes. Often modems have fax capabilities as well (see the section on *Fax Machines and Computer Fax Boards*). Speed and its relation to price are the main factors in purchasing a modem. The faster you want to transfer data, the more expensive the modem. They range in price from \$100 to \$300.



You need a modem to connect to an on-line Service (e.g., America Online, Prodigy, or CompuServe) or to the Internet. The Internet is a collection of thousands of computers that are linked together worldwide. These computers are in private companies, government agencies, and institutions, such as Universities. There are a great number of books and software items to help you learn about and use the Internet.

The most common use of on-line services and the Internet is for *E-mail*, or electronic mail. Simply, E-mail is a letter or document sent electronically from one person's computer to another. By using E-mail, you save time and postage. In fact, this chapter was cooperatively written by sending drafts using E-mail across the Internet. To use E-mail you need to contact an E-mail service provider and pay for this service (a flat monthly fee plus any long distance phone charges). There are both local service providers and larger national service providers. Small local companies often provide good, customized service at reasonable prices, while larger national service providers allow you to access your E-mail whether you are at home or in almost any location in the U.S. National and international companies include America Online (800-827-6364), CompuServe (800-848-8990), or Prodigy (800-776-3449).

Fax Machines and Computer Fax Boards

Fax machines have become almost essential for running your business efficiently. Using one, you can send and receive documents at any time of the day or night. In addition, fax machines provide a good means for documenting agreements. A faxed confirmation of a deal certainly supports your case better than saying "I heard you tell me you would pay X per pound..."



When purchasing a fax machine, the most important issue is paper type: thermal or plain. Thermal paper faxes are the least expensive, but the paper often fades and curls, making it unwieldy and undesirable for filing. Often you'll end up making a copy of a fax for your files. Plain paper faxes eliminate these paper troubles by printing directly onto normal copier paper, but the machines are more expensive. Other things to look for

when purchasing a fax machine are features like:

- **Phone directory.** Many fax machines allow you to permanently program your frequently used phone numbers. Be sure to check for the capacity and ease of use of this feature
- **Memory capacity.** Memory allows the fax machine to retain a fax in the event the machine ever runs out of paper. The fax can be printed as soon as more paper is added
- **Size of machine and configuration of paper tray.** If you have a small office, be sure to match the machine with the area in your office you have designated for it. Also, you will want to be able to refill the paper tray easily

An alternative to buying a separate fax machine is to simply add a fax board to your computer. A fax board is an inexpensive electronic card which usually comes with a modem and installs inside your computer or connects to it via a cable. It allows you to send and receive faxes directly from your software packages. The computer fax board is simple and convenient to use, but, unlike the ordinary fax machine, you cannot fax a document that is not already in your computer. In this case, you will need to take a trip to a store that offers fax service. If you expect to do this frequently, factor your time and the cost of the service into your fax purchasing decision. Fax boards (usually with modems included) run from about \$100 to \$300, with speed being the major differentiating factor.

Answering Machines

Answering machines, which cost less than \$100, are another potential asset to your business. If you don't have an answering machine and you miss a single phone call worth \$100, then you are really losing out. When purchasing an answering machine, be sure to buy one that is reliable and won't malfunction during an important phone call. If you are already in the market for a new phone, consider saving money by buying a combination answering machine and phone in one.



When recording a message for your machine, you should let the customer know that their call is very important and will be returned quickly. Also, use the message time like you would a Yellow Pages ad, to educate your customers. Try a pleasantly spoken and clearly read message like this:

"Hi! You have reached Leilani's Luau Leaf Farm. We are open from 10:30 a.m. to 4:30 p.m., Monday through Friday. At the moment we are unable to take your call, but it is very important to us so please leave your name, a message, your phone #, and the time at which you called, and we

will return the call as soon as possible. Thank you for calling Leilani's!"

Although the answering machine may be one of the most important additions to your office, it may also be the least liked by your customers. Customers prefer to talk to a person and have their questions answered promptly. Therefore, speaking to an answering machines often annoys them. If a customer leaves a message, their expectation is that it will be returned quickly. If you are unable to do this, it is probably worse than not letting them leave a message in the first place. Also, if you rely on the answering machine too much, customers can easily get the impression that you are always out. So, be aware of these issues and do as much as you can to make the customer feel that their message is important.

An alternative to buying an answering machine is to get a voice mail service through GTE Hawaiian Tel or other providers. The same considerations apply to your voice mail message as to your answering machine message and response time.

Copiers

Like most electronics, copiers are getting better, faster, smaller, and cheaper. You can probably find a decent one for about \$300 at a large discount store. When considering the purchase of a copier ask yourself these questions:

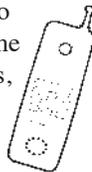
- Do you do enough copying to justify your purchase?
- How and where do you get repair service?
- What is the operating cost per page?



If you have a copy store two miles away and you make one copy a week it may not be a wise purchase. But if your copy needs are greater and it looks like the cost in time and gas to drive to the store justifies your purchase, buy one. Copy machines often need to be cleaned and repaired, so be sure service is available and convenient. If you purchase a service agreement, make sure to read the fine print carefully. Finally, compare the overall operating costs (paper, toner, and service) before making your decision.

Beepers and Cellular Phones

These devices can certainly be useful additions to your business, but it is important to understand the limitations of each. As with answering machines, these devices can both help and hinder your business. They can help your business by allowing you to be reached at times when you might otherwise be unavailable. It can hinder your business because you may have less uninterrupted time to concentrate on your work. Also, your customers may grow accustomed to being able to reach you at all times.



Any snags in being reached or delays in returning calls may also frustrate your customers.

A beeper allows you only to receive messages. These messages typically range from the length of a phone number to an entire sentence or two. A cellular phone allows you to send and receive phone calls while you are on the move. In purchasing these devices, the biggest factors to consider are:

- coverage area
- battery life and recharging specifications
- size and weight
- cost of device and service
- fine print on both the machine and service contracts

Beepers and cellular phones only work if they are within the coverage area. There may be some "blind" or "dead" spots in the state where it is impossible to receive messages or calls. Therefore, before you purchase a beeper or cellular phone, you should discuss where you can use the device with your service provider.

Also, you can only receive messages or calls if your beeper or phone is charged up and turned on. Be sure to find out how long it takes to recharge the batteries and how long they last. In addition, you may want to investigate the cost of a second battery.

Buying at a Store or Through the Mail

Once you do your homework by reading some of the publications listed below and doing a little window shopping, you need to get on the phone and into some stores to gather current prices. The growth of computer and office megastores allows consumers the best selection of equipment at typically the best prices. Unfortunately, these stores are not everywhere. In these cases, mail order may be your best bet.

When purchasing via mail order, the April 1994 *Mac User* suggests that you should be informed about the following issues:

- look for a well established company
- know what you want before calling
- check compatibility with your equipment and software
- pay with a credit card to extend any applicable warranties
- confirm prices, including tax and shipping
- ask about delivery methods
- ask about return policies
- ask about repair and replacement services
- ask about availability of technical support

Be sure to take notes while you are on the phone, so you have some documentation in the event that something is called into question and be sure to check packing slips when the item is delivered, because they can be important for returning items.

Protecting Your Equipment from Power Surges

Just like an ocean wave can wipe out a house on a beach, a sudden burst of electricity can destroy both an office machine and its data. Therefore, a good surge protector is a must for all of your office equipment. Also, you may want to consider a telephone line surge protector for your phone, fax, and any modem or fax boards in your computer. These devices can be found in most stores that carry phone and computer equipment.

An uninterruptible power supply (UPS) is another item you may wish to consider if you use your computer frequently and your electrical power source is uncertain, which may be the case if you use a generator that is prone to brownouts or blackouts. Similar to a surge protector, a UPS smooths over power deviations. In addition, it bridges complete gaps in electrical flow, so it's like having your own emergency generator.

Energy Savings and Protection from Radiation

Much of the office equipment currently on the market has the ability to reduce power consumption to a minimal level when idle for long periods, thus saving you money on electric bills. When making your purchasing decisions, be sure to look for these features.

Repeatedly turning a computer on and off can cause greater wear and tear on moving parts such as the hard drive and fan, but leaving it on for long periods of time wastes energy. As a general rule, it is probably best to turn your computer on once in the morning and then off once at night. If you leave your computer on all of the time to receive faxes (you can't receive a fax with a fax-modem board if the computer is off), you can at least turn the monitor off.

Although machines are being made more and more electrically efficient, computer monitors still emit low levels of radiation. Currently, there is no documented proof that this is harmful. However, if you are pregnant or are concerned, you may want to talk to your physician or purchase a radiation shield for the front of your monitor.

Backing Up Your Records and Data

You should make frequent backups of your data on diskette and photocopies of important documents. These diskettes and documents should be stored in a fireproof box away from your immediate office area or in a bank safe deposit box. This way, you will be well protected in case of fire or theft or if the hard drive of your computer malfunctions.

Machine and Paper Up-Keep

Just like keeping your field equipment well oiled and clean, your office equipment and supplies need the same attention. You should remember to:

- Keep your machines covered when not turned on or in use.
- Keep your paper stock covered in a cool dry place.
- Keep food away from your machines—this prevents costly accidents.
- Use the manufacturer's suggested cleaning solutions for screens and plastic covers; the wrong type of solution can damage these surfaces.
- Keep only a small amount of paper in your fax and printer if you are in an office that is not air conditioned. Otherwise, the paper will pick up moisture over time and create messy documents.
- Buy only the supplies, such as paper, toner and ribbons, that you will need for a few months. By waiting, you are not needlessly tying up financial resources and are reducing the risk of poor performance from toner or ribbons that have been on the shelf too long.

Suggested Resources

While the information above will be helpful for a while, the office equipment and computer industries are changing ahead. To stay informed on these topics we recommend these magazines:

- *Home Office Computing*
- *Consumer Reports*
- *Mac World* and *MacUser*
- *PC World* and *PC Magazine*

In addition to these magazines, you can get information and ask questions at local stores, trade fairs, and computer clubs.

The Bottom Line

Buying and using office equipment can be fun and efficient. The trick is doing your homework up front!

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Good Sales Documentation and Procedures

Samuel Camp
Hawaii Department of Agriculture

An important aspect of a successful business is initiating written transactions and keeping accurate paperwork. From the beginning, all of your related records should be kept together. By keeping complete and accurate paperwork from the start of your business, you can maintain efficiency and may prevent critical misunderstandings that can lead to legal problems. For these reasons it is necessary to get all orders and transactions in writing and have an efficient accounting system to keep track of all financial exchanges. Some important features of the transaction process are:

The Order Form

If a *buyer* places an order, get it in writing (or fax), and agree on the:

- name of person placing order
- commodity description
- quantity (number of containers and weight)
- container (type, size, and labelling)
- quality (grade)
- price per unit
- price extension (price per unit times number of units)
- delivery date
- shipping terms (amount, carrier, who pays, and how shipped, e.g., air, sea, or land)

If a *commission merchant* or a similar middleman places an order, agree on all of the above, plus commission and costs.

The Container Label

The information presented on your container labels should be clear and neat, and the label should be easy to read. Your containers, including both individual and bulk packs, should be labeled to conform with Hawaii Administrative Rules (Chapter 4–90, Uniform Packaging and Labeling) and identify:

- the producer (or packer) name and address
- the identity of the product
- commodity net weight
- grade (not required, but a good practice)
- packing date or code (not required, but useful if there is a dispute)
- Universal Product Code (UPC), upon request

The Delivery Document

Be sure that your delivery document is prepared in

triplicate and includes:

- document identification number (e.g., invoice #, bill of lading #, tracking #)
- name and address of shipper
- name and address of buyer
- commodity description
- quantity (number of containers and weight)
- quality (grade)
- date of delivery
- place for receiver to sign and date
- value of contents

The seller keeps one copy of the document. The original, plus one copy, goes with the delivery for the receiver to sign and date. Then, the signed original copy is returned to the seller. *Keep it.* The delivery document may serve as an invoice if it contains sufficient information.

Common Carrier Documents

If you are going to use a common carrier, be sure to *keep your copy* of their document and make sure that their shipping document shows:

- commodity description
- quantity (number of containers)
- quality (grade)
- value
- weight
- date
- condition received

Invoice (see Figure 1)

Be sure your invoice includes:

- 1 Document identification number (e.g., invoice #, bill of lading #, tracking #)
- 2 Name and address of seller
- 3 Name and address of buyer (and “ship to” address)
- 4 Date of delivery
- 5 Commodity description
- 6 Quantity (number of containers and weight)
- 7 Type and size of container
- 8 Quality (grade or brand if applicable)
- 9 Price per unit
- 10 Price extension (price per unit times number of units)
- 11 Total due from this invoice
- 12 Terms of payment (due date, discounts, interest for late payment)

Receipts

Receipts for payment should refer to the document identification number of invoices covered by the payment. In many cases, this will be a signed and dated invoice.

Monthly Statements

Issuing monthly statements to your customers may be useful if you do a large volume of business with a particular buyer and your accounting procedures permit. Using a computer and appropriate software will make this procedure easy.

Notice of Delinquent Payments

This serves as a reminder to the purchaser of an outstanding debt and provides good documentation for your records. It keeps you aware of the size of your debt load, and will allow you to make decisions on the advisability of continuing to sell to that buyer.

Keep All Related Records Together

Again, this is a good practice to start from the very beginning, because it makes documentation of claims much easier.

For more information about sales documentation and procedures, contact:

Department of Agriculture
Commodities Branch
P.O. Box 22159
1428 So. King Street
Honolulu, HI 96823-2159
Tel: (808) 973-9566 Oahu

Neighbor Island Contacts:
Tel: (808) 974-6500 Hilo
(808) 323-2608 Kona
(808) 871-5656 Maui
(808) 241-3411 Kauai

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Figure 1. An Example of A Business Invoice

INVOICE		① Invoice # 1295	
② ABC Produce 999 Merchant St. Honolulu, HI 00089-0987 Phone (808) 765-4321 Fax (808) 765-4123			
③ Bill To: Fruit Processing Co. 999 Merchant St. Honolulu, HI 00089-0987 Phone (808) 765-4321 Fax (808) 765-4123		Ship To: Fruit Processing Co. 999 Merchant St. Honolulu, HI 00089-0987 Phone (808) 765-4321 Fax (808) 765-4123	
Customer P.O. # 8896755	④ Delivery Date 1/1/95	Invoice Date 2/1/95	
⑥ Quantity	⑤ Description	Unit Price	Extended Price
⑦ 20 sacks @50#/sack	⑧ Hawaii No.1 Head Cabbage	⑨ \$10.00/sack	⑩ \$200.00
10 cartons @25#/cartons	Hawaii No.1 Papayas	\$.25/lb.	\$ 62.50
⑫ Terms of Payment Net 30 days <u>A finance charge of 1% per month</u> <u>will be applied on overdue accounts.</u>		Sales Amount <u>\$262.50</u> Shipping <u>25.00</u> Sub Total <u>287.50</u> Tax (0.5%) <u>1.44</u> ⑪ Total Due <u>288.94</u>	

Protection and Regulation in the Produce Industry

Samuel Camp
Hawaii Department of Agriculture

In order to protect you and your customers, there are national and State regulations which govern the produce industry. Below, you will find U.S. and Canadian regulations concerning the sale of produce. In addition, we provide a list of Hawaii rules and laws that help create some order in a very fast-paced industry. Finally, a list of Federal regulations that deal with import and export criteria is included.

National Commodity Acts

Product sales and marketing are regulated nationally through the:

Perishable Agricultural Commodities Act (1930)

This act, commonly referred to as the PACA, was written to protect people against unfair and fraudulent practices in the marketing of perishable agricultural products in domestic and foreign trade.

Canada Agricultural Products Act (1988)

The C.A.P. Act replaced the older Canada Agricultural Products Standards Act. The new Act provides a means to make regulations which pertain to standards for agricultural products, and to regulate the marketing and trading of agricultural products.

For more information on PACA or if you need to file a claim, contact:

PACA/USDA—Western Division
Fruit and Vegetable Division
300 W. Congress Street, Box FB30, Room 7
Tucson, AZ 85701-1319
Tel: (520) 670-4793/Fax: (520) 670-4798
Toll free: (800) 495-7222

For more information on C.A.P. Act or if you need to file a claim, contact:

Headquarters/Fresh Products Section
Dairy, Fruit and Vegetable Division
5th Floor, Halldon House
2255 Carling Avenue
Ottawa, Ontario
CANADA K1A 0Y9
Tel: (613) 995-5433/Fax: (613) 993-8511

Hawaii Laws and Rules

State of Hawaii requirements for sales and marketing of agricultural products can be found in the Hawaii Revised Statutes and Hawaii Administrative Rules. Below are three relevant rules, with bulleted items indicating the areas covered:

Chapter 4–48, Hawaii Administrative Rules Rules Regulating Dealers in Farm Products

- application for license
- license fees
- branch store license
- posting of license
- termination of license; notices; renewal; penalty
- changes in address, ownership, business name, or membership; bankruptcy
- commission merchant requirements
- remittance to producer
- record keeping
- dumping certificate requirement, exception
- filing of complaints
- hearing; suspension or revocation of license
- special bonding requirement
- penalties

Enforced by: Hawaii Department of Agriculture
Marketing Division
Commodities Branch

Chapter 4–90, Hawaii Administrative Rules Uniform Packaging and Labeling

- severability
- violation
- applicability
- declaration of identity
- declaration of responsibility
- declaration of quantity (consumer packages)
- prominence of placement (consumer packages)
- declaration of quantity (non-consumer packages)
- specific requirements for special consumer and non-consumer packages or commodities
- exemptions
- advertising
- packaging variations

Enforced by: Hawaii Department of Agriculture
Measurement Standards Division
Commodities and Trade Practices

*Chapter 145, Hawaii Revised Statutes
Regulation of Dealers in Farm Produce*

- licenses
- records
- bonding of commission merchant and broker
- reports of consignment sales
- remittances
- credit for loss or dumping
- duty of Agriculture Department
- complaints and investigations
- administrative penalties
- nuisance may be enjoined, abated
- misdemeanor
- remedies and penalties not exclusive
- disposition of fees and charges
- rules and regulations

Enforced by: Hawaii Department of Agriculture
Marketing Division
Commodities Branch

For a full copy of these laws or rules, ask your local librarian or contact:

Hawaii Department of Agriculture
Commodities Branch
P.O. Box 22159
1428 So. King Street
Honolulu, HI 96823-2159
Tel: (808) 973-9566 Oahu
Fax: (808) 973-9565

Hawaii Department of Agriculture
Measurement Standards Division
725 Ilalo Street
Honolulu, HI 96813
Tel: (808) 586-0869 Oahu

Neighbor Island Contacts
Tel: (808) 974-6500 Hilo
(808) 323-2608 Kona
(808) 871-5656 Maui
(808) 241-3411 Kauai

Code of Federal Regulations

The Code of Federal Regulations contains sections that pertain to the control and eradication of animal and plant diseases. These regulations were put in place to protect Hawaii's and other state's agricultural and natural environments. For this reason, producers must comply with the following regulations, which are listed by their location within the Code of Federal Regulations and contain information about their contents:

*Title 7 Code of Federal Regulations, Chapter 3
Part 318 Hawaiian and Territorial Quarantine Notices*

- *Sub-part 13 Hawaiian Fruits and Vegetables*
Includes, among other things, information on move-

ment, processing, disinfection, inspection, and transit of fruits and vegetables

- *Sub-part 30 Sweet Potatoes*
Administrative instructions authorizing the movement of certain sweet potatoes from Puerto Rico
- *Sub-part 47 Territorial Cotton, Cottonseed, and Cottonseed Products*
Includes information on movement of prohibited or regulated articles, issuance of permits and certificates, and shipment by the Department of Agriculture
- *Sub-part 60 Sand, Soil, or Earth, with Plants from Territories and Districts*
Includes notice of quarantine

*Title 7 Code of Federal Regulations, Chapter 3
Part 301*

- *Sub-part 87 Sugarcane Diseases*
Includes information on movement, assembly and inspection of regulated articles, certificates and permits, and treatments

The USDA–Animal and Plant Health Inspection Service (APHIS) administers programs to enforce these regulations. For example, APHIS checks and certifies agricultural products for the producers and the public prior to shipping or mailing to the US mainland and upon entering the US mainland. For more information about APHIS, contact:

USDA–APHIS
Plant Protection and Quarantine
P.O. Box 29757
300 Ala Moana Blvd., Room 4117
Honolulu, HI 96850
Tel: (808) 541-2951/Fax: (808) 541-1978

For full documentation of these regulations, ask your local librarian for the Code of Federal Regulations.

Suggested Resources

Hamilton, Neil. 1995. *A Farmer's Legal Guide to Production Contracts*. 175 pp. Top Producer Book, Centre Square West, 1500 Market Street 28th Floor, Philadelphia, PA 19102-2181. Tel: (215) 557-8963.

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Government Assistance in Marketing and Promoting Hawaii's Agricultural Products

Janet C. Leister
Hawaii Department of Agriculture

In order to develop diversified agriculture in Hawaii, the Market Development Branch (MDB) of the Hawaii Department of Agriculture (DOA) promotes Hawaii's agriculture, floriculture, and manufactured food products industries in markets locally, nationally, and internationally. Hawaii's agriculture helps to diversify the economy, provides a novel attraction for visitors, and provides aesthetic benefits. There are also significant challenges to Hawaii's agriculture due to relatively high production costs, a small local market, distant overseas markets, and stiff competition from U.S. mainland and foreign competitors.

MDB attempts to structure programs to address these challenges while seeking to best utilize Hawaii's advantages. Since MDB cannot actually sell products, we try to create an environment to assist industry in marketing their products. We provide support in the following areas.

The Local Market: Selected Projects and Activities

Hawaii is a relatively small and compact market. Consumer promotions through television, radio, and newspapers can generally reach a significant percentage of consumers. Because of the relatively small market, wholesalers and other commodity handlers are generally aware of the products Hawaii suppliers have to offer. Therefore, local market programs usually target the consumer rather than wholesalers or others. Here are a few examples of local market programs.

Island Fresh Program

The purpose of the Island Fresh Program is to increase consumer awareness and consumption of fresh, locally-grown products. There are several components to this program, including:



- An Island Fresh logo that is used in supermarket point-of-purchase promotional materials to identify locally-produced products
- Island Fresh recipes displayed in supermarkets. MDB staff can work with commodity groups on printing Island Fresh recipes
- Feature stories for media on certain fruits and vegetables. When there is an oversupply of a certain product, feature stories can encourage consumption of that product

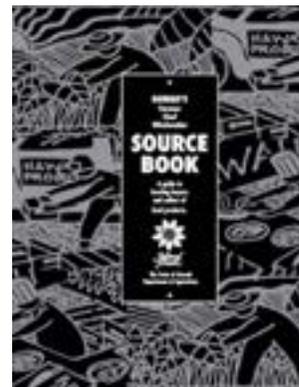
- Hawaii State Farm Fair. Industries can exhibit Hawaii products at this event
- In-store demonstrations of the product (particularly effective for smaller-volume crops)

Food Service/Chefs Program

By targeting the food service industry, Hawaii producers can develop another local market for their food products and at the same time attract and satisfy visitors.

To develop this market, MDB works with Hawaii Regional Cuisine and American Culinary Federation chefs to create a unique Hawaii cuisine using Hawaii products. MDB also assists in producing various TV shows, featuring Hawaii chefs, to promote our fresh products.

MDB also provides a directory of farmers, chefs, and wholesalers in Hawaii called *Hawaii's Farmer/ Chef/ Wholesaler Source Book: A Guide to Locating Buyers and Sellers of Local Products*. To obtain a copy, contact MDB at (808) 973-9595.



Agricultural Events

The Hawaii Department of Agriculture cosponsors events that promote fresh and manufactured agricultural products in the community. Some events include AgDay, county farm fairs, food festivals, and expositions. These events give smaller vendors with unusual products the opportunity to enter neighbor island markets and allow established companies to continue expanding. Retail and food service industry buyers, legislators, and consumers attend these events.

Tourist Promotions

MDB works with industry groups to target visitors by using marketing activities, such as:

- a chef's recipe contest
- promotion of a "carry-home" fresh pineapple and papaya campaign
- production of videos targeted towards visitors
- advertising in visitor publications

Export Programs: U.S. Mainland and Foreign

The marketplace for agricultural products is dynamic and becoming increasingly more competitive. Hawaii firms and industry groups need to take advantage of the best opportunities that help them remain competitive. The Hawaii Department of Agriculture works with individual companies and commodity groups to provide trade activities that will develop markets and promote their products both in Mainland and international markets. Trade shows, trade missions, reverse trade missions, market research reports, and in-store promotions are a few examples of trade activities that develop markets for Hawaii's companies and agricultural industries.

To ensure that all of Hawaii's agriculture, e.g., fresh produce, manufactured products, cut flowers and foliage, and nursery products are promoted, DOA selects trade activities to:

- Effectively market certain commodity groups
- Target trade links in the marketing chain to establish or increase distribution of products in the industry
- Open or expand selected geographic markets that show potential. DOA analyzes mature and emerging markets to determine the best trade activities for Hawaii's diversified agriculture. DOA sponsors trade activities in the U.S. mainland, Canada, Europe, Japan, China, and South East Asia.

In addition to the above trade activities, DOA conducts an Export Readiness Program with the Foreign Agricultural Service. Export seminars and individual consultations provide companies with information they need to start or expand exporting their products to foreign markets.

If you are interested in a trade show schedule, contact the Market Development Branch at (808) 973-9595.

Industry Associations/Organizations

For efficiency and equity, MDB works with industry associations/organizations rather than individual companies. Some examples of the 140 associations/organizations include:

- Hawaii Food Manufacturers Association
- Hawaii Association of Nurserymen
- Papaya Administrative Committee
- Pineapple Growers Association of Hawaii
- Hawaii Macadamia Nut Association
- Hawaii Egg Producers Association
- Hawaii Tropical Flower Council
- Hawaii Export Nursery Association

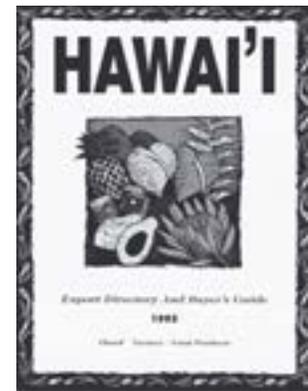
The larger associations, such as those with pineapple, papaya, and manufactured food products, work on a

contract basis. They develop a three-year marketing plan and a promotional program, and then MDB works with them. Industry associations may also do single promotional projects, which require a proposal and evaluation of the project. The funding for these contracts and proposals is divided equally between the industry and MDB.

Printed Material

MDB has worked with several commodity groups in producing printed material to assist them in marketing their products. Different types of printed material, including brochures, posters, and informational portfolios, are used to target either the consumer, wholesaler, or industrial markets, depending on the needs of the industry.

The *Export Directory and Buyer's Guide* for Hawaii's floral, nursery, and food products (both fresh and manufactured) is produced annually. The directory includes a detailed listing of company products as well as phone and fax numbers, addresses, type of business, marketing services, preferred customers, and major export areas. The directory's distribution is worldwide and is used at the trade shows that DOA attends. In addition, those companies which are listed in the directory receive all the announcements of MDB's activities throughout the year.



Research

In order to prepare companies for a market or a trade event, MDB conducts research on a variety of topics. For example, the Branch gathers information from parties interested in Department-sponsored trade shows to determine if they are suited and ready for the event. MDB also commissions market research studies to help the Branch and various industries obtain information on preparing developmental and promotional activities.

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Joining a Grower or Trade Association

Working with a local grower or trade association can give you certain business advantages. Typical benefits include the fast dissemination of information, group purchasing power, increased lobbying ability and educational programs.

The difference between cooperatives and associations are not always clear, but there are some basic differences. Cooperatives are owned by the members, who invest money and share risks in working toward their economic goals. Associations, on the other hand, are not structured to act like corporations, and members do not own the assets, but they do lobbying, have educational functions, and keep members informed about industry developments.

The College of Tropical Agriculture and Human Resources' Publications and Information Office keeps an official list of the hundreds of Hawaii-based agricultural and human resource organizations. For more information or the current list, contact us at (808) 956-7036, or check the College's home page at <http://www.ctahr.hawaii.edu>.

The following list provides information about four main organizations, which are umbrella groups for a number of activities in Hawaii, but there are many more.

Hawaii Aquaculture Association (HAA)

The Hawaii Aquaculture Association was established in 1994, with a mission to foster the development of commercial aquaculture production in Hawaii. The purpose of HAA is to:

- speak as one voice for the members of Hawaii's aquaculture industry
- assist in the development, growth, and overall benefit of aquaculture businesses in Hawaii
- encourage networking among members of Hawaii's aquaculture community
- engage in national aquaculture activities or issues which are supportive to the HAA.

The cost of membership is \$45 for commercial members, \$25 annually for an associate member, and \$5 annually for a student member. Membership benefits and activities include:

- membership meetings
- networking
- quarterly newsletter

For more information, contact:

HAA
 335 Merchant St., Room 348
 Honolulu, HI 96813
 Tel: (808) 587-0030/Fax: (808) 587-0033

Hawaii Farm Bureau Federation (HFBF)

The Hawaii Farm Bureau Federation (HFBF) was established in 1948 to assist producers in solving certain problems. Today, HFBF provides legislative assistance at the local, State, and Federal level to represent, protect, and advance the interests of producers in Hawaii. The cost of membership for an associate member is \$60 annually and for a regular member (full-time producer) is \$90 annually. Membership benefits and services include:

- membership in HFBF Credit Union
- educational programs
- discount purchasing program (where available)
- promotion programs at Farm Fair and County Fairs
- medical insurance/Dental insurance
- Hawaii Farm Bureau newsletter
- supplemental Cancer Insurance
- free admittance to Hawaii Farm Fair and all county fairs, as well as other HFBF events

For more information, contact:

HFBF
 2343 Rose Street
 Honolulu, HI 96819
 Tel: (808) 848-2074/Fax: (808) 848-1921
 Internet (at Hawaii's Agriculture Gateway):
<http://makaha.mic.hawaii.edu:80//hawaiiag>

Hawaii Food Manufacturers Association (HFMA)

The Hawaii Food Manufacturers Association was established in 1977. Its objective is to expand members' sales by working cooperatively. The cost of membership is \$100 annually for an associate member, \$250 annually for a full member, and \$150 annually for outer island members. Membership benefits and services include:

- access to trade shows at good rates
- educational seminars
- monthly newsletter

For more information, contact:

Department of Food Science & Human Nutrition
University of Hawaii at Manoa
1800 East-West Road, Henke Hall 224
Honolulu, HI 96822
Tel: (808) 956-8710/Fax: (808) 956-4024

Hawaii Tropical Flower Council (HTFC)

The Hawaii Tropical Flower Council (HTFC) is organized as a statewide, cross-commodity association representing all the tropical flower commodity groups who represent growers of anthuriums, orchids, proteas, and tropicals. The Council's mission is to differentiate and promote Hawaii's tropical flower products to U.S. and world markets. Benefits include:

- nationwide (U.S.) public relations and promotion programs
- representation at key U.S. and international trade shows
- creation of collateral marketing/promotional materials for growers and shippers
- market information distribution center and sales lead referral center

For more information, contact:

HTFC
P.O. Box 4306
Hilo, HI 96720
Tel: (808) 961-5555/Fax: (808) 961-90001

These are just four of the many worthwhile groups that are out there. By joining one of them, you can increase your chances of being successful.

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Marketing Cooperatives

Timothy O'Connell
U.S. Department of Agriculture

The formation of a cooperative involves an agreement among a group of producers to act together in marketing products or providing other needed services. In order to make a cooperative successful, it must make business sense and takes:

- a sufficient volume of product
- commitment
- professional and businesslike conduct by the board of directors
- quality management
- willingness to work toward a common goal

Collective marketing requires that you give up some control over your products to a central organization, but the benefits generally outweigh any limitations.

Benefits of a Cooperative

A cooperative is an ideal way for a group of producers with common marketing goals to do business together. Producers can benefit through:

- limited antitrust protection available to producers under the Capper-Volstead Act
- reduction in price risk through pooling of product by grade and size
- presentation of a uniform product through standardized grading (to improve consumer confidence)
- services and economies of scale not otherwise available

By combining volume and pooling resources, a cooperative can offer marketing services that may not be available to individual growers, such as: grading, packing, packaging, cooling, bulk purchase of supplies for lower prices, ability to offer larger amounts of products to buyers, development of new markets, and other services.

Four basic principles ensure that cooperatives are fair and democratic:

Service at Cost

A cooperative is in business to provide services to its member-owners at cost. Typically, there is a per unit charge for products handled.

Democratic Control

Members control the cooperative, usually on a one member-one vote basis. Only farmers can be members of, and vote in, an agricultural cooperative. Some cooperatives permit voting in proportion to the amount of business each member does with the cooperative.



Financial Obligation and Benefits

Members own the cooperative and have the benefits and financial responsibilities associated with ownership. Benefits are tied to use rather than to the amount of investment.

Limited Dividends on Equity

Payment for use of members' equity capital is limited to 8 percent. The value of a cooperative is in the services it provides, not as an investment. Limiting the return on investment assures profits are distributed on the basis of use, not on the basis of the investment.

Types of Marketing Cooperatives

Marketing cooperatives can be divided into two types—"operational" and "bargaining".

"Operational" Cooperatives

This is by far the most common cooperative. They have a direct involvement in handling, grading, processing, and selling fruits and vegetables. These cooperatives usually take title to the product, own and operate facilities, and pool members' produce.

"Bargaining" Cooperative

The main goal of this type of cooperative is to get fair and reasonable prices and terms of trade for its members' production. A few highly skilled employees focus on developing market intelligence, communicating with members and others, maintaining relations with buyers, and taking whatever actions are necessary to improve the market for the commodity. Unlike operational cooperatives, capital investment is minimal in a bargaining cooperative. By uniting in a bargaining cooperative, growers can strengthen their marketing power to favorably influence terms of trade.

Functions of a Cooperative

A cooperative can take many forms and undertake many operations. The common thread between all the various operating methods is that they were developed to assist

farmers in the orderly marketing of their products. Many years ago, farmers saw a need for orderly marketing and utilized a cooperative framework to help solve their problems. Cooperatives, however, are not a remedy for all marketing imperfections.

A cooperative can be organized to take on a function that any other type of business would undertake. There are no limits on the types of things that a cooperative can do.

Hawaii Marketing Cooperatives

Here is a list of the 39 existing Hawaii cooperatives:

50th State Dairy Cooperative
Aloha Dairy Cooperative
Big Island Dairy Cooperative
DIVACO Cooperative (Agricultural Supplies)
Hawaii Cattle Producers Cooperative Association
Hawaii Ginger Commodity Group Association
Hawaii Guava Growers Cooperative
Hikiola Cooperative (Agricultural Supplies)
Hilo Farmer's Cooperative Exchange
(Ginger & Vegetable)
Hilo Macadamia Nut Association
Kamuela Vacuum Cooling Cooperative, Ltd.
(Vegetable Cooling)
Kauai Sunshine Cooperative (Papaya)
Kona Producers Cooperative
Luluku Banana Growers Cooperative
Maui Cooperative Fishing Association, Inc.
Maui Farmers Cooperative Exchange
Maui Produce Processing Cooperative
Molokaa Farmers Cooperative (Papaya)
Moloka'i Ice House, Inc. (Ice, Bait, Fish)
Moloka'i Livestock Cooperative
Moloka'i Cooling Cooperative (Vegetable Cooling)
Kona Pacific Farmers Cooperative
(Coffee & Macadamia Nuts)
Tuna Boat Owner's Cooperative, Inc.
United Cane Planters Cooperative
Hawaii Tropical Fruit Cooperative
East Hawaii Banana Cooperative
Hawaii Egg Producers Association Cooperative
Aqua Hui Hawaii Cooperative (Chinese Catfish)
Wailea Banana Cooperative
Hawaii Cattle Ranchers Cooperative
Hamakua/North Hilo Agricultural Cooperative
(Land Leasing)
Hui Lailima, Inc. (Native Hawaiian Farming)
Big Island Papaya Growers Bargaining Cooperative
Hui O' Hana/Maui (Chinese Catfish)
Farmers Livestock Cooperative
Hale Ku'ai Cooperative
(Native Hawaiian Consumer Cooperative)
Hawaii Taro Growers Hui
Wood Valley Water and Farm Cooperative (Irrigation)
East Hawaii Aquaculture Cooperative

Assistance in Forming a Cooperative

The Hawaii office of the USDA Rural Development/Rural Business-Cooperative Service (RBS) provides technical assistance to producers who are interested in forming a cooperative, by:

- determining the feasibility of proposed ventures
- organizing the farmers into a functioning and committed group which will organize the cooperative corporation
- developing and giving guidance in implementing a business plan
- promoting understanding of cooperative principles and operations, and skill development through workshops for managers, directors and others

Our office can also put you in contact with existing cooperatives. For more information about our services, or any other questions, contact our office at:

USDA/RBS
154 Waianuenue Ave., Room 305
Hilo, HI 96720
Tel: (808) 933-6912/Fax: (808) 935-6913

Suggested Resources

*Cooperative Information Report 7:
How to Start A Cooperative, revised 1993.*

*Cooperative Information Report 1:
Fruit and Vegetable Cooperatives, Section 13,
revised 1990.
Cooperative Principles and Legal Foundations,
Section 1, revised 1993.
Cooperative Benefits and Limitations, Section 3,
revised 1990.*

For information about these publications, contact:

USDA, Rural Business-Cooperative Service
P.O. Box 3250
Washington, D.C. 20250-3250
Tel: (202) 720-2558

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Trade Show Basics

Department of Business, Economic Development & Tourism

Steven R. Lee

Trade shows can provide Hawaii businesses with the tools and knowledge needed to remain competitive. Few events are more time-effective and cost-efficient than trade shows, because they bring together a focused group of interested buyers and sellers. They give you the opportunity to:

- meet prospective buyers
- acquire market information and analyze your competition
- introduce and test new market products and ideas
- build relationships with existing dealers/distributors
- renew business contacts
- expand distribution of your products

Who Goes There?

Many attendees travel hundreds or thousands of miles to attend a once-a-year show. They are open to new products and new ideas, and the opportunity to present your product is far easier than in a normal sales call. The Center for Exhibition Industry Research (CEIR) studies show that of all attendees:

- over 80 percent are middle and top management who make and influence buying decisions for their companies
- on average, over 1/3 are there for the first time
- 11–23 percent want to see a specific product or company

Pre-Show Considerations

The first thing you should do is decide why you want to go to a specific trade show and whether it will be worth your time and money, in terms of the business you hope to generate. You should review your marketing and sales objectives before you design your booth. Your goals and objectives should be clear and measurable (e.g., generate 200 qualified leads or sign up 30 new dealers). Other goals and objectives may focus more on the future and use the trade show to establish your base of business.

Many attendees come to a trade show with a specific agenda and look for target products and companies they know will be there. If you know who some of your prospective clients may be, let them know you will be at the trade show and make it a point to meet them.

Pressured for Time and Handling Long Hours

If you look at most trade shows, the average length is between two and three days and about seven hours a day,

with attendance ranging from a few hundred to four or five thousand (and in some European supershows attendance numbers in the hundreds of thousands over a 5–10 day period). So, depending on these factors, as

well as others, your booth could be visited by as little as 19 people per hour to as much as 200+ per hour. Show times are often supplemented by seminars and meals, so it is not uncommon to have a 17-hour day! Take breaks often and don't forget to eat.



Booth Design

Nearly everyone has their own ideas about what works. However, *only* if your product/booth grabs their attention will your prospective buyers and shoppers take the time to divert their attention from the rest of the show. This is Show Business! You want to generate visual excitement for your products. Here are some ideas to keep in mind:

Good Idea

- + large, simple signage and pictures
- + large text that can be read from 8 to 10 feet
- + open booth feeling that welcomes visitors
- + bright colors, plants, or floral arrangements
- + short visual presentations (2–3 minutes)

Poor Idea

- many small pictures
- small text
- tables that keep visitors away from your booth
- dull, drab, or lack of decoration

Budget

Investment in a show varies, but the following elements will likely be part of your budget:

- rental of booth and services (e.g., furniture, electrical, lighting, water, exhibit accessories, carpet, etc.)
- installation, hauling, storage, and dismantling
- shipping costs
- decorations, signage, pictures, etc.
- travel, ground transportation, hotel, and living expenses for you and your staff
- product samples and brochures
- interpreters
- advertising and direct mail
- contingency funds
- travel documentation costs (e.g., visas)
- deposits

All of these costs will vary depending on the demand for a show and its location. Careful planning will help keep costs down (see the section *A Checklist for Successful Exhibiting* below). Some areas of the country are ruled heavily by unions and even just a bucket of water may cost you, but at most events, the show staff are very responsive.

Foreign Travel

If you are traveling to foreign shows, you will also need to consider travel documentation, shipping documentation, customs regulations on allowable imports, and other related information.

You can get information from the U.S. Embassy (in-country for foreign import requirements, duties, tariffs), U.S. Department of Commerce (for export services), U.S. State Department (for travel documentation and advisories), foreign embassies (for travel documentation), and freight forwarders (for shipping documentation). Trade show coordinators may already have much of the needed information.

Prepare Your Sales Staff

Make sure you have an experienced and prepared sales staff on hand, and be sure that they dress appropriately. They should also be respectful to potential customers, interesting to talk to, culturally-sensitive, and prepared to:

- identify business prospects
- do a two- to three-minute presentation
- answer any questions
- have the proper documentation/sales materials and samples ready
- close a sale

Your sales staff should be prepared to record the results and follow up on leads immediately after the show.

A Check List for Successful Exhibiting

These are common elements to consider when planning and executing a trade show program for your company.

Contact List

Make sure you make contact with the following people and have their numbers and names on hand.

- delegation and/or show coordinator
- show/exhibit company and services
- shipping companies
- in-country contacts, U.S. Embassy

Exhibitors Kit

- sales lead and order forms
- office letterhead, note paper, envelopes, stamps, folders, business cards and holders
- stapler, staple remover, pens, markers, paper clips, rubber bands, cello tape, pins, tacks, paper glue

- calendar, appointment book
- sales literature
- exhibit/show related documentation, contracts, shipping documents

Note: Many of these items are hard to get together once you arrive at the show.

Exhibit Supplies

- tools—safety razor, scissors, pliers/wire cutters, screw drivers (standard & Phillips), staple gun and staples, tape measure
- tape—two way, cello, strapping and/or duct tape
- first aid kit
- glue or contact cement
- electrical—industrial extension cord, 4-way box, spare bulbs, flash light
- wire and cord

Time Line

The following information represents a very typical time line of events that lead up to and follow a trade show event. Deadlines and activities may vary depending upon the show and its location. If possible, allow yourself a few days to acclimate to the environment (and time difference) and to schedule in appointments.

1 year to 5 months from show date

- assess the company's needs and objectives
- evaluate past show exhibitor lists and attendee demographics
- check for any services or assistance from federal and local government agencies
- sketch out an action plan, time line, and budget

Weeks 20–15

- carefully review the exhibitors kit for deadlines, deposits, ship dates, etc.
- deposits for space reservations may be due in this period

Weeks 14–13

- recruit your staff and prep all of those involved
- start any design/graphics/layout for flyers, releases, and brochures
- advertising deadlines may come up during this period

Weeks 12–10

- contact any outside suppliers to produce materials
- schedule flight and hotel
- plan and order booth design and signage

Weeks 10–6

- finalize staff recruiting
- initiate travel documentation (esp. foreign travel for Visas, Immunizations, etc.)
- order necessary site services

Weeks 5–4

- confirm availability of samples, literature, and supplies/equipment
- finalize travel and hotel
- finalize VIP lists and direct mail lists
- start scheduling appointments

Weeks 3–2

- coordinate shipment of exhibit materials, supplies, literature, samples, etc.
- mail out any direct invitations and event promotional materials

Week 1

- travel documentation (travelers checks, cash)
- organize office and exhibit supplies

Day 2–1

- confirm the arrival of all shipments
- supervise the setup of your booth
- pre-show meeting with all staff

During Show

- daily assessment of progress
- arrange for dismantling and shipment of materials
- reserve next years booth

After Show

- supervise dismantling and packing for shipping
- distribute leads and follow-up immediately
- show evaluation

Supplementing Your Efforts

Often there will be opportunities to go out and visit prospects and similar companies in the area before and after the show. This has helped many companies understand their markets, competition, and products better.

Post-Show Follow-up and Evaluation

There are two important post-show tasks that need to be done: follow-up and evaluation. It is important to follow up on all leads immediately after a show. The impact of your show presentation will diminish with each passing day and with it your chances of closing a sale. In addition to following up, you should always evaluate your trade show performance, goals, and plans. Did you accomplish what you set out to do? What could have been done better?

Where to Look for Trade Shows

There are many sources of information on trade shows, including trade associations, trade magazines, the Internet, U.S. Department of Commerce, and State of Hawaii agencies such as the Department of Agriculture, Department of Business, Economic Development & Tourism, and the Hawaii Visitors Bureau.

Suggested Resources

*Hawaii Department of Business, Economic Development & Tourism
Business Development Division*

Participates in trade shows, organizes trade missions, and assists trade associations and companies in exporting products and services to both foreign and domestic markets.

For more information, contact:

Hawaii Department of Business, Economic Development & Tourism/Business Development Division
P.O. Box 2359
Honolulu, HI 96804
Tel: (808) 586-2590/Fax: (808) 587-3833
email: hlprod@pixi.com

*U.S. Department of Commerce
Matchmaker Program*

Provides companies with assistance in developing business contacts.

For more information, contact:

U.S. Department of Commerce
U.S. and Foreign Commercial Service
300 Ala Moana Boulevard, #4106/P.O. Box 50026
Honolulu, HI 96850
Tel: (808) 541-1782/Fax: (808) 541-3435

*Hawaii Department of Agriculture
Market Development Branch*

Participates in various trade shows, both domestic and foreign, and will often offer discounted booth fees for space in Hawaii promotional booths on a “first come-first served” basis.

For more information, contact:

Hawaii Department of Agriculture
Market Development Branch
1428 So. King Street/P.O. Box 22159
Honolulu, HI 96823-2159
Tel: (808) 973-9595/Fax: (808) 973-9590

*International Association for Exposition Management
Hawaii Chapter*

1154 Fort Street Mall #307
Honolulu, HI 96813
Tel: (808) 532-7300/Fax: (808) 532-7308
email: prodhi@aloha.net

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The Elements of Package Design— How to Design a Label that Works for You



You have a fantastic new product that everyone loves and swears they will use. All you have to do is stick it in a package and it will sell like hotcakes, right? Wrong! You should expect to spend significant time and energy in researching all your options and in designing packaging. Large companies often invest heavily in packaging, and you can be assured that there is strong financial motivation to do so. That's not to say you need to spend as much, but genuine thinking and consideration are necessary.

Good packaging can make or break a *good* product. You'll notice the emphasis on *good*. We've come to believe that nothing will kill a bad product better than a great package. Because a great package is a promise to the buyer. It's a promise of great taste, or quality ingredients, or even romance—but whatever it is, it's a promise of an experience that the product had better deliver on, or you'll have a disgruntled buyer. And everyone knows that bad news travels faster than good. However, a great package can also substantially enhance a great product's sales, increase trial use, and broaden the audience to which it can be sold. It can even enhance the experience of the product for the consumer. But a great package *cannot* be an afterthought. It is an integral part of the end product that the consumer will buy. Therefore, energy and thought should be invested into its creation from the outset.

First Things First: Know Your Product, Know Your Competition

Don't necessarily assume that your product has to come in a 6 oz. jar or a standard box or plastic bag, just because all other similar products do. Research all possibilities and be prepared to think outside the normal parameters. While you will be limited by price and your manufacturing capacity, your imagination doesn't have to be. Sometimes an innovative package can cost less than its traditional counterpart. For instance, using common materials in an uncommon manner can make your product stand out. But even jar or box shapes and sizes are decisions that can enhance design.

Don't be willing to settle for what everyone else is doing. First spend time on research. Look at every similar product on the market that you can—go to stores, fairs, airport shops. And that doesn't necessarily mean just products in Hawaii. Look at parity products in other markets around the world. Check out food and trade publications to see what's new across the country; look at the ads. Constantly analyze what is or isn't appealing. And be open and willing to consider anything; sometimes

a very simple solution can more appealing and cost effective. At the same time, come to understand your product thoroughly. From shelf life to portion control to use, begin to get a handle on the elements that will shape your packaging, pricing, and ultimately your appeal to the consumer. If you hire a professional designer or graphic design firm, the more research you can provide to them, the more you'll get for your money. And the more effective job they'll be able to do for you. Socrates said, "Know thyself." Enlarge this to "Know thy product" and you're on the road to greater knowledge and understanding. Remember—knowledge is power; that is, power that you can use to make your product sell more effectively to more people.

Know Your Audience

Who is going to buy your product? Advertising agencies have a corollary to "Know thy product" and it goes something like this: "Know your prime prospect and know your prime prospect's desires and problems." So while you may have developed a product that suits your needs and desires, consider if it is something that provides the same for other people. Before launching into full-scale production, determine what kind of reception your product will have. There's a lot to be said for common sense and the opinions of your friends, relatives, and associates. See how they react, and trust your own gut feeling. Use this information to make small course corrections in the development of the product and in the design of the package.

Understanding your prospective audience means knowing who:

- already buys the kind of product you sell
- is about to buy the kind of product you sell
- ought to buy the kind of product you sell

It also means knowing who makes the purchase decisions and understanding their reasons for purchase now, soon, and eventually. It means understanding their "hot buttons." Take the opportunity to investigate your prospects' problems and life situations. In other words, sell them the *situation* in which they will use your product, not just the product.

Many producers neglect to answer these very important questions:

- Does my target audience want what we offer?
- Why should they believe what you say?
- Can our product be perceived as a good value?

Understanding your audience gives you an edge on your packaging. It allows you to more effectively control their reaction to your product when they see it on the shelf, and it lets you answer questions now that may typically keep them from trying your product. It will also allow you to set the stage for your company and any future products you may develop.

What a Label Should Do

While packaging in general has just been discussed, the purpose of this chapter is to concentrate mostly on label design. So, assuming that your overall container has been decided on or that there's no need for one, here are some basic steps to consider in creating a label that works (see Figure 1 and 2).

Gather All Required Information

There are State and Federal labeling requirements that should be considered first (see the chapters on *Good Sales Documentation and Procedures* and *Going Commercial with a Kitchen Recipe*). Make sure that you get a copy of the latest State regulations. Ingredients, weight, and other pertinent information must appear in specified minimum type sizes. Smaller manufacturers can apply to avoid having to put the “nutritional facts” required by FDA, but be sure to find out the most recent requirements, as they often change. You should also consider other requirements such as UPC codes; those zebra stripes on a package. Some grocery or chain stores will not even consider your product unless it has one. If you work with a distributor or food broker, you should consult with them *before* beginning your label. It best to know

everything that must appear on your label *before* you even start to think about design.

Creativity and Factual Information

Why hide information that may be your best asset? Truthful, specific information is often the most powerful. For example, your product is made in Hawaii, but it's even more accurate and compelling to say that your product is grown on the Hamakua Coast of the Big Island and made by hand in Honakaa. Truth can often be more interesting than fiction. Write down everything you know about product. What is it made of? How and where is it made? Is it an old family recipe? How can it be used? Is it organically grown? Is there an interesting story behind it? Believability and honesty can be very attractive.

Select a Competitive Edge

What makes your product better or more special—make a list. Is there something truly amazing about it? What was it about your product that made you so excited? Try to recreate your own inner amazement and then communicate it appropriately on your label.

Tell People How to Use It

Even though the product category may make the use obvious, people will buy more of it if they know of different ways to use it. For instance, with Hawaiian Butters (a label we designed) it is obvious that it can be used on bread or toast. But we list other breakfast uses such as waffles and pancakes. And we broadened use beyond breakfast to other meals by suggesting that it can be used as a glaze and marinade.

Figure 1



A Positioning through graphics: elegant calligraphic “H” imparts an upscale sophistication. **B** Illustration shows three flavors available in an old-fashioned woodcut style. **C** Localizing the product through illustrations of Kauai and “Made in Kauai.” **D** Unique characteristics are imparted through graphics based on traditional Hawaiian textiles combined with

a dairy cow pattern: it’s handmade, Hawaiian, and whimsical. **E** Tell a story about what makes your product unique. **F** How to use the product lets people imagine themselves in situations using your product. **G** Describe exactly what your product is and is not (e.g., pesticide-free, contains no additives, etc.) may be as compelling as what it is.

Develop a Personality

Is your product refined and elegant like Godiva Chocolates? Funky and fun like Ben & Jerry's Ice Cream? A meld of Hawaiian and Pacific Rim like Manoa Farms? Positioning your product's "personality" is another way to set yourself apart. If you have difficulty figuring this out, think of your product as if it were a person, and then ask yourself questions like "what kind of car would it drive" or "where would it go for vacation" or "what's its favorite outfit." Pretty soon you'll come up with the characteristics that describe the personality of your product. This personality should be visually communicated. If you should develop additional products or flavors, it will be the consistent graphic identity that ties the line together.

What's In a Name?

When you are starting out, if you don't have a company name or product name, think about it carefully and remember that your product will wear it for the rest of its life. The personality considerations mentioned in the paragraphs above also apply to names. In order to be sure that your chosen name has not been registered with someone else, you should do a "trade name search" (see the chapter on *Intellectual Property Rights—Protecting Your Ideas and Inventions*). If you want to make sure that your search is thorough, you may want to consider having a nationwide search done by a professional. There are legal ramifications to consider if you have a name that someone else has legally claimed. Why spend money and time promoting a name that you eventually won't be able to use? In addition, it's better to take your second or third choice for a name than to dilute its effectiveness or confuse the customer with two products with the same name.



An example of a product and its packaging working together

Use Professionals Wisely

Unless you are a professional graphic designer or art director, you should consider hiring one. You have spent a lot of time, money, and energy getting this far; don't blow it by being "penny wise and pound foolish" concerning your packaging. While many people feel that they have artistic talent, designers have experience and technical expertise that most people don't typically have. They can also handle supervision of your production and printing to make sure that the end product is what it's supposed to be.

The cost of hiring a designer varies, and some of this variation can depend on you and the information that you

provide. You should be able to discuss all of the topics covered above. A written synopsis would be even better. Some graphic design companies will research regulations for you, but may charge you for the time it takes. If you're on a tight budget, it's best to provide as much information as possible at the time of the first meeting. After all, they're designers, not clairvoyants.

Choosing Your Designer

You can find graphic designers through the local chapter of a professional organization called AIGA, American Institute of Graphic Arts. They should be able to provide you with a membership list. You can also check the phone book, and the *Pacific Business News* lists design companies once a year. But also check with friends and business associates. Or if there's a label or package you particularly admire, find out who created it. Designers—like most professionals—can run the gamut in expertise, talent, and cost.

The best way to choose a designer is to look at their work, establish whether you feel comfortable with them and their work, and ask for an estimate. Most will be happy to take the time to do so. Their estimate may only be an indication of price range, depending on the information you give. Graphic design is a bit like architecture: it's hard to give an accurate price until you know exactly what you'll be designing and building. Once design

ramifications have been established, they should be able to give you an accurate estimate of costs. But bear in mind that, like construction, when you make a change it will change the price. Of equal importance is your relationship and communication level. Choose a designer that you can talk with and one that will take the time to understand your product.

If you do not wish to use a graphic designer, at least be sure that your label has been prepared professionally. Service bureaus, printers,

typesetters, and camera-ready houses will often have a designer or production artist on staff. But don't expect to get the same level of creative input from these sources, unless you are prepared to pay for it. Also, a designer will often ask for estimates from several printers, and has the added benefit of knowing which vendors and printers are most appropriate for your job.

What Will It Cost Me?

The \$60,000 question is: what will it cost me? And of course the answer is—it depends. It's a bit like asking what a motor vehicle would cost; you can start with a

moped and end up with a Rolls Royce. An educated guess would be from hundreds of dollars for a simple label to thousands of dollars and up for more comprehensive packaging, plus the cost of printing. To further the analogy, designers can differ as widely on charges as car dealerships, dependent on experience, reputation, timing, and how much they want the job. In the *Graphic Designers Guild Handbook of Pricing and Ethical Practices* (Graphics Artists Guild, Inc., 1991), suggested fees for packaging starts at \$10,000, and that's not even for national use! But don't despair, most practicing designers in Hawaii are small businesses, and consequently they understand small business economics. Therefore, it is best to meet and see the portfolio of several designers, ask for estimates, then choose the one you can afford and feel confident about.

The Creative Process

Just as some brilliant ideas in the middle of the night seem pretty silly in the morning, it's best if you don't immediately go to print with the first idea you come up with. Most professionals will work with several ideas and bounce them off other people. But don't thwart the flow of creative juices either. Let your ideas come without prejudice and get them down on paper. There will be plenty of time to weed out the bad ideas and develop the good ones. Sometimes your first idea is the best. But you won't know it is until you've gone through this process. When you've come up with your winning concepts, go down the list above. Ask yourself if this label/package accomplishes these objectives, because even though beauty is in the eye of the beholder, marketing is in the mind of consumer. Don't let your personal prejudices get in the way of good marketing.

Use Research Like the Big Guys

Most large companies will test proposed packaging via a process called *focus group testing*. This kind of research is called qualitative (rather than quantitative) because it gives the researcher quality-based responses rather than just numbers-based responses. A focus group generally consists of 8–14 people, who have sometimes been pre-screened for suitability, and a moderator. The moderator has a loose “script” of questions he or she will ask about the packaging they are examining, but a skilled moderator will also let the group bring up and talk about something that wasn't thought of but is pertinent. In order to see a trend, it's most acceptable to do at least three focus groups. The client is sometimes behind a one-way mirror, or at the least has access to a videotape of the proceedings. These groups can often give you insight to things you may not have considered, help you make design decisions, and validate or negate your own beliefs.

If you cannot afford to go to a research company (and many can't) for focus group testing, use this strategy to do your own informal focus group testing: when you have several mock-ups of label or package ideas, test them on

your friends, relatives, and associates. Be sure to ask the same questions of all groups, and let them taste or experience the product as well as the package. You should start to see a trend or trends that can help you in finessing your package or even your product.

Packaging Is Your Best Foot Forward

Just when you thought you could go to market with your product, you've got a long list of stuff to deal with for your label. Don't despair. Relax, internalize this information and let yourself go. Because developing good packaging can be as exciting as your new product. It's a billboard for what's inside, and it lets you put your best foot forward. And while it may be another marketing mountain to climb, you'll derive great satisfaction when it's done well. Good luck!

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Figure 2



- Ⓐ Name describes the special ingredient that separates it from other BBQ sauces and tells you what it's used for.
- Ⓑ Made in Maui is a more accurate and interesting fact than simply “made in Hawaii.”
- Ⓒ Tell a story about what makes your product unique.
- Ⓓ How to use the product lets people imagine themselves in situations using your product.
- Ⓔ Graphic of handmade tapa pattern visually underscores both its Hawaii associations and handmade qualities.
- Ⓕ Graphics of antique map and map-inspired border enhances the Asia and Pacific story and imparts the romance of travel.

Preparing Your Fresh and Processed Products for Transport

One of the best ways to increase the demand for your products is to get them into additional markets. In theory this may be easy, but in practice it requires a great deal of attention to detail. One major detail is in packaging your product for transport.

Top Quality Fares Better

Product quality should be your top priority, because even under the best transport circumstances the quality of agricultural products can only be maintained, not improved. In top-quality condition, your products:

- have a longer shelf life
- allow more time for transportation, storage, and marketing
- satisfy importers, brokers, and consumers
- increase repeat sales and profits
- help expand markets



The following is a list of general concepts that you should keep in mind when developing your packaging and shipping your product. Then, specific recommendations are given for a variety of products. More detailed information can be found in the references listed at the end of the chapter.

General Considerations for Transporting Your Products

Some general considerations for transporting your products include:

- handle with care—some of these are living products
- pack to buyer's specifications and legal standards and consistently maintain quality
- pack in sturdy cartons to prevent damage, and provide venting if necessary
- precool if necessary before shipping
- protect the product to avoid water loss
- temperature management is essential. This may not always be possible with air-shipped cargoes; here, speed is essential

- not all products can be shipped together
- move the product as quickly and as economically as possible
- choose the best mode of transportation

Considerations for Fresh Produce

Here are some factors to consider when transporting fresh produce:

- fruits and vegetables are living products
- fruits and vegetables begin to deteriorate from the time that they are harvested
- fruits and vegetables all have high water contents, thus you will need to avoid water loss. Air cargo can be subject to a relative humidity (RH) of as low as 5 to 10 percent RH, so dehydration can occur
- deterioration can result from physiological and pathological causes. Physiological breakdown can be due to natural ripening, water loss, temperature abuse, and physical injury. Pathological loss is increased by poor temperature management, physical injury, and poor preharvest disease control

Do:

- ship only high quality products that have been picked at the correct stage of maturity and then graded to uniform and consistent standards
- pack securely in sturdy, suitable cartons that protect the product from physical injury and excessive water loss; allow adequate ventilation as required
- reduce respiration rate via proper temperature management: 50–55°F for tropical products
- avoid unnecessary exposure to ethylene gas as it will hasten deterioration; sources of ethylene include internal combustion engines, ripening fruits, decomposing produce, and smoke
- monitor in-transit temperature as necessary

Don't:

- ship poor quality; it will not improve with time, and your reputation is at stake
- expose products to extreme temperatures or ethylene
- ship with incompatible products

Considerations for Flowers

Flower and foliage types vary widely in their morphology and physiology; therefore, specific care needs to be taken to handle each type as carefully as possible. Some general considerations for transporting flowers include:

- flowers are living, respiring products
- flowers begin to deteriorate from the time of harvest
- flowers all have high water contents; avoid water loss. Air cargo can be subject to a relative humidity (RH) of as low as 5 to 10 percent RH, so dehydration can occur
- deterioration of flowers can result from physiological and pathological causes. Physiological breakdown can be due to natural ripening, water loss, temperature injury, and physical injury. Pathological losses are most frequently associated with temperature abuse

Do:

- ship only high quality products that have been picked at the correct stage of maturity and then graded to uniform and consistent standards
- pack securely in sturdy, suitable cartons that protect the product from physical injury and excessive water loss; allow adequate ventilation as required
- reduce respiration rate via proper temperature management: 50–55°F for tropical products
- avoid unnecessary exposure to ethylene gas as it will hasten deterioration; sources of ethylene include internal combustion engines, ripening fruits, decomposing produce, and smoke
- ship by the quickest possible method

Don't:

- ship poor quality; it will not improve with time, and your reputation is at stake
- expose products to extreme temperatures or ethylene
- ship with fruit or vegetables

Considerations for Seafood

Frozen seafood can suffer from oxidation, rancidity, and dehydration during transportation. Seafood should be prefrozen to –10°C (15°F) before loading and that temperature should be maintained.

Do:

- avoid bacterial contamination, natural deterioration, and temperature fluctuations
- pack in sturdy, suitable cartons; ice as necessary
- precool or freeze as necessary before shipping
- prevent physical injury

Don't:

- mix odor-producing with odor-absorbing products; for instance, fish with dairy products, meats, or nuts

Considerations for Processed Products

Temperature abuse and mechanical injury are the major problems with shipped processed products. Some general considerations for transporting processed products include:

- handle with care
- pack in sturdy, suitable containers and then in equally suitable cartons
- precool if necessary
- utilize appropriate temperature management
- avoid incompatibility in product shipments

The information in this chapter gives you some guidelines for transporting your products, but the suggested publications can provide more detailed information and are highly recommended.

Suggested Resources

Air Transport Association of America, National Fisheries Institute. *Guidelines for the Air Shipment of Fresh Fish and Seafood*. 2nd Ed. Washington, DC.

Ashby, B.H. 1995. *Protecting Perishable Foods During Transport by Truck*. USDA, Agricultural Marketing Service. Agriculture Handbook #669. Tel: (202) 690-1304.

Hardenburg, R.E., A.E. Watada, C.Y. Wang. 1986. *The Commercial Storage of Fruits, Vegetables, and Florist or Nursery Stocks*. USDA, Agricultural Research Service. Agriculture Handbook #66. (Out of print, but may be available in government libraries.)

McGregor, Brian M. 1989. *Tropical Products Transport Handbook*. USDA, Agricultural Marketing Service. Agriculture Handbook #668. Tel: (202) 690-1304.

Welby, Ellen M., Brian M. McGregor. 1993. *Agricultural Export Transportation Workbook*. USDA, Agricultural Marketing Service. Agriculture Handbook #700. Tel: (202) 690-1304.

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The Basics of Transporting Your Product



Transportation of your product, whether to a store one mile away or a buyer five thousand miles away, is a very important consideration for your marketing strategy. The decisions that you make with regard to transportation can greatly affect the condition—and ultimately the price—of your product when it arrives at the market.

The following information can provide some help in making the many decisions involved in planning and following through with the shipping of your product.

Your Transport Options

There are many direct and indirect carriers that provide air and sea service from Hawaii and between the islands. Direct carriers are “steamship” companies and airlines, and indirect carriers are the freight forwarders, or companies that make all transportation arrangements and handle the documentation for the shipper. In many instances, freight forwarders are less expensive than direct carriers; however, you should always shop around and compare rates. A freight forwarder may also be able to help you decide which mode of transportation—air or ocean—is best for your situation.

Air Transport

If you are shipping perishable products, products that must arrive at the market very quickly, or any small packages, air is probably the best mode of transportation. Although it can cost more than shipping by sea, the speed and convenience usually outweighs the cost in those situations. Here is a list of air service providers in Hawaii and their current weight limit categories:



Small package service (package weight *less* than 70 lb)
 UPS—United Parcel Service
 FedEx—Federal Express
 DHL Worldwide
 Air courier companies
 U.S. Postal Service
 Airlines and Air Freight Forwarders

General cargo service (package weight *more* than 70 lb)
 Airlines and air freight forwarders
 FedEx Heavyweight Division
 UPS—United Parcel Service (containers only)

These service providers can be found in the Yellow Pages of your local telephone directory under Freight Forward-

ing, Air Cargo and Package Express Service, or Airlines. The air cargo industry is very competitive due to deregulation of the airline industry, so you will most likely benefit from calling several forwarders and airlines to compare rates and services.

In working with these companies, it is very important to keep in mind the limits of some air carriers and routes. The current direct air cargo service from each Hawaii airport is shown in Table 1 below. Some airports do not have direct service to the Mainland or foreign destinations. In these cases, you must first ship your products to Honolulu via boat or small air carrier. This may result in additional costs and an increase in transport time to market, which can then increase the risk of product damage from additional handling. So, as you shop around to compare rates, try to consider all factors that will influence your product’s shipment and cost.

Ocean Transport

Approximately 98 percent of all products shipped into and out of Hawaii are sent by ocean freight. For large shipments, ocean transport is economical and efficient, and you can ship to all ports of the world from Hawaii. The main benefit of transporting your products by sea are the lower cost per unit shipped and the availability of mechanically refrigerated containers. If you have products that need to be kept frozen or chilled or do not require fast delivery, then ocean transport may be your best choice.



Table 1. Hawaii Airports with Direct Overseas Air Cargo Service

Airport	Carrier (airline 2-letter code)
Hilo, Molokai Lanai City, Lihue	N/A (must first ship to Honolulu)
Kona	UA, JL
Kahului	AA, DL, JN, TZ, UA
Honolulu	AA, BR, CB, CI, CO, CP, DL, FM, 5X, GA, HA, JL, KE, NW, NZ, OZ, PR, QF, TW, TZ, UA

Source: Official Airline Guide-OAG, May 1996 Issue.
 See list of airlines with 2-letter codes at the end of this chapter.

Policies and services differ between steamship companies, so ask a lot of questions. Some steamship companies will only handle containerized shipments and others will take “less than container” loads. Also, special commodity rates (see the section on *Special Commodity Rates*) can be filed in a matter of a few days for international shipments, so don’t hesitate to ask your carrier.

Here is a list of ocean cargo service providers in Hawaii:

General cargo service (total weight *more* than 70 lb)

- Matson Navigation Company (domestic)
- Sea-Land Service (domestic/international)
- NYK Lines (international)
- Columbus Lines (international)
- Young Brothers (interisland)
- Sause Brothers (domestic)
- Ocean freight forwarders

These service providers can be found in the Yellow Pages of your local telephone directory under Steamship Companies, or Freight Forwarders.

Cost Considerations

When transporting your product, you may need to consider some or all of the following costs:

- shipping charges
- storage costs
- packaging
- insurance
- documentation costs
- import duties (for exporting)
- handling fees at origin and destination
- banking fees
- product damage or loss

Look into each of these costs both individually and as part of the total package before you make any supply commitments, so you can find the best prices and give an accurate price quote to a potential buyer. The more you inquire about these costs, the more you can save and, therefore, the more competitive your product can be.

Documentation

Clear and accurate documentation of a shipment is important for both you and your buyer’s protection and to make the entire shipping process run smoothly. The following certification or documents may be required for your shipment:

To Mainland or neighbor island markets

- commercial invoice (issued by seller of goods)
- certificate of origin (issued by seller, or freight forwarder on seller’s behalf)
- dangerous goods declaration (issued by shipper)
- packing slip (issued by seller)

- ingredient list (issued by shipper/manufacturer)
- bill of lading
- insurance certificate
- federal/state inspection certificate

To foreign markets (in addition to the above listed)

- Shipper’s Export Declaration (issued by exporter, or freight forwarder on exporter’s behalf)
- consular invoice (issued by importing country’s embassy)
- phytosanitary certificate (issued by USDA)
- import permit (issued by importing country)
- export license (issued by the U.S. Department of Commerce)
- visa (issued by importing country’s embassy)

For international shipments, be aware of all entry requirements for that country, as well as what will be required for exporting your product.

For information about what documentation you will need to ship your product, contact the respective agencies listed above or ask your shipper or freight forwarder.

Trade Terms

The International Chamber of Commerce publication called *Guide to Incoterms 1990* is the most recent official publication of INCOTERMS, or INternational COmmercial TERMS. These terms provide a standard interpretation for trade terms, such as Cost, Insurance, Freight (CIF), or Free on Board (FOB). For the official list of terms with definitions, see *Appendix C* at the end of this book, or obtain a copy of the *Guide to Incoterms 1990* from:

ICC Publishing Corporation
156 Fifth Avenue
New York, NY, 10010
Tel: (212) 206-1150
Fax: (212) 633-6025

Packing Your Product for Shipping

There are four main problems to consider when packing for export: breakage, weight, moisture, and pilferage (Axtell, 1994). Consolidating your shipment into the fewest number of packages, i.e., boxes, pallets, containers, and so forth, can provide you with several benefits:

- lower rates
- less handling of your packages (1 crate vs. 20 boxes)
- more protection from the weather
- better security (more difficult for a thief to carry away a larger piece)
- less damage (you load the individual boxes/containers, therefore less damage)

Depending on the size of your shipment and the mode of transportation, there are various container options. See

Tables 2 and 3 for air and ocean containers available for shipment from Hawaii.

Hints for Shipping Your Product

There are many things to consider when shipping your product. The following information provides some hints to help you keep costs down and maintain your competitiveness.

Getting a Rate Quote

Whether you are shipping by air or sea, freight rates can vary depending on the commodity being shipped, its value, the level of service provided, destination, weight,

and seasonal variations in demand for cargo space. In order to make a true comparison of transportation rates and services, you must assemble the following information before asking for a rate quote:

- name/type of commodity
- origin and destination of product (some freight companies will ask you for zip codes)
- pickup and/or delivery required
- gross weight of product
- cubic feet or dimensions of containers
- freight charges collect or prepaid
- insurance, or declared value

Table 2. Air Freight Containers*

TYPE	OWNER	PARTICIPATING CARRIERS (INFORMATION PROVIDED BY CARRIERS)	CORRESPONDING IATA CONTAINER CLASSIFICATION	CUBIC CAPACITY	EXTERNAL DIMENSIONS AND CUBIC DISPL.	WEIGHT		HANDLING FEATURES FOR SHIPPERS	
						MINIMUM CHARGEABLE POUNDS	MAXIMUM GROSS WEIGHT		
M-1	Airline Provided (available at 747F cities)	AC, AF, AZ, BA, CI, CX, FM, JL, KE, KL, KZ, LH, NW, PK, QF, RG, SK, SN, SR, SV	Type 2	572 cu. ft.	L 125 in. W 96 in. H 96 in. cu. displ. 666 cu. ft.	4,400	15,000	Picked up or delivered on conventional truck trailer chassis.	
M-2	Airline Provided (available at 747F cities)	AF, FM, JL, LH	Type 1	1077 cu. ft.	L 240 in. W 96 in. H 96 in. cu. displ. 1286 cu. ft.	12,363	25,000	Picked up or delivered on conventional truck trailer chassis.	
A-2 A-3	Airline Provided (available at freighter cities)	LH AQ, AZ	CO1 CO2	cu. capacity 440 cu. ft.	L 88 in. W 125 in. H 87 in. cu. displ. 475 cu. ft.	3,200	12,500	Daily Transporters Available Can be Pallet & Net	
L-2	Airline Provided	CI, CP, DL, ET, GF, LA, RG		120 cu. ft.	L 47 in. W 60.4 in. H 64 in. cu. displ. 134 cu. ft.	900	2,700	Varies Consult Air Carrier	
L-3	Airline Provided (available at 747, DC-10 and 11011 cities)	AA, AC, AF, AY, AZ, BA, CI, CO, CP, CX, DL, EI, FM, GA, GF, HA, HP, IB, IR, JL, JU, KE, KL, KQ, KZ, LA, LH, ME, NH, NW, NZ, PR, PK, QF, RG, SK, SN, SR, SV, TN, TP, TW, UA, VA	Type B	150 cu. ft.	L 79 in. W 60.4 in. H 64 in. cu. displ. 166 cu. ft.	1,100	3,500	Daily Transporters Available	
L-7 L-9	Airline Provided (available at 747, DC-10 and 11011 cities)		Type 5	355 cu. ft.	L 125 in. W 88 in. H 64 in. cu. displ. 401 cu. ft.	2,800	13,300	Daily Transporters Available	
L-11 L-5	Airline Provided (available at 747, DC-10 and 11011 cities)	AA, AY, BA, CO, CP, DL, FA, GF, JL, JU, LA, NH, NZ, SR, TN, TW, UA, AC, NH, SR, TW	Type 6	cu. capacity 265 cu. ft.	L 125 in. W 60 in. H 64 in. cu. displ. 265 cu. ft.	1,800	7,000	Daily Transporters Available	
D	Shipper Provided		CO8, CO9, COJ	(insert for "A")	(insert for "A") L 58 in. W 42 in. H 45 in. cu. displ. 63.44 cu. ft.	varies	500	2,000	Forkable
E	Shipper Provided		CO5		L 42 in. W 29 in. H 25.5 in. cu. displ. 17.97 cu. ft.	varies	130	500	Side Handles Recommended
E-H	Shipper Provided		CO5 (E)		L 35.4 in. W 21 in. H 21 in. cu. displ. 9.03 cu. ft.	varies	100	250	Consult Air Carrier
L-N	Shipper Provided		CO7	(insert for L-3)	(insert for L-3) L 56 in. W 55 in. H 57 in. cu. displ. 1,016 cu. ft.	varies	900	3,160	Forkable

Source: OAG-Official Air Cargo Guide, September 1995 Supplement

*Size and weight capacities may vary with carriers, but these are the basic dimensions of containers used in Hawaii. (Dimensions and weights are approximate and may vary slightly between airlines)

- transit time to determine mode of transport or type of service (e.g., “Next Day,” “2nd Day,” “Deferred,” “Ground Service,” “Economy,” etc.)
- agricultural declarations and clearance
- special handling (e.g., dangerous goods declaration, refrigeration, dry-ice, Shipper’s Export Declaration, certificate of origin, etc.)

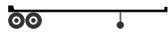
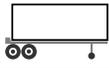
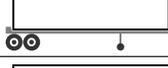
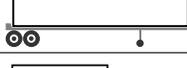
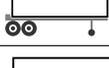
When asking for a freight quotation, ask for a confirmation of the quote via fax. The carrier will usually give you a price per pound or per kilo and specify a minimum weight or charge and whether the price includes a pickup or delivery or just port-to-port. Your final invoice from the carrier may vary depending on how accurate your

weights and measurements were when originally obtaining the quote. You may also be charged extra for documentation, insurance, special pickup or delivery, fumigation, dock or wharfage charges, and special handling such as inside delivery, cranes, additional personnel, and waiting time, among others.

Consider Currency

Shipping rates can vary with changes in currency values. For example, ocean rates to Asia include a combination of a tariff plus a currency adjustment factor (CAF), and the CAF fluctuates with the value of the Japanese yen. If the yen is strong, the rate goes up. In recent years, the strength of the yen has increased shipping charges by as

Table 3. Ocean Freight Containers

TYPE		CUBIC	DIMENSIONS	WEIGHT		FEATURES
				TARE WEIGHT (lbs)	MAX. GROSS WEIGHT (lbs)	
24' Flatbed		-	External L 24' W 8' H 8'-6"	-	45,300	
40' Flatbed		-	External Dims. L 40' W 8' H 6'	-	56,950	
20' Dry Standard		1171 cu. ft.	External Dims. L 20' W 8' H 8'-6"	4,890	46,020	
24' Dry Standard		1422 cu. ft.	External Dims. L 24' W 8' H 8'-6"	5,930	46,570	
24' Dry High-Cube		1598 cu. ft.	External Dims. L 24' W 8' H 9'-6"	6,750	48,250	
40' Dry Standard		2387 cu. ft.	External Dims. L 40' W 8' H 8'-6"	8,490	58,710	
40' Dry High-Cube		2684 cu. ft.	External Dims. L 40' W 8' H 9'-6"	9,612	57,588	
45' Dry High-Cube		3042 cu. ft.	External Dims. L 45' W 8' H 9'-6"	10,000	57,200	
24' Reefer		1200 cu. ft.	External Dims. L 24' W 8' H 8'-6"	8,240	46,750	temperature settings from -18° C. to 20° C.
40' Reefer		2069	External Dims. L 40' W 8' H 8'-6"	9,610	57,590	temperature settings from -18° C. to 20° C.
YB "G" (CP)		218 cu. ft.	External Dims. L 5'-8" W 7'-1" H 6'-8"	1,700	8,000	
YB "H" (CP)		1,120 cu. ft.	External Dims. L 20' W 8' H 8'-6"	5,000	40,000	
YB Reefer (CP)		955 cu. ft.	Internal Dims. L 18' W 7'-5" H 7'-5"	6,764	38,034	temperature settings from -18° C. to 20° C.

CP= carrier-provided container; SP= shipper-provided container

Note: Remember that these shipper-loaded containers must also be picked up by your customer at its destination and they must have the proper facility and equipment to unload the container.

Source: Young Brothers Ltd. and Matson Navigation Company

much as 40 percent. Be careful when you quote your customer a CIF (cost, insurance, and freight) price, because shipping charges could change often. Make sure that you get a faxed confirmation of the rate quoted with the date and how long the quote is good for.

Freight Charges: Prepaid vs. Collect

When shipping your product, it is usually better to ship prepaid, or paid in advance, rather than collect, or paid after the buyer receives your product, because you can avoid many unseen charges.

Carriers normally charge a service fee for collecting from the consignee (buyer) and then having to remit the funds back to Honolulu. A drawback to this is that if you quote a price to your customer CIF to destination, the product is still the shipper's responsibility in the event it is lost or damaged. If it is shipped collect, the consignee resumes responsibility for the shipment in the event it is lost or damaged en route.

A word of caution: When shipping freight collect, you must be sure that the consignee is aware of the shipment and will pay the freight charges. If a consignee refuses to pay for the shipment, U.S. laws allow the carrier to go back to the shipper for charges. If you cannot find another buyer for the shipment, you may also have to pay to get it returned. You should always allow the buyer to select the carrier if they are paying the freight charges, but you can offer suggestions.

Special Shipping Requirements

When shipping products with special shipping requirements, you must make prior arrangements with the carrier. For example, if you're shipping a product that may absorb odors, don't ship with odor-producing products. Also, if you are shipping a product that is sensitive to heat or cold, be aware of temperatures at origin, destination, and connecting cities, and try to arrange some protection for your product. You can use temperature recording devices that monitor the temperature inside a container throughout the shipping process.

When shipping perishables via ocean freight, you can arrange a temperature for frozen products or chill products. But when shipping perishables by air, your product must be packed with dry-ice or gel-ice to keep it cool because *your product may be taken out of the carrier's refrigerator up to two hours before the flight and placed in a refrigerator at destination up to two hours after arrival*. Also, if your shipment must connect to another flight, it will be left unrefrigerated between flights for *as much as five hours*. Consult with your carrier as to the amounts of dry/gel-ice needed. Special insulated containers may be available from your carrier or rented from container companies (see the section on *Suggested Resources* at the end of this chapter).

Special Commodity Rates

Some carriers have discount and "spot" (short term) rates for special commodities. For example, Young Brothers, Ltd. offers a 30 percent tariff discount for Hawaii products. And most carriers give discount rates for chocolate-covered macadamia nut candies, as well as pineapples and papayas. Also, if you belong to the Hawaii Florist and Shippers Association, you can get a discounted rate for shipping cut flowers on Federal Express. (These offers are subject to change without notice). It really pays to inquire about these special rates. Recently, a shipment of *spirulina* was shipped to Pusan, Korea under a special commodity rate and the freight charge was half of the regular charge. You should ask your carrier which discount rates apply to your product and situation.

Which Weight?

Carriers may have different ways of determining the chargeable weight of your product. Carriers compute freight charges based on actual weight or dimensional weight (usually whichever is greater). For example, a box 24" x 12" x 12" (length x width x height) weighing only 10 lb may be charged by one company for the actual weight of 10 lb or by another company for the dimensional weight. For dimensional weight, carriers divide the dimensions of your package (which may include the pallet that it's on) by a differential weight factor (DWF), which can vary greatly between carriers. Furthermore, some carriers have minimum charges. You may be quoted a price of \$1.00 per pound for your shipment, but the minimum charge could be \$35.00. So, you should compare these methods of charging before deciding on a carrier.

Be sure to pack your product with minimum air space to keep your air or ocean shipping costs down, and use the smallest pallet size possible. Consult with your carrier when designing your product's package.

Tracking Your Product

It will be less stressful if your carrier has a quick system of tracking and tracing your product to its final destination. Be sure to get a faxed confirmation of your "tracking number" and price quote before shipping.

Insurance

Depending on your arrangement, either you or the buyer must obtain insurance for the shipment. If the shipment is sent CIF, the seller is responsible for obtaining cargo insurance. Here are some options for the seller:

- obtain insurance through a marine cargo insurance agent or the seller's freight forwarder
- find an insurance company that has experience in insuring your product

A minimal amount of insurance is provided by the carrier, but it usually does not cover the value of the shipment (Gray and Welby, 1995). In any case, be sure you have “warehouse-to-warehouse” insurance. As with freight rates, you can find better deals and service by shopping around for your insurance.

Suggestions for Faster Customs Clearance

Along with having the proper documentation, you may want to keep the following information in mind, so you can get your products through customs a little faster:

- include all information required on customs invoices, and make sure it matches the information on the packing list
- show a detailed description on the invoice of each item of goods contained in each individual package
- clearly mark each package with the name of the shipper, consignee, country of origin, reference number, weight information, handling instructions, port of entry, and final destination
- make sure invoice and labeling are legible (e.g., allow sufficient space and use waterproof ink)
- be sure to comply with the provisions of any special laws and regulations that may apply to your products

For international shipments, there may be other requirements that you should find out about and comply with, in order to ensure a speedy customs clearance.

Getting Paid

You are in business to make a profit, right? For this reason, you should take all necessary steps to make sure you get paid in full and on time (see Table 1 in the chapter on *Exporting Your Hawaii Product to a Foreign Market* for methods of payment). U.S. laws offer you some protection in collecting from a customer in the USA, but it is very difficult to collect in many foreign countries. Therefore, many shippers choose to ship products only after payment is received in full or if ordered under terms of an Irrevocable Letter of Credit (L/C). A Letter of Credit is a commitment or promise from the buyer’s bank to pay the seller once the seller has met all of the terms and conditions of the letter of credit. An irrevocable L/C means that once an L/C is issued to you, the payment cannot be cancelled or the terms changed without your approval (Axtell, 1994).

If you follow the terms and conditions of the L/C, you can take the required shipping documents to the bank and they will transfer the money to you. Look carefully at the following points on the L/C:

- air or ocean freight
- ship via a specific carrier
- “yes” or “no” to partial shipments
- freight prepaid or collect

- number of copies of Air waybill (AWB), Bill of lading (BL), and invoice required
- consignee’s name on BL/AWB (usually the name of your customer’s bank)
- accountee’s name (your customer)
- shipping deadlines (expiration date of L/C)
- what documents are required to receive payment

It is important to read the fine print of the L/C and follow the instructions explicitly or you may have trouble collecting your money. Consult with your banker for more advice on this matter.

The Role of a Freight Forwarder

As you can see, the transport process is very complex. Fortunately, there are companies that can handle most of the tasks associated with transporting your product. A good freight forwarder can also provide you with information about transporting and answer many questions that you may have. Roger Axtell provides this list of services that a typical freight forwarder offers:

- worldwide air and ocean quotations
- air and ocean direct emergency service
- air and ocean consolidations
- cargo booking acknowledgments
- preparation of U.S. required export documentation
- international country requirements and legalization services
- personalized magnet inspection
- monthly inventory report
- monitoring and expediting shipments
- letter of credit consulting, preparation, and banking
- warehousing and container loading on premises
- export crating and packing services
- freight labeling
- electronic data interchange capabilities
- air freight charters and ocean projects division
- airline pallet building
- advance all costs and provide one invoice
- in-house export seminars

In addition, freight forwarders are not bound to any one carrier, so they may be able to change the routing of your shipment to reduce delays.

The Bottom Line

When shipping your product, it is important to work with a professional who knows the business well. If your product arrives at its destination in poor condition, then your final customers may assume that your company does not produce quality products and they may choose to buy from your competitor. Be sure that you follow all of the necessary steps to transport your product properly to ensure the greatest chances of success.

Suggested Resources

Air Cargo Association of Hawaii
P.O. Box 30327
Honolulu, HI 96820

Axtell, Roger E. 1994. *The Do's and Taboos of International Trade*. John Wiley and Sons, Inc.

Envirocontainer Leasing Company

Leases insulated shipping containers and sells packaging products for perishables.
Tel: (800) 227-8298/(619) 232-1935

Gray, M. Elizabeth, and Ellen M. Welby. 1995. *A Business of Details: Exporting High Value U.S. Agricultural Products*. Video and booklet. USDA, Agricultural Marketing Service. Tel: (202) 690-1304.

Welby, Ellen M., and Brian M. McGregor. 1993. *Agricultural Export Transportation Workbook*, USDA, Agricultural Marketing Service. Agriculture Handbook #700. Tel: (202) 690-1304.

List of airlines with 2-letter codes

AA	American Airlines
BR	Eva Airways
CB	American International Airways
CI	China Airlines
CO	Continental Airlines
CP	Canadian Airline International
DL	Delta Airlines
FM	Federal Express
5X	United Parcel Service
GA	Garuda Indonesian
HA	Hawaiian Airlines
JL	Japan Airlines
JN	Rich International Airlines
KE	Korean Air
NW	Northwest Airlines
NZ	Air New Zealand
OZ	Asiana Airlines
PR	Philippine Airlines
QF	Qantas Airways
TW	Trans World Airlines
TZ	American Trans Air
UA	United Airlines

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How Quarantine Regulations Affect Importing and Exporting of Agricultural Commodities

Larry Nakahara
Hawaii Department of Agriculture

One of the exciting opportunities for entrepreneurs in Hawaii is importing or exporting plants and animals to fill market demands. However, in order to preserve the natural ecosystems of Hawaii and the destinations through or to which products are being shipped, local, State, Federal, and foreign country officials have set up quarantine regulations to keep pests out. These pests can be some plant or animal you want to export/import or they can be plants or animals that hitchhike a ride with your product during shipping. Common pests include insects, snails, slugs, snakes, birds, weeds, or diseases.

In order for the Hawaii Department of Agriculture (HDOA) and the U.S. Department of Agriculture (USDA) to keep Hawaii or product destinations free from pests, we perform certain visual and laboratory tests on products and have you fill out certain forms. In some cases, you can self-certify your product once you have been properly trained. Understanding these processes and adhering to them will make life easier for your business. Contact us at the numbers given below and we will help explain any questions about our procedures you may have. *Please note that the information provided is subject to change without notice.* Contact your local Plant Quarantine office for the most current information.



Import Requirements

General Information

Hawaii's ecosystem is complex and fragile, and great efforts in the area of quarantine have been made to maintain this balance of nature. Hawaii Department of Agriculture's plant quarantine program regulates the entry of all plants, non-domestic animals (e.g., aquarium fishes, pet birds, aquaculture products, and insects), and microorganisms (e.g., algae, bacteria, fungi, protozoa, and viruses) into Hawaii from the U.S. mainland and foreign areas. The USDA regulates the introduction of plants, plant products, animals, and animal products, including meats, into the U.S. (i.e., Hawaii) from foreign countries. A list of allowable microorganisms and non-domestic animals that can be imported is found in

Chapter 4-71, Hawaii Administrative Rules, in the section Non-Domestic Animal and Microorganism Import Rules. The rules can be obtained from your local library or by calling any State plant quarantine office at the numbers listed at the end of this chapter.

All agricultural items require inspection upon arrival into the State before shipment is released to the importer to ensure that they are free of pests or will not become pests themselves. All companies transporting agricultural items to Hawaii must notify the plant quarantine inspector of these items and ensure that all items, including cargo and mail, are available until the inspection is completed.

Permits

Hawaii Department of Agriculture's Plant Quarantine Office requires that all microorganisms and non-domestic animals and some plants have import permits *prior* to entry into Hawaii. Many animals and microorganisms are restricted or prohibited. Permit applications may be obtained from any State plant quarantine office.

Agricultural Declaration Form

If you're flying to Hawaii from the U.S. mainland, you are required to declare your agricultural materials (plants, animals, microorganisms, soil) on the Agricultural Declaration Form which will be given to you while you're in flight to Hawaii. Present those items that you declare to the plant quarantine inspector in the port baggage claim area upon your arrival.

For visitors from a foreign country, you are required to declare any agricultural material on your Customs Declaration Form. U.S. quarantine inspectors will be in the baggage claim areas to examine your agricultural materials.

Plant Guidelines

All plants, plant parts, and animals must be inspected upon entry. The following items require permits and/or treatment certificates or quarantine:

- sugarcane, bamboo, and grasses
- fruits, plants, and parts of pineapple and bromeliads
- coffee plants, seeds, green beans, and used coffee bags
- roots of turnip, rutabaga, radish, and horseradish
- orchid plants and parts for propagation
- passion fruit plants and parts
- evergreen pine plants and parts
- coconut plants and parts

- corn on the cob, plant parts of corn, broom corn, sorghum, and sudan grass
- palm plants and seeds
- Florida fruits and berries (hosts of Caribbean fruit fly)
- banana plants and parts
- noxious weeds (chapter 4–68, Noxious Weed Rules)
- sand, soil, or earth

Animal Guidelines

Some animals are allowed into the State, while others are not. The following are *prohibited* from entry or possession by private individuals:

- | | |
|--------------------|----------------------|
| • alligators | • bulbuls (bird) |
| • coconut crabs | • electric catfishes |
| • ferrets | • gerbils |
| • hamsters | • hermit crabs |
| • honey bees | • lion fishes |
| • land snails | • monk parakeets |
| • lorries (bird) | • snakes |
| • piranhas | • toucans |
| • snapping turtles | • wolf-dog hybrids |

Microorganism Guidelines

Some cultures of microorganisms and microbial products are allowed for sale, while others are restricted for research or other laboratory uses only. This does not apply to microorganisms that are used in food, beverages, pharmaceuticals, or are on or in man or other animals, or are used in microbial products that are exempted by rules.

Labelling

All agricultural parcels entering the state must be clearly labeled as follows:

- “LIVE PLANTS” “FRESH FRUIT” “FRESH VEGETABLES” “SOIL” “LIVE ANIMALS” “LIVE MICROORGANISMS” and
- “MAY BE OPENED AND FOR AGRICULTURAL INSPECTION”

Invoice

The invoice must show the exact contents of the parcel or container by listing the name and quantity of the item.

Penalties

Any person who owns, transports, or possesses a restricted (without a permit) or prohibited organism may be found guilty of a misdemeanor and:

- be fined \$500–\$25,000
- be imprisoned for up to one year in jail, and
- be required to pay all costs relating to the recapture or eradication of the pest

Anyone with information or knowledge about illegal species in Hawaii is asked to call the Hawaii Department of Agriculture’s Pest Hot line at (808) 586-PEST (7378).

Interisland Requirements

General Information

State plant quarantine’s interisland inspection and certification program helps prevent the spread of agricultural pests from one island to another. Many pests are found on one island but not the others. You should have your plants and animals inspected at the nearest plant quarantine office before flying to the neighbor islands.

Plant and Animal Guidelines

Examples of these guidelines and restrictions include, but are not limited to:

- Banana plants cannot be moved from Oahu and parts of the Big Island, to prevent the spread of banana bunchy top disease, which could destroy Hawaii’s \$5 million banana industry. Diseased plants are stunted and don’t produce fruit
- Taro plants and dasheen cannot be moved from the Big Island and parts of Oahu, because they harbor the taro root aphid, which is one of the most destructive insect pests to these crops. The insect sucks the sap from the roots, thereby resulting in smaller and weaker plants
- Papaya and cucurbit plants from Oahu and the Big Island cannot be brought to other islands because they carry the papaya ringspot virus, which is devastating the industry. The disease causes blemishes on the fruit, making it unmarketable, and serious infestation leads to destruction of the plant
- Asiatic clams on Kauai, Maui, the Big Island, and Oahu cannot be moved between islands because these clams clog pipes, thereby hindering irrigation systems
- Bulbuls, which feed on fruits and flowers, are found only on Oahu and cannot be moved from that island, to prevent this pest from damaging fruit and flowers on the other islands. Hawaii’s floral and fruit industries (excluding pineapple) have a combined value of more than \$91 million, annually.

Export Requirements

General Information

Every state and country has written guidelines concerning the export/import of plant and animal materials. By meeting the destination’s requirements, Hawaii exporters are able to bring their products to these new markets without delays or rejections, resulting in Hawaii’s products reaching their destinations fresher and in higher quality.

The Hawaii Department of Agriculture plant quarantine program certifies the export of nursery products (propagative plants) to the U.S. mainland and to certain

foreign countries. The USDA works with us and certifies the export of cut flowers, foliage, and fruits from Hawaii to the U.S. mainland and propagative plants to most foreign countries. As Federal cooperators, State plant quarantine inspectors enforce Federal regulations. Hawaii exporters of plant material and produce should contact the USDA and the State plant quarantine office for specific inspection requirements of their products *before* they even grow or buy them.

USDA Requirements

Anyone who has traveled to the U.S. mainland is familiar with the mandatory USDA baggage inspection at the airports for agricultural materials. Hawaii's exporters of plant materials are also required to have their products inspected. Certain products may need treatment, while others may be prohibited from being shipped entirely. USDA inspectors look for certain insects, host material of these insects, and for sand, soil, or earth moving to the U.S. mainland.

Cut Flowers, Foliage and Certain Types of Produce

A compliance agreement with USDA can be entered into for limited permits on certain commodities. By agreeing to comply with all the requirements, these permittees are allowed to self-certify their products, thus eliminating the need for inspectors to check each of their shipments. All other non-certified material must be inspected.

Permitted Into the Mainland After Inspection

The following items are permitted into the U.S. mainland after inspection:

- beach sand
- coconuts
- dried decorative arrangements
- dried seed
- fresh flowers, leis, and foliage (except gardenia, jade vine, mauna loa, and rose).
- pineapples
- plants and cuttings if certified
- sea shells
- seed leis and seed jewelry
- wood roses

Prohibited Into the Mainland

The following items are NOT permitted into the U.S. mainland:

- berries of any kind, including coffee berries
- cactus plants or parts
- cotton and cotton bolls
- fresh flowers of gardenia, jade vine, Mauna Loa, and rose
- fruits except those on other lists
- live insects and snails

- plants in soil
- rose plants or parts
- seeds with fruit clinging and fresh seed pods
- soil
- sugarcane
- swamp cabbage (ong choy)

State Requirements

Hawaii Department of Agriculture inspectors manage the self-certification programs listed below. All other non-certified material must be inspected *prior* to transport.

Nursery Plants

State plant quarantine has a self-certifying program for nursery plants under a Burrowing Nematode Certification Program and the Orchid Nursery Certification Program.

Cut Flowers and Foliage

A California-Hawaii Origin Inspection Program also allows cut flowers and foliage to be shipped to the State of California under self-certification by certified grower/shippers under a three-party agreement.

Contact Numbers

State Offices

State plant quarantine (PQ) offices can be reached at:

- Oahu:** PQ Station, Tel: (808) 586-0844
Airport, Tel: (808) 836-3827
- Maui:** PQ Station, Tel: (808) 871-5177
Airport, Tel: (808) 872-3848
- Molokai:** PQ Office, Tel: (808) 567-6891
- Hawaii:** Hilo PQ Station, Tel: (808) 933-4445
Keahole Airport, Tel: (808) 326-1077
- Kauai:** PQ Station, Tel: (808) 241-3413

Federal Offices

For additional information on U.S. Department of Agriculture requirements, call the following:

- Imports: Honolulu International Airport Office
Tel: (808) 861-8490
- Exports: Honolulu International Airport Office
Tel: (808) 861-8494

The Bottom Line

Supplying your product to new markets can be rewarding. However, in order to keep environments safe and work within the law, you need to be aware of and comply with all quarantine regulations.

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Going Commercial with a Kitchen Recipe

You have just come up with a great recipe for a new food product and you would like to go commercial with it, so how do you do it? This abbreviated guide will help you (food entrepreneurs) to get started and set up your kitchen to meet health and manufacturing standards¹, as well as to document and standardize your product formulation so that you can maintain a consistent and quality product. For detailed information about marketing your product, there are good books listed at the end of this chapter.

It is assumed for this chapter that you have identified the market that will buy your product, so no discussion will take place on market reconnaissance. Yet this is not to say it is not important. On the contrary, this is a typical stumbling block for manufacturers of any size. The general rule of success for new food products is—*first* identify the needs of consumers in a particular market, and then develop a quality product to satisfy the need. If you've done the latter part first you may need to hold off on product formulation until more information about your target market is gathered. Concurrently, you will need to think about the following:

Initial Considerations

In preparing your product to satisfy a need, it is best to work through the planning process in a methodical manner. You will need to consider the following:

- product state (e.g., shelf stable, refrigerated, frozen, warmed, or others)
- product packaging (e.g., glass, plastic, multifold, paper/foil/plastic, or others)
- expected shelf life of product (i.e., what consumers expect)
- expected ex-factory and retail price of packaged product (i.e., what consumers are willing to pay)

Establishing a New Commercial Kitchen or Bringing Your Kitchen Up to Code

All food products that are distributed for public consumption within the State of Hawaii shall be produced in a commercial kitchen approved by the Sanitation Branch of the Hawaii Department of Health. Food products in interstate commerce shall be under the jurisdiction of the U.S. Food and Drug Administration, and of the U.S. Department of Agriculture for meat and poultry products. All thermally processed low-acid and acidified foods in hermetically sealed containers shall comply with the regulations described in the Code of Federal Regulations Title 21, Parts 113 and 114 (21 CFR 113, 21 CFR 114).

In addition, an operating supervisor, who has successfully completed the *Better Process Control School*, shall be present at all times during the manufacture of all thermally processed low-acid and acidified foods in hermetically sealed containers. The *Better Process Control School* is offered annually by Food Technology Extension of the University of Hawaii at Manoa. Approximately two dozen universities on the Mainland also offer this FDA-approved certification course at different times of the year. For more information, contact the proper food authorities or Food Technology Extension in the College of Tropical Agriculture and Human Resources at the University of Hawaii.

Conversion of Your Kitchen Recipe to a Commercial Operating Formula

For commercial-scale development, your recipe should be written as a commercial formula. It is recommended that during production, ingredients be weighed instead of measured in volumes for increased accuracy and precision and, therefore, consistent quality.

Ingredients and their respective weights are listed in one column, in the same order of product manufacture. The corresponding percent weight by weight (% w/w) of each ingredient is then calculated in another column. The corresponding volumes of each ingredient may also be written in another column. As an example, here is a fictitious formula:

Guava Drink (Example only)

batch size:	174.44 lb or 20 gal		
density:	8.722 lb/gal		
brix*:	11.5 °Brix		
Ingredient	Weight (lb)	Formula (% w/w)	Volume gal ml
Water	125.52	71.96	15.41
Citric acid	0.18	0.10	
Guava puree, 7.5 °Brix	30.72	17.61	3.58
Sugar	17.87	10.24	
Color (FD&C Red 40)	0.15	0.09	57.5
Total	174.44lb	100.00%	

*brix: a unit of measure to denote approximate concentration of sugar in solution.

To test the accuracy and precision of the conversion, the commercial product formulation is prepared first as a small batch. Appropriate modifications may then be made to meet product quality specifications (such as color, taste, odor, and other characteristics) and safety considerations. After all modifications are made, the final commercial operating formula is the result.

Standard Manufacturing Procedure

When scaling up your production capacity or batch size, you will often need to work with quantities of ingredients in larger proportions, e.g., hundreds rather than tens of pounds. Working with larger quantities of ingredients has advantages for cost and convenience, but they also need appropriate handling, storage, and equipment.

One way to ensure quality consistency when using bigger batches is to write down every step in the manufacturing process. This is called the Standard Manufacturing Procedure (SMP) and accurately describes how a product should be prepared, step by step. The SMP is similar to a kitchen recipe. Factors, however, that will affect the product's safety or quality, such as critical control points, analytical tests, as well as specific processing equipment, packaging materials, and other considerations, should be included in each manufacturing step. A simple SMP for the Commercial Product Formulation described earlier might be as follows:

Standard Manufacturing Procedure - An Example

Guava Drink (Example only)

batch size: 174.44 lb or 20 gal
 density: 8.722 lb/gal
 brix: 11.5 °Brix

- 1 Clean the entire system thoroughly. Rinse all food contact surfaces with 40–50 ppm chlorine solution.
- 2 Drain system.
- 3 Measure water in a 35 gal stainless steel kettle. Start the mixer and agitate the product.

Ingredient	Weight (lb)	Formula (% w/w)	Volume gal ml
Water	125.52	71.96	15.41

- 4 Slowly add dry citric acid into the created vortex until dissolved. Set aside.

Ingredient	Weight (lb)	Formula (% w/w)	Volume gal ml
Citric acid	0.18	0.10	

- 5 Charge the batch kettle with guava puree.

Ingredient	Weight (lb)	Formula (% w/w)	Volume gal ml
Guava puree, 7.5 °Brix	30.72	17.61	3.58

- 6 Continue agitation until well mixed.

- 7 Add the other ingredients in the order presented and mix well.

Ingredient	Weight (lb)	Formula (% w/w)	Volume gal ml
Sugar	17.87	10.24	
Color (FD&C Red 40)	0.15	0.09	57.5

- 8 Check batch characteristics.

total batch size: 174.44 lb, 20 gal
 °Brix: 11.5
 color: typical pink
 flavor: typical guava

- 9 Continue agitation until well mixed. Pump to scraped surface heat exchangers and chill to 50 °F maximum.

- 10 Fill 8 oz. cartons.

- 11 Check °Brix: 11.5 °Brix

- 12 Check net weight: 0.55 lb/8oz.

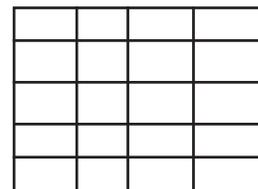
- 13 Seal the cartons.

- 14 Place in cases.

- 15 Seal and code* cases (including a UPC if necessary)

- 16 Palletize as shown. (top view)

20 cases/layer, 1 layer/unit, unit is 53 x 40 pallet.



- 17 Transport pallets to the chiller and store at 40 °F maximum.

* Product coding should include at a minimum: the product packed, name of company packing, year, date, and day packed. If there are several shifts on a particular day, it is advisable to code for each shift.

Other Characteristics Necessary for Product Quality Control

To control product quality, your product manuals should also include other sections describing the following:

Raw material or ingredient specifications (including alternative ingredients)

- all ingredients for your recipe should be purchased from a reputable commercial source (food brokers or ingredient manufacturers)
- purchased ingredients should be accompanied by a Technical Data Sheet or Product Specifications Sheet that describes the ingredient(s), their characteristics (such as color, odor, screen size, solubility, etc.), packaging, availability, storage recommendations, and other information important in product handling to maintain product quality. This Technical Data Sheet is always quoted when purchasing ingredients to ensure accuracy. Secure a Technical Data Sheet also for staple ingredients, such as flour, sugar, and salt
- ingredients should be inspected immediately upon receipt. If an ingredient different from that described in the Technical Data Sheet is delivered, product rejection or replacement is in order
- ingredients should be kept in their original containers at the proper temperature and humidity. Storage areas should be specifically used only for storage

Raw Material Suppliers

- keep a list of current and alternative suppliers

Process Flow Sheets

- it is advisable to keep a copy of the flow sheet of the manufacturing of each product on file

Ingredient Statements and Nutritional Facts

- Since May 8, 1994, the Nutrition Labeling and Information Act (NLEA) of 1990 introduced changes to the label of almost all packaged foods. The purpose was to give the consumer an easy-to-use nutrition information guide. The main requirements of a basic food label are:

- name of the product (accurate product name in English)
- net contents declaration (accurate product net weight or volume)
- ingredient statement (listing of all ingredients in a descending order of predominance by weight)
- responsibility statement (name and address of the manufacturer, packer, or distributor)
- nutrition Facts (requirements are specific and there are exemptions)
- for detailed information on Nutrition Labeling, please consult Title 21 of the Code of Federal

Regulations, Part 101 (21 CFR 101) which should be available in a public library. A copy of this CFR may also be purchased. It is also recommended that a draft of the product label be presented for review by the Food and Drug Branch of the Hawaii Department of Health before it is printed

Test methods

Use only approved official methods of the Association of Official Analytical Chemists or AOAC, including:

- pH
- soluble solids (°Brix)
- % acidity
- moisture content
- other critical points, including
 - packaging specifications
 - recommended storage conditions and shelf life

These product characteristics and requirements will take time to develop. A complete product manual, however, will allow you to continue production of the same products even with a new work force.

Record keeping

The importance of record keeping to a food processing operation cannot be stressed often enough. Each production batch should be documented. If production is continuous, there should be documentation done on a regular basis. These data should be reviewed by management at the end of each production day, signed, and kept on file. Examples of important information are:

- day and time of preparation
- product code (as described previously)
- formula followed
- changes in ingredients or ingredient suppliers
- results of analytical tests
- product characteristics
- sample products (for future reference)
- other important critical points

The Bottom Line

Some of our food laws are the strictest in the world. The safety of our foods, however, also depends on the understanding of the importance of meeting these U.S. regulations. Application of the principles and practices discussed in these regulations, even for products not covered by these regulations, only serves to increase the safety of our foods. Good cooking!

¹The U.S. Department of Agriculture and the Food and Drug Administration have decided to implement HACCP (which stands for Hazard Analysis Critical Control Point; pronounced

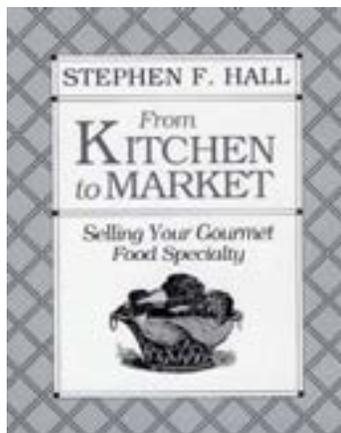
“ha-ssip”) as the food safety program for meat, poultry, and seafood. HACCP is a preventive, not reactive, management tool used to protect the food supply against biological, chemical, and physical hazards. For more information about HACCP, contact the Western Regional Office of USDA’s Food Safety and Inspection Service at 510-337-5047, or in Washington at 202-720-9113, or visit the website at www.usda.gov/agency/fsis/homepage.htm. In addition, the Food and Drug Administration’s Center for Food Safety and Applied Nutrition can be accessed at <http://www.fda.gov/>, then select Foods from the menu.

Suggested Written Resources

Chilton Company. *Food Engineering Master Catalog*. 1 Chilton Way, Radnor, PA 19089. Published annually and for sale by Chilton Company, Tel: (215) 964-4000/Fax: (215) 964-2915.

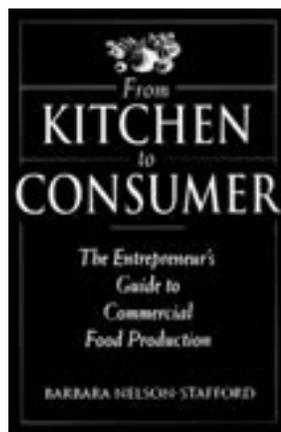
Cunniff, Patricia (Ed.) 1995. *Official Methods of Analysis of the Association of Official Analytical Chemists*. 16th Edition. Association of Official Analytical Chemists, Inc. 481 North Frederick Ave., Suite 500, Gaithersburg, MD 20877. Tel: (301) 924-7077.

Hall, Stephen F. 1992. *From Kitchen to Market: Selling Your Gourmet Food Specialty*. Upstart Publishing Co. Chicago, IL. 190 pp. Tel: (800) 235-8866.



Nelson-Stafford, Barbara. 1991. *From Kitchen to Consumer—The Entrepreneur’s Guide to Commercial Food Production*. Academic Press, Inc. San Diego, CA. 343 pp.

Office of the Federal Register National Archives and Record Administration. *Code of Federal Regulations*, Title 21, Parts 100 to 169. Washington, D.C. Published annually and for sale by the U.S. Government Printing Office. Tel: (415) 512-2770.



Suggested Organizational Resources

Cooperative Extension Service

This is the agricultural outreach arm of the U.S. Depart-

ment of Agriculture. Each Land-Grant university in the United States will have an office. In Hawaii, commercial food processors or food entrepreneurs may seek assistance from:

University of Hawaii at Manoa
Food Technology Extension
College of Tropical Agriculture and Human Resources
1920 Edmondson Road
Honolulu, HI 96822
Tel: (808) 956-8710
Fax: (808) 956-4024

U.S. Department of Agriculture
Food Safety and Inspection Service
PJK Federal Building, Rm. 6306A
Honolulu, HI 96813
Tel: (808) 541-1796

Hawaii Department of Health
The functions of the U.S. Food and Drug Administration (FDA) are administered by the Hawaii Department of Health.

Food and Drug Branch
591 Ala Moana Blvd.
Honolulu, HI 96813
Tel: (808) 586-4725
Fax: (808) 586-4729

Sanitation Branch
591 Ala Moana Blvd.
Honolulu, HI 96813
Tel: (808) 586-8000
Fax: (808) 586-4729

Institute of Food Technologists
The professional society for food science and technology.
Executive Director
221 North LaSalle Street, Suite 300
Chicago, IL 60601
Tel: (312) 782-8424
Fax: (312) 782-8348

U.S. Food and Drug Administration
300 Ala Moana Blvd., Suite 6320
Honolulu, HI 96850
Tel: (808) 541-2661
Fax: (808) 541-2678
Tel: (510) 789-3010 (San Francisco District Office)

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“Adding Value”: The Real Story

James R. Hollyer
University of Hawaii at Manoa

It is a great idea to add features, such as processing, transportation, or a service to your product to make it more valuable or desirable to customers and to try to increase your profits. The buzz word “value-added”, which is often used to describe this process, does not correctly identify this concept. “Value-added” is an accounting tool that measures the summation of all net benefits added to a product by *each* stage of the food and fiber marketing system, from production to consumption. The correct term for adding additional or desired features to a product is “adding value.”

Adding Features or Value

The important things to remember about adding features to a product are:

- it does not *guarantee* an increase in profits, and
- any profits that do result will go to the company that added the features

Value is described as “the worth of a thing in money or goods at a certain time” and “that quality of a thing according to which it is thought of as being more or less desirable” (Webster’s New World Dictionary, 1994). In business, this means that increasing “value” is not an automatic outcome of adding features to a product. If nobody wants to buy the square orange that you spent money or time growing, it has no value . . . none. For this reason, there is no *guarantee* that you will earn more profits by adding features to your product.

In addition, many growers and enthusiastic public officials feel that *adding value* to a product via processing or services will somehow magically benefit growers. The fact is that if a grower is not in the business that is adding these features to a product, then they will not necessarily be making more profits. The business that adds the features that the customers want is the one that usually makes more money—it’s as simple as that. For example, people may be willing to pay a high price for a box of rice-based breakfast cereal, but unwilling to pay much for the raw rice that is destined for a cereal factory. Therefore, the profits made from the box of cereal will typically go to the company that made the cereal, not to the rice producer.

A “Real-Life” Scenario

Here is an illustration of the process of adding value. We’ll use a grower, Patty, of Patty’s Plumerias, as an example. Patty produces pretty pink plumeria flowers, which are typically sold to lei makers, who in turn sell

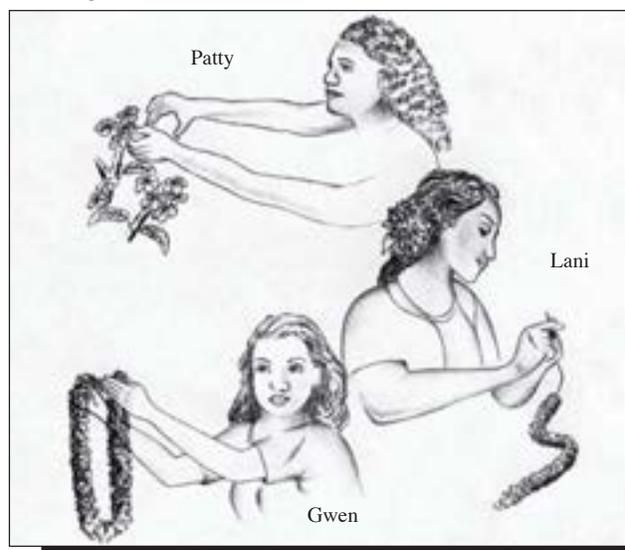
them to lei greeters at the Honolulu International Airport.

Let’s assume that it costs Patty 2¢ to produce one plumeria flower, including expected profits. Remember: Patty’s costs do not determine the price that she will receive for her product! Some people assume that just because that plumeria *costs* 2¢ to produce, then it is *worth* 2¢ to the lei makers. Wrong! Value or worth is determined by the people who are going to buy the product (as in “beauty is in the eye of the beholder”). Perhaps the flower is worth only 1.5¢ to them because they can buy it that inexpensively elsewhere. Please keep this concept in mind at all times.

For this example, we will assume that the lei makers value the plumerias at 2¢ each (the “farm gate price”), so they are willing to pay Patty a total of \$1.00 for 50 flowers. Typically, for the grower, the story ends there. She has sold her flowers and will not receive any more money, regardless of what process or service is added to increase the value of her flowers, and thus regardless of the relatively higher price that her flowers may ultimately receive.

To follow the process further, the 50 flowers are then strung into a pretty pink plumeria lei by Lani of Lani’s Lei’s. That lei is sold for \$2.25 (regardless of what it cost to produce it) to a lei greeter, Gwen. As part of a holiday package, a visitor receives that beautiful lei at the airport along with a big kiss on the cheek from Gwen of Gwen’s One-Person Lei Greeter Service. The price Gwen charges the visitor for that aloha is \$4.50 (regardless of what it cost her to deliver this service) (Figure 1).

Figure 1. Patty provides a good, and Lani and Gwen provide services



Assessment

Now let's take a look at this whole process from two perspectives, so we can understand how misconceptions occur. The two perspectives are:

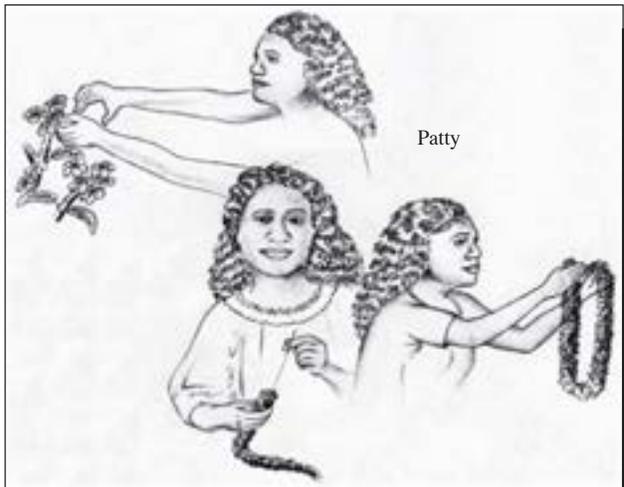
(1) Business Planner's Perspective: fifty plumerias were transformed into a product (a lei) and then into a product plus a service (the greeting), resulting in a higher price for the plumerias than they received at the farm gate, \$4.50 vs. \$1.00. Three people are employed and that is good for the economy. The planner appropriately uses the term 'value-added' in doing the accounting for the entire stream of activities, from farm to airport.

(2) Patty's Perspective: in the beginning, Patty felt angry because her \$1.00 worth of flowers was sold by Gwen for \$4.50. But, then she realized that both Lani and Gwen also spent money and time to add features to her flowers, in order to make them a more desirable product. In other words, they worked hard to market Patty's flowers. Also, Patty realized that she has two options for her business:

- not to worry about how much money Lani and Gwen are making and to concentrate all her efforts on how to sell them even more flowers, *or*
- grow the plumeria, string the leis, and go to the airport and greet visitors with a lei and a kiss; in other words, to 'vertically integrate' her business (Figure 2). This means to do many of the processing and marketing activities yourself

The difference between how the planner sees these economic opportunities and how Patty sees them are very different, but both are correct as long as they are kept in the proper context. The planner doesn't need to be concerned with who actually gets the profits—it's just important that the activity, from a tax and employment perspective, takes place. Patty has to accept the fact that someone is going to transform her flowers so they can market them at a profit, or she must get into the transfor-

Figure 2. Patty considers vertical integration



mation business and spend additional money and time to retain some of those additional profits for herself. If Patty is constantly looking on the other side of the fence, she cannot truly focus on what she does best—grow flowers.

Ideas for Adding Value

Like Patty, you have to make some decisions about your business's structure if you want to make additional profits. Vertical integration, or doing more of the processing or marketing yourself, can cost you time and money. Some ideas may not cost a lot, while others may take a considerable investment. You can go to a shopping mall and look at other products to pick up ideas. Here are a few processing and service ideas which may help you get started:

- friendly employees
- pre-cut your product and send it directly to the customer
- individually wrap and label your products
- establish a roadside stand, sell at a farmers' market, start a "pick-your-own," or a Community Supported Agriculture business
- sell directly through your own catalog (electronic or print)
- use direct mail advertising and/or coupons
- provide a money-back guarantee
- provide recipes
- provide a toll-free telephone number
- offer delivery service
- offer a newsletter
- suggestion box
- offer catering suggestions or services
- create a distinct logo or product appearance
- create a processed product with a good shelf life
- sell gift certificates
- package goods together in a multipack or gift basket
- give tours of your operation
- support a community effort

Whatever you decide, remember that you are in the driver's seat, and that can be a lot of fun!

Suggested Resources

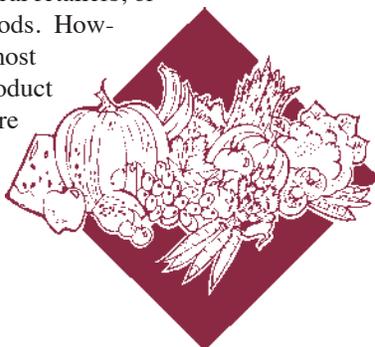
Gibson, Eric. 1994. *Sell What You Sow! The Growers Guide to Successful Produce Marketing*. New World Publishing, Placerville, CA. 304pp. Tel: (916) 622-2248.

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Marketing Your Fresh Produce to a Wholesaler

In Hawaii, producers of fresh fruits and vegetables have several ways to market their produce. They can market their products at farmers' markets, deliver their products to local retailers, or use a combination of methods. However, Hawaii's producers most commonly market their product through a wholesaler. There are approximately 30 produce wholesalers on the island of Oahu, and fewer numbers on the neighbor islands.



Role of a Wholesaler

Wholesalers perform an important function in our food distribution system. It is certain that without wholesalers, consumers would not have an affordable food supply of such variety and quality as they do. In most cases wholesalers are the master link in the marketing chain. They perform several vital tasks, which help you sell your produce and make profits. For example, they:

- provide a link between producers, retailers, and consumers
- package and grade the product
- assemble many different commodities in economically sized lots for retailers
- transport the product to numerous retailers
- provide information to producers on prices, quality, size, and variety desired
- allow producers access to a larger number of buyers

Demands of a Wholesaler

The wholesale business is highly competitive, and the success of a wholesaler depends upon their ability to satisfy the customer—also your ultimate customer! A producer who wishes to sell to wholesalers must make their job, in servicing customers, easier. Here are some things that wholesalers look for in working with a producer:

Good Quality Products

Quality sells. However, there may be instances when a wholesaler is looking for a lesser quality product in order to meet the demands of a certain market.

Grading and Branding

Many agricultural products are graded or branded. You can differentiate your product by grading and branding

appropriately. Although most wholesalers grade the products they receive, they will likely favor a supplier who consistently grades their own product or sells a graded product.

Reliability of Supply

Often wholesalers must make commitments to supply their customers in advance. A producer who fails to deliver a product at the scheduled time, and in the agreed-upon quantity, can cause the wholesaler to lose future sales.

Good Packing

The ease with which produce is handled and the condition in which it is received depend on good packing techniques and quality material. A wholesaler will tell you what they need.

Superior Service

Wholesalers prefer to work with producers who are willing to go the extra mile, such as crediting for spoiled produce when responsible, making sure deliveries are on time, or delivering extra to help a wholesaler fill an order when they are short on supply.

Consistency in the Relationship

Successful producers and wholesalers tend to establish long-term relationships with each other. These relationships are based on performance and trust. Wholesalers prefer to do business with producers who have a consistent track record in delivering high quality products at the agreed-upon time and in the agreed upon quantities.

Organized Paperwork

An efficient system of organizing your paperwork, such as invoices, contracts, and payment stubs, is extremely important. The more organized and efficient you are with your records, the easier it is for a wholesaler to do business with you, and this encourages them to continue buying your produce.

What Producers Should Know

In dealing with wholesalers, there are items that producers should know or ask about. Many questions can be answered by the wholesaler, but in certain cases you may need to ask other producers or consult alternative sources. Here are some important items to know about:

Locating a Reliable Wholesaler

It is important to find a wholesaler who will provide you with reliable service. For this reason, there are several

different places that you should look before choosing a wholesaler. The three basic locations are the phone book, The Red Book—Vance Publishing Corporation, (913) 438-0606 or (800) 252-1925, and The Blue Book—Produce Reporter Company, (708) 668-3500. The Red and Blue Books can provide you with information about a wholesaler's credit worthiness and are therefore very useful. The latter two books are expensive, but can be worth the money.

Payment Schedule

Within the produce industry it is standard practice to pay producers thirty (30) days after delivery. Wholesalers also wait thirty days to be paid by retailers.

Pricing

Initially, price is determined by supply and demand in the retail market. This price, in turn, determines the amount of revenue that wholesalers receive. Then, the wholesalers decide what revenues they need to cover their expenses, and the remainder is the price that they offer you for your product.

Purchasing Agreement

The amount offered to the supplier may vary, depending on the type of purchasing agreement that the marketplace dictates. Here are some examples of purchasing agreements that wholesalers may employ:

Consignment:

You turn your produce over to a wholesaler, without the transfer of ownership, to sell at the best price possible. You receive no guaranty about the price that you will receive or how much will be sold. For example, if you give 100 boxes of bananas to a wholesaler on consignment, he/she holds them until they sell or gives them back if they don't sell. You get paid only after the goods are sold, at whatever price was available, and the wholesaler receives a portion of the sale.

Advantages: There are very few, but someone will at least be trying to sell your produce, if you have no alternatives.

Disadvantages: (1) The grower bears all the risk of non-sale or low price; (2) In the event of a low price, the grower may not be able to cover production, packaging, and transportation costs; (3) The wholesaler has little incentive to sell your product aggressively; (4) The implication is that the grower has a weak bargaining position.

Commission:

You grant authority to a wholesaler to sell your product at the best price possible, with the understanding that the wholesaler will receive a percentage of the sales price for the service. Commission is very similar to

consignment, but commission creates greater incentives for the wholesaler to obtain a higher sales price and sell more of your produce.

Advantages: Since the wholesaler receives a percentage of the sales price, he/she has an incentive to sell your product more aggressively. In general, commission sales give the grower somewhat more bargaining power and less risk than do consignment sales.

Disadvantages: (1) The grower retains title to the product, so he/she still bears the major risk of non-sale or low price; (2) Under certain market conditions (oversupply), the net return to the grower may still not be enough to cover expenses; (3) The incentives may lead to price increases which decrease demand.

Transfer of Title:

The title to the produce is transferred to the wholesaler and the price is negotiated in advance.

Advantages: (1) Since price is negotiated before the transfer of title, risks to the grower are greatly reduced; (2) Once title is transferred, the risks and costs associated with spoilage, low price, and non-sale are shifted to the wholesaler; (3) Since price is known prior to sales, the grower can better plan his/her operations.

Disadvantages: (1) Depending upon standard industry practices, many wholesalers are unwilling to accept this type of arrangement because they will have to bear the majority of the risk; (2) In some cases, market conditions may change quickly (sudden drop in the market supply) and a grower may be unable to capitalize on any higher prices.

Credit Rating

Producers should check into the credit rating of any wholesaler that they plan to do business with. Most wholesalers in Honolulu are long established and credit worthy, but it is still a good idea to check their record at the Better Business Bureau and/or the bank of the wholesaler. You can also often obtain this information in The Red Book—Vance Publishing Corporation, (913) 438-0606 or (800) 252-1925, or The Blue Book—Produce Reporter Company, (708) 668-3500.

Commodities Handled

What types of commodities does the wholesaler handle and what kind of customers do they serve? Your product may not be a good match with the types of products or customers that the wholesaler handles. For instance, if you are producing onions and a wholesaler is distributing flowers, then it may not be an appropriate market outlet because of the conflict of scents.

Production Schedule

You will need to be aware that production schedules do

not always coincide with consumer demand, and therefore your schedule may not match the wholesaler's needs. You may decide that you are simply not compatible with certain wholesalers, because of differing schedules and other needs.

Product Standards

Find out what grades and/or quality the wholesaler needs for their customers. Often wholesalers will prefer a particular size or weight. Can you meet these needs?

Delivery Lot Size

Find out what sized lots (cases, bushels, etc.) the wholesaler prefers. Are these within your capabilities?

Packaging Demands

Find out what type of packing the wholesaler prefers. They may be specific about the use of either bags or boxes, filling material, and the type of labeling they prefer.

Flexibility

Find out if the wholesaler is willing to work with you on some of these items. The wholesaler's flexibility (or lack of it) can be an indication of the type of relationship you can establish.

Plan Before You Plant—Forecast Production

It is essential when getting into produce production that you plan how you will sell the final product *before* you plant it in the ground. This is done by talking to wholesalers about the potentials for the crop you want to grow. Once you have an established track record with a commodity and wholesaler(s), then you will want to shift into a forecast mode. The wholesaler, in making sales plans for the next week or even further down the road, may be depending on your word to deliver your crop.

How to Approach a Wholesaler

First and foremost a wholesaler will be looking for professionalism. To make a successful first impression, which may be the only one you get, you must appear serious and understanding of the market. Some areas where you can prepare yourself are:

Know Your Cost of Production

Price will obviously be very important to you and the wholesaler. If you don't know your cost of producing the product(s), you are in a poor position to indicate to the wholesalers what price levels you wish to obtain.

Know Current Market Prices

Remember that price is determined by supply and demand in the market and is not based on your cost of production. In the local wholesale market, most fruits and vegetables are based on Mainland market prices, plus transportation costs and local supply/demand conditions.

You should have a good idea about current wholesale prices for your commodities. These prices can be obtained from the Hawaii Department of Agriculture, on the Internet at <http://www.milcom.com/fintrac/prices.html> or the 24-hour agricultural market recordings at:

- Honolulu Wholesale Market (808) 973-9581
- Los Angeles Wholesale Market (808) 973-9582

Present a Business Card and/or Rolodex Card

Wholesalers are busy people and they may not remember your name. A business card enables the wholesaler to call you back. In addition, a Rolodex card is a convenient and accessible tool for the wholesaler to use as a reference.

Bring Samples

Wholesalers may want to see the quality of your product. These samples should accurately reflect your production.

Inquire About Delivery Schedules

Ask the wholesaler what type of delivery schedule is normal.

Be Clear

Be sure to get written quotes and contracts.

Be Realistic

Don't make commitments you can't keep.

Be Flexible

The wholesaler may suggest growing different commodities within your capabilities or altering your planting schedules. But again, be realistic and don't agree to something you can't deliver on.

The Bottom Line

A strong, profitable relationship is based on quality service and long-term commitment. This does not mean you will always agree. However, in most cases, a successful wholesaler is likely to have a more complete picture of the market than you and will be able to make sound suggestions based on years of experience in the market. Your "combined" success will be based on your ability to communicate with each other. So, if you have done your homework on the wholesaler's track record, you should feel comfortable taking their advice and suggestions.

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Alternative Marketing Outlets

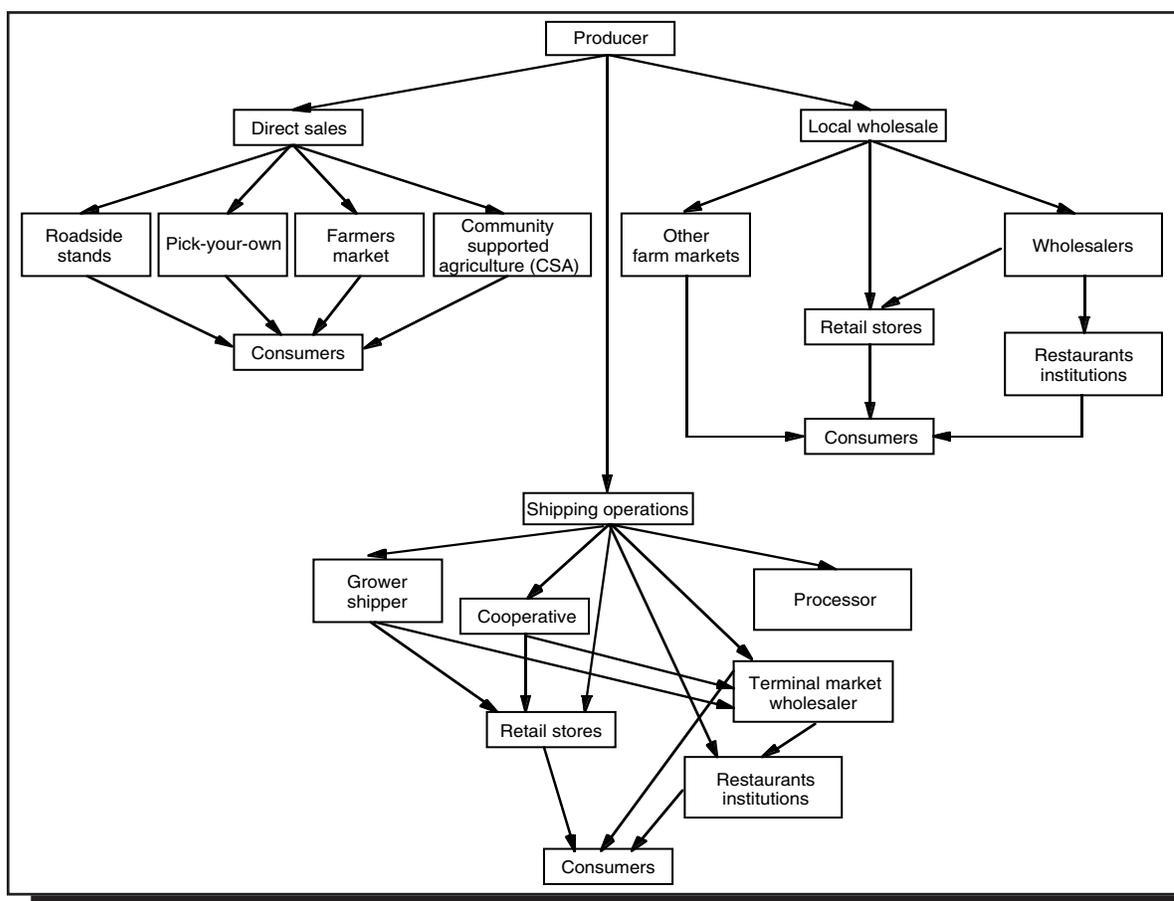
In addition to the marketing channels that most of us are used to, there are a number of other opportunities to get your product into the hands of customers (see Figure 1). These options include marketing through a pick-your-own operation, a roadside market, or a farmer's market. In addition, there is a new production/marketing hybrid business structure called Community Supported Agriculture, or CSA. These types of operations allow you to keep more of your profits by selling direct, but at the same time you are doing some of the work of a middleman, so you have less time to be a grower (see the chapter on *Marketing Your Seafood Products* for an illustration of the trade-offs). In this chapter we will discuss each of the four direct sales opportunities. We will then give a list of useful farmers' market contacts for each of the Hawaiian islands (see Figure 3). Finally, a list of resources are provided so that you can learn more about each of these opportunities.

Roadside Stands

Roadside stands can be as simple as an occasional table by the roadside or as complex as a permanent year-round structure with refrigerated show cases. Like the other direct marketing options there are both benefits and barriers and other unique features to this type of marketing (see Figure 2). Michelle Woods and Anne Zumwalt in their 1990 publication, *How to Establish & Operate a Roadside Stand*, say that the benefits include:

- cash sales, immediate payment
- more control over crop prices
- low volume is not a handicap
- use of family labor
- packing, sizing, labeling, and container exemptions in many cases
- the opportunity to test new products and receive valuable feedback from consumers

Figure 1. Various Marketing Channels Open to the Agricultural Producer



Source: After Courter, J.W. and R.B. How. 1990. "Marketing Small Fruits" in *Small Fruit Crop Management*, Galletta and Himlerick, editors.

Figure 2. Characteristics of Four Direct Market Options

Characteristic	Roadside Stand	Pick-Your-Own	Farmers Market	Community Supported Agriculture
Investment	need building or stand, parking, containers, signs, scales, coolers, etc.	less capital investment; need containers, ladders, locational signs, parking, building or stand	very little capital investment: rent parking or building space, containers, scales, bags, etc.	little capital investment
Grower liability	liability for accidents; need liability insurance	high liability insurance: liable for accidents	needs liability insurance unless covered by market	liability for accidents; need liability insurance
Other costs	need sales labor; advertising and promotional costs; some storage, packaging, and handling costs; may need to purchase additional produce	need labor for field supervisors and check-out stand; field site transportation; advertising and promotional costs	need sales labor; stall or sales fees; display costs; transportation storage, packaging, and handling costs; no advertising and promotional costs	advertising and promotional costs to sell "shares"; may have delivery and labor costs
Pricing	fairly large sales per customer; limited ability to sell large volumes; no transportation costs; no sales or broker fees	large sales per customer; no transportation costs; no sales or broker fees	smaller sales per customer; direct competition from other growers	prices are set to cover production costs, farmer wages, and return to ownership costs
Quality	can classify and sell more than one grade; can sell seconds; spoilage	no grading; can sell whatever customers pick; freshness	highest quality needed	depends on consensus of "shareholders"
Barriers to Entry	limited demand; location; road access; marketing management; zoning	limited demand; limited crops; short season; location	municipal restrictions; conflicting goals of organizers; marketing management	location - need to be near urban center
Special advantages	can be expanded to meet needs of producer; can be tailored to customer's tastes and preferences	average value of purchase per customer may be higher than at other direct marketing outlets	potential for large number of customers; low overhead; advertising done by organization	opportunity to teach urban consumers about farming
Special disadvantages	affected by weather; location may be critical	affected by weather; damage to field, trees, plants; location may be critical	time consuming; must transport produce; do not have as much control over promotion	people management and organizational skills are necessary

Source: After Young, Deborah. 1995. "Characteristics of Direct Marketing Alternatives". In the *Direct Farm Marketing and Tourism Handbook*. Arizona Cooperative Extension, University of Arizona, Tucson, AZ. 250 pp.

As with all business opportunities, there are also concerns that can temper enthusiasm. In this case they include:

- zoning restrictions
- insurance liabilities
- business licensing regulations
- health and sanitation codes
- weight and measures specifications
- fire and police ordinances
- long hours
- distraction from other farm duties
- the need to diversify
- fixed overhead, regardless of profit or crop cycles

While at first it may appear that the bottlenecks outweigh the benefits, it is recommended that you spend a little time reading more about this opportunity and talking to other roadside stand owners. You may want to talk to

stand owners outside of your area to avoid any conflict and to get a wide range of ideas.

Pick-Your-Own

In a pick-your-own or U-pick situation, your customers come to your farm, go to your field, harvest your crop, and then pay you for the produce or flowers they have harvested. In his article, "Direct Farm Marketing Options" (*Direct Farm Marketing and Tourism Handbook*, 1995), Russell Tronstad of the University of Arizona says the advantages of this type of operation are:

- you don't have to pay for a large harvesting crew
- you can reduce some of the postharvest handling of labor-intensive crops
- consumers love the opportunity to be out in the field
- consumers know your product is fresh

On the downside there are:

- insurance (see the chapter *Understanding Business Insurance*) and consumer safety considerations
- weather considerations (e.g., a rainy weekend with no customers or a sunny Sunday where customers harvest your entire crop in one day)
- damage control considerations (some crops' root systems and your irrigation systems could be damaged by foot traffic)

One of the ways to moderate some of these problems is to train people how to harvest and give those with training priority when opening your field for the first harvest day.

Farmer's Markets

The farmer's market (also called peoples' markets or sunshine markets in Hawaii)—a central, typically open-air space where growers and consumers are in direct contact—is one of the longest held traditions in agricultural marketing. Eric Gibson states in his book, *Sell What You Sow! The Grower's Guide to Successful Product Marketing*,

“farmer's markets differ from other direct marketing operations in that growers usually share insurance, advertising, and marketing costs. Farmer's markets may be operated by grower organizations, by community development groups, or by state and local governments. Facilities range from an open lot, where farmers park their vehicles and display products, to enclosed buildings with display counters, lights, heat, and refrigeration. Farmers usually pay a fee for the space occupied to cover maintenance and advertising.”

Gibson says that the advantages of this type of marketing outlet are:

- cash payment
- pride and fun of selling to people who appreciate freshness and quality
- easy and typically inexpensive for new growers to enter the market place
- prices are higher than wholesale
- exemptions for size and packing regulations are common
- little or no packaging, promotional, or advertising costs
- good customer feedback mechanism
- infrastructure, such as bathrooms and parking, are typically the responsibility of the market rather than individual growers
- insurance and other regulatory needs are usually handled by the market operators

On the other side of the coin, there are some disadvantages to this way of doing business:

- limited sales volumes (i.e., typically lower than wholesale) and limited market hours
- a great deal of time spent away from field
- sales often at the mercy of weather conditions
- space and product limitations
- political and bureaucratic unknowns
- little control over promotion and advertising

The aim with this type of operation, says Gibson, is not necessarily to sell out but to develop a steady clientele.

Presently, many of Hawaii's farmers' markets are not formally established, especially on the Big Island and Maui, but increased organization may give consumers more confidence that they can get quality produce at these types of outlets.

Community Supported Agriculture

Community Supported Agriculture (CSA), also known as “subscription farming,” is gaining popularity across the U.S. and the world. It is estimated that there are more than 400 CSA operations under way in the United States today and it is expected to grow rapidly over the next few years. There are a few of these operations in Hawaii today.

Though there are some different ways to organize a CSA effort, the basic premise is that customers buy a share in your farm's future output and share the risk of farming. To start, the grower usually assembles a potential customer base and asks them what types of produce and/or flowers they would like to buy on a consistent basis. A draft list of crops is assembled from that “wish” list, and the grower then compares that list with their abilities and their production conditions to see which ones are feasible. Finally, all “shareholders” review the pared-down list to decide on the final “market basket” for a period of time. Shareholders then pay a sum of money to the grower and production begins. When the crops are ready to harvest, the options include delivery service, pickup service, or customer harvesting. When the customers receive their products, a final sum of money is paid to the grower. The CSA concept is really all about connecting people to the land and agriculture and can have many benefits, including:

- consumer input in crop selection
- prices are set to cover costs
- “shares” are sold at beginning of season, so few up-front costs are borne solely by grower
- agritourism potential

Again, there are some items that must be considered before undertaking a CSA operation:

- CSAs near urban areas work best
- need to educate “shareholders” about farming practices
- need people skills for organization of “shareholders”

General Thoughts About Direct Marketing

We have seen that the four direct marketing options have a number of items in common, the most important of which is that you are the marketer. This means that your marketing abilities, your demeanor, and your product quality, selection, guarantee, and price will all play an important role in your success. In addition, you should start your day well prepared by having these items ready:

- a smile
- plenty of quality produce for all of your customers
- shelter
- table and chairs
- food and drink for you and your crew
- spray bottle of water to freshen-up your produce or flowers
- cash box with plenty of change
- signs for all occasions and products, such as your “boneless bananas”
- new shopping bags with your company name
- recipes, brochures, giveaways, anything to help your customers remember you
- miscellaneous “school” supplies, tape, scissors, string, calculator, receipt book, etc.
- access to a rest room facility

The Bottom Line

Direct marketing can be used alone or in conjunction with sales to a wholesaler. When you direct-market you gain an appreciation for all the people that provide the transportation, wholesaling, and retailing services you enjoy (and pay for) when not selling direct. There are some great opportunities out there, but remember—there are trade-offs in all of them.

Suggested Resources

Gibson, Eric. 1993. *Sell What You Sow! The Grower's Guide to Successful Produce Marketing*. New World Publishing, Placerville, CA. 304 p.

Lee, Andrew. 1993. *Backyard Market Gardening: The Entrepreneur's Guide to Selling What You Grow*. Good Earth Publications, Burlington, VT. 351 p.

Woods, Michelle and Anne Zumwalt. 1990. *How to Establish & Operate a Roadside Stand*. Small Farm Center, University of California, Davis, CA. 29 p.

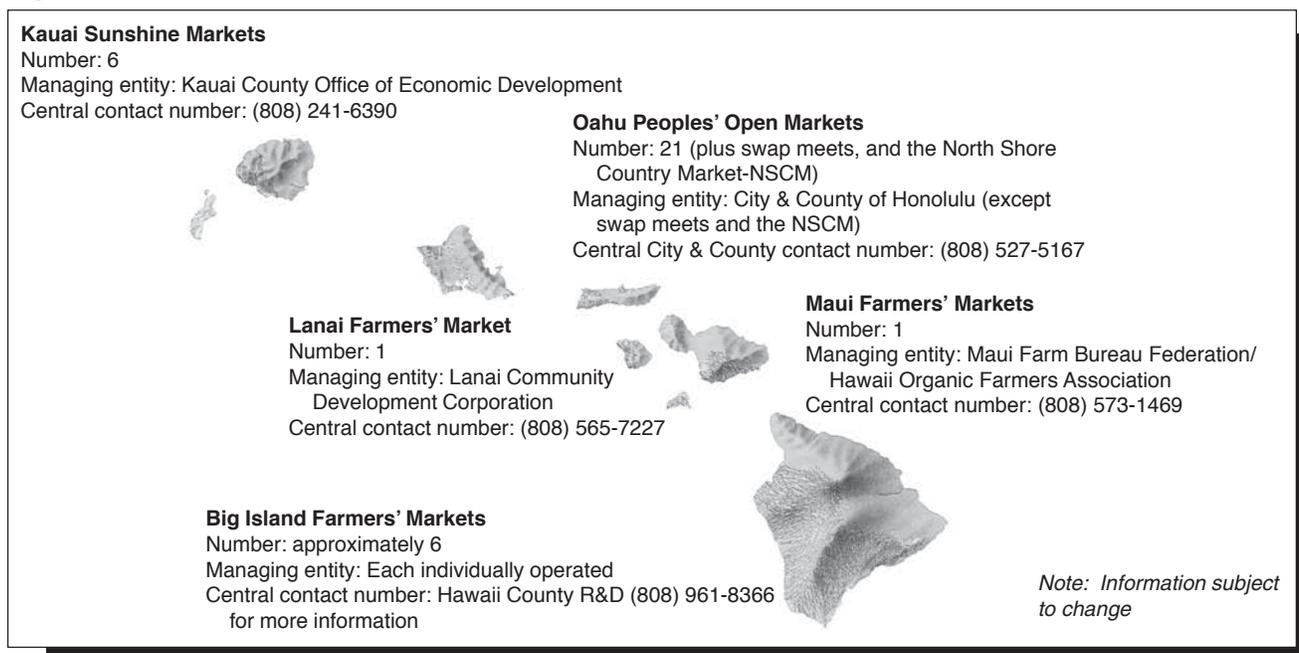
Young, Deborah. 1995. “Characteristics of Direct Marketing Alternatives”. In the *Direct Farm Marketing and Tourism Handbook*. Arizona Cooperative Extension, University of Arizona, Tucson, AZ. 250 p.

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Figure 3. Hawaii farmers' market contacts



Marketing to a Local Retail Florist

A local florist can be a profitable alternative to export markets for some new and small fresh cut flower growers (and in some cases, potted plant growers as well). Since your volume may be small, the per-unit cost (usually measured in sprays or dozens) to service Mainland wholesalers or retailers will generally be relatively high, with no guarantee of proportionately higher returns. In addition, doing business with someone from a distance can be difficult and may lead to misunderstandings. In a local market situation, however, the producer has the ability to establish a closer working relationship with the florist, and necessary adjustments are more easily made. But, in order to be successful in the local market, a grower must be prepared to provide a consistently high quality product and superior service to the local retailer.



The Local Retail Florist Market

In the Honolulu yellow pages, there are over eight pages that list traditional retail florists, not including supermarket floral departments, and most of them are single-outlet operations. These businesses are often based on walk-in customers and phone orders. Traditional retail florists compete in this highly competitive market on the basis of service. Their customers are looking for quality service, including on-time delivery, quality flowers, and reasonable prices. For this reason, retail florists rely on high quality service from their suppliers, and look for certain essential characteristics in that service.

Characteristics of a Successful and Profitable Flower Grower

To be successful, a cut flower grower must provide:

- *Quality Flowers*
Retail florists require quality flowers because they last longer, their customers demand them, and they reduce costs through less spoilage (shrink). The state of Hawaii has hundreds of flower growers, and there are literally thousands worldwide. For this reason, retail florists usually have no problem getting quality flowers throughout the year. In order to remain in the market and stay competitive, you need to stay ahead of your competition by consistently providing quality flowers.

- *Dependable Service*
Retail florists need to have flowers on hand at all times. If a grower fails to deliver their flowers on time or in the correct quantity, the florist can potentially lose sales. In the florist business many of the sales are repeat sales. The loss of even one customer can affect the future sales of the florist, therefore, they will choose to work with only the most dependable suppliers.
- *Frequent Deliveries*
Most retail florists lack the equipment and space to keep a large number of fresh flowers, therefore, they tend to prefer growers who can make deliveries several times a week.
- *Product Variety*
In general, florists will prefer to deal with growers who can provide a number of flower varieties, in order to reduce the number of business transactions. However, if you can provide a significant amount of one or two varieties, you may be able to establish a strong niche.
- *Competitive Prices*
A retailer will have several possible sources of supply, so growers must price their flowers competitively.

Information Growers Should Acquire

Successful and profitable growers must have critical pieces of information, much of which is constantly changing, at their disposal. The following information can provide growers with the ability to make more informed and, hopefully, profitable decisions:

- *Production Costs*
It is essential to know the cost of producing flowers, because without this knowledge you may not know if you are receiving prices that lead to profits until it is too late. A rough but convenient method to figure out your production costs is to estimate your cost to plant and maintain an area (bench or bed) and divide it by the output (dozens or sprays) of the same area.

For example, if you have benches that are 80 square feet, you should keep track of the costs of planting and maintaining this space (labor, seed, water, fertilizer, pest control, etc.) and the typical yield (number of marketable flowers per year) produced from this space. Dividing your costs by the number of flowers will give you the

cost per flower, which you must cover just to break even. A grower who is armed with this knowledge will be better able to evaluate price offers or different pricing schemes to make sales.

- *Market Prices*

Unlike the fresh fruit and vegetable market, there is little timely information about market prices for cut flowers in Hawaii. However, cut flower prices do not vary nearly as much as do prices for fresh fruits and vegetables. Most retail florists price their product on a “cost plus margin” basis.

For example, a retailer may need to cover a 35 percent margin on all flowers in order to cover labor, management, rent, and spoilage in order to maintain profitability. The retailer will attach the appropriate margin to the price they paid for the product. Of course, depending on market conditions and store promotions, the retailer may change the margin to achieve certain sales goals. As you gain experience in dealing with florists, you should be able to better estimate the price you will receive.

- *Credit Risk*

Unfortunately, the retail florist business has a high turnover rate. A grower should check into the credit rating of a florist before approaching them. This is especially important because it is common practice for the grower to wait a few weeks for payment. Some good indicators of credit worthiness are years in business or bank references. Don't be reluctant to ask for references or to call the Better Business Bureau.

- *Seasonality in Production and Demand*

Both flower production and demand vary over the course of the year. Growers should be knowledgeable about the peaks and valleys in their production. A grower shouldn't overcommit to a buyer during times when production is typically low. On the other hand, during times of peak production a grower may need to market the product more aggressively and perhaps accept a lower price.



Growers also need to know about the peaks and valleys in customer demand. Generally, demand is down during the summer months (often when production is at its highest) and increases around holiday times or special occasions, such as Christmas, Mother's Day, and Valentine's Day. It is important to realize that the demand for flowers may vary by variety as well. For example, poinsettias are popular at Christmas, whereas lilies are popular at Easter. The grower should be aware of, and adjust to, these situations.

- *Grades*

Almost all florists have standards for their flowers. Growers should familiarize themselves with these standards. Many retailers prefer to have the grower do the grading.

Making Your First Sale

A professional attitude is very important when making a first sale to a florist. The florist needs to be convinced that you, as a new supplier, are worth taking a risk on, because they will already have numerous sources of supply. Some tips on establishing your professional image include:

- *Business Cards and Rolodex Cards*

Florists are busy people. If you call on them and just tell them your name they may soon forget you. A business card implies that you are professional and gives them something to remember you by. Some growers have also developed low-cost brochures with pictures of their nursery and their product. These can be very cost-effective. In addition, Rolodex cards can provide the florist with a convenient and accessible tool, whereby they can quickly access your name.

- *Fax and Answering Machines*

We live in a modern world and much communication takes place using these two machines. An answering or fax machine will ensure that you don't miss an order. If you are the one trying to make a sale, the florist shouldn't have to keep calling you back (see the chapter on *What You Should Know about Office Equipment, Services, and Supplies*).

- *Professional Invoices*

Real invoice forms are more convenient for both you and the florists, and are preferred to loose slips of paper. The use of invoices will also simplify your bookkeeping tasks and be useful at tax time. Computer software is available to ease and enhance the use of invoices.

- *Samples*

Retailers will probably want to see examples of your flowers to check their quality. You may enhance their first impression of you by bringing some nicely packaged samples with you to your first meeting.

- *Production Records*

Many retailers like to know the quantity and types of flowers the grower will be producing throughout the year. For a new grower this may be difficult, but it points out the need for growers to keep accurate records of their production from the inception of the business.

- *Flexibility*

Not all florists will be the perfect match for you, with respect to types of flowers needed, delivery schedules, and the like. However, you should demonstrate a willingness to work with the florist and consider their suggestions. You should look for this flexibility in the florist as well.

The Bottom Line

Successful retail florists and cut flower growers have the ability to establish profitable, enjoyable, and long-lasting relationships with each other. These relationships are based on performance, commitment, and trust. The only way to acquire these characteristics is through hard work and professionalism.

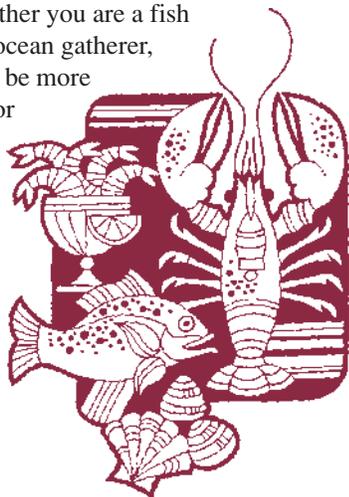
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Marketing Your Seafood Products

In marketing your seafood products in Hawaii, it is very important to establish and develop good working relationships with seafood buyers (e.g., wholesalers, retailers, chefs/food processors, and consumers). Whether you are a fish farmer, fisherman, or ocean gatherer, the seafood buyer will be more likely to rely on you for their supply if you can deliver a product with consistent size and quality. By building trust with commercial buyers through consistency and reliability, you can reduce the uncertainty of selling your products.



Before You Get Involved

Before you invest money to produce or catch any seafood products (including fresh water products), it is very important to do some market research. The information that you gather and the subsequent choices that you make *before* entering an industry can have a large impact on your decision to enter that industry and whether or not you succeed in that industry (see Figure 1). You should be able to answer the following questions before you begin producing or catching any seafood product:

- How much will it cost you to catch or grow this product?
- Would you make a profit selling this product? How do you know?
- How does the demand for this product compare with its supply? Which of the following market situations (or some variation) does this product fit into?
 - a market with small supply but large demand. For example, there is potential for milk fish here, but very little is produced
 - an established market with steady supply and consistent demand
 - a market with a strong supply but little demand. For example, channel catfish appeared to be a salable product in Hawaii, but the demand was lower than expected
- Is the market already saturated with this product?
- Will this product serve as a substitute for an existing product?

- What amounts of this product could be sold in each product form: live, fresh, frozen, and processed?
- Will you sell your product to an auction, wholesaler, retailer, chef/food processor, or directly to the consumer? What are the benefits of selling to each?
- What will differentiate your product from other products? Why would consumers want to buy your product instead of others?
- What packaging and labeling are needed?

In the long run, you can benefit by thinking of your potential product from the consumers' perspective, because they are the driving force in the marketplace. Wholesalers, retailers, and restaurants provide services to you and the consumer but do not drive the market like consumers (see Figure 2). If you do some research ahead of time, you will have a better idea about what to expect from each market and market channel.

Getting into the Seafood Industry

Once you have completed your market research and have made decisions about your product and the market channels that you will be using, then you need to establish contacts within those market channels and begin building some working relationships with buyers (refer to the section on *Making Your First Sale* at the end of this chapter). In a sense, you need to prove yourself to the different buyers, so that they may begin to rely on you as a supplier. The following information is important in establishing yourself in the seafood industry:

Establish Contacts

In order to make contacts, you need to set up meetings with buyers. To locate them, you can:

- look in the Yellow Pages under "fish and seafood retailers and wholesalers"
- talk to other people in the industry
- visit the auctions

Honolulu: United Fishing Agency (UFA)
117 Ahui Street
Tel: (808) 536-2148

Hilo: Suisan Company
85 Lihikai Street
Tel: (808) 935-9349

Figure 1. The Decision-Making Process for Production and Marketing

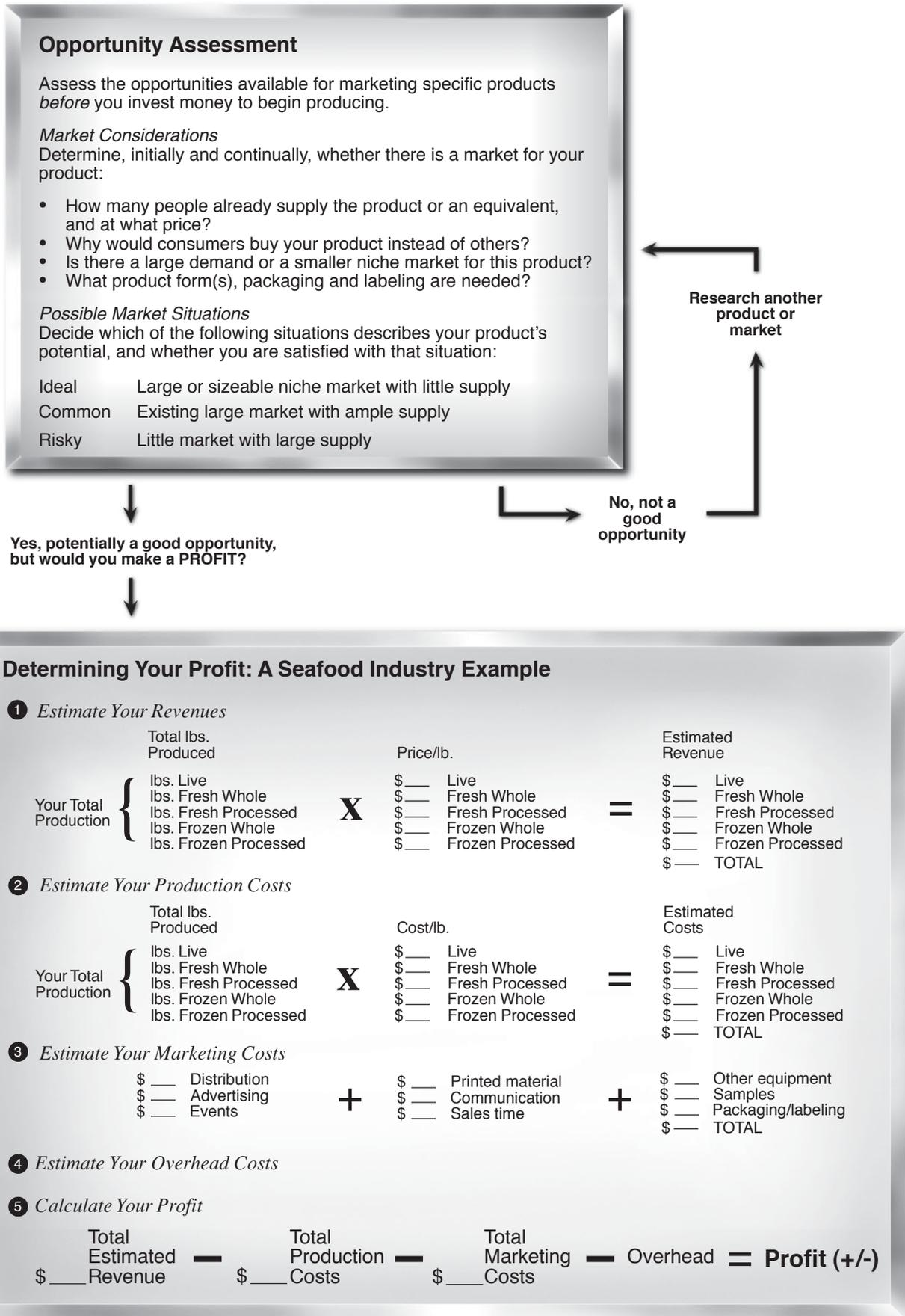
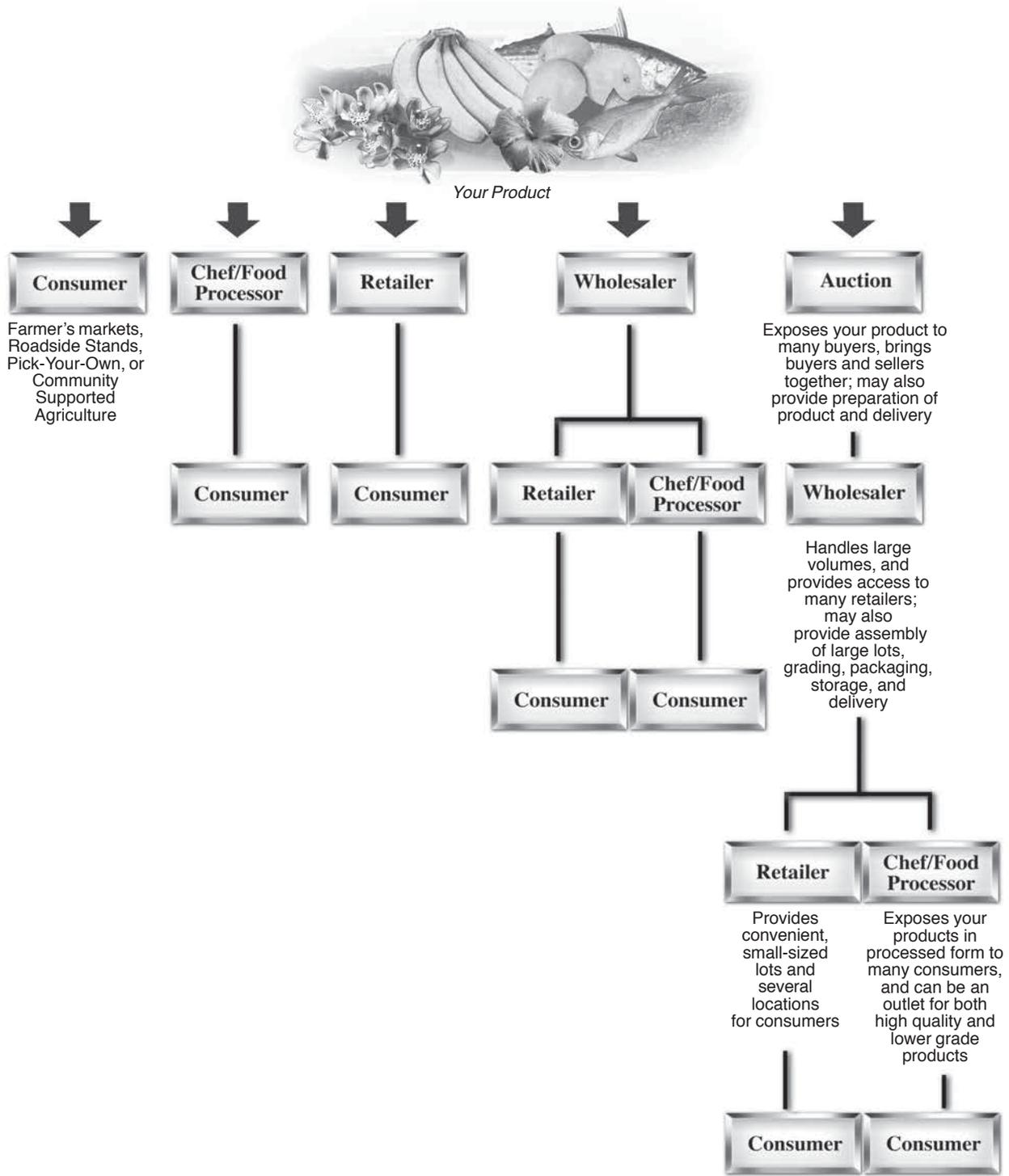


Figure 2. Typical Agricultural and Processed Product Marketing Channels (with Services Provided)



As the marketing channel gets longer, there is an increasing number of agents who must be paid for their services. If you choose to take advantage of these services, you provide less direct service to your customers, so your direct marketing and distribution costs decrease. At the same time, the amount you receive for your product also decreases.

Build Relationships

In attempting to get the best price for their product, some suppliers use the method of calling around to buyers at the last minute to sell their products. In the short run this method may be useful, or if you haven't established many contacts yet, but in the long run you can receive more benefits from planning ahead and building a rapport with a few buyers. If you understand the services that different buyers can provide for you, then it may be easier to establish lasting business relationships with them (see Figure 2). Here are some examples of the various services offered:

Wholesaler

In selling to a wholesaler, you are often able to sell a wide range of products, such as different product forms and grades, because they are able to service a variety of market outlets. In addition, wholesalers handle large volumes and provide access to many retailers and restaurants. They may also provide information to you about different products, varieties, and packaging desired by consumers, as well as storage and delivery.

Retailer

A retailer can provide a variety of locations where home consumers can purchase your product in convenient, small-sized lots. You benefit from the convenience that the retailer offers to the consumer because not many people want to buy a month's supply of a product at one time.

Chef or Food Processor

A chef or food processor can expose your product in its processed form to many consumers. Also, since they transform your product and therefore have different uses for it, they can be an outlet for both high-quality and commodity grade products, in addition to a variety of sizes and quantities.

Making Your First Sale

In order to gain the confidence of a buyer, so that they may begin to depend on you as a supplier, you should present yourself in a professional manner. Here are some tips on establishing your professional image:

Business Cards and Rolodex Cards

If you want to establish a relationship with a buyer, business cards and Rolodex cards can help them to remember you. A business card implies that you are professional, and Rolodex cards provide the buyer with a convenient tool to access your name quickly.

Cellular Phone, Answering Machine, Answering Service, Fax, and/or Beeper

We live in a modern world and much communication in the seafood industry takes place using modern conveniences. You don't necessarily need to acquire all of

them to be successful, but you should choose the items that best suit your business (see the chapter on *What You Should Know About Office Equipment, Services, and Supplies*). An answering machine with a professional recording can ensure that you don't miss an order. And recurring orders can easily come in by fax. An answering service can provide you and your customers with updated information, and it provides more services than an answering machine. Cellular phones are important for communicating with buyers and other suppliers when you are on the road. A beeper can also be helpful when you are on the road, so that people can always contact you.

Samples

To check your product's size and quality, most buyers will probably want to see and taste samples of your products before they agree to purchase anything.

Flexibility

You should demonstrate a willingness to work with the buyer and consider their situation as well as your own. You should look for flexibility in a buyer as well.

Important Considerations for Seafood Suppliers

Successful and profitable seafood suppliers must have access to critical pieces of information, much of which is constantly changing. Attention in the following areas can provide you with the ability to make more informed decisions:

Communication and Trust

Communication is one of the key elements in marketing your seafood products. In order to ensure that they can acquire the quantity and quality that they need, seafood buyers will often have many sources of supply to choose from. If you can develop a good working relationship with a buyer, through combined effort and trust, then they will begin to rely on you as a dependable supplier. Once you establish a level of trust, then you can start helping each other in numerous ways.

Fluctuations in Supply and Demand

Throughout the year, both supply and demand for seafood products fluctuate. The two holidays that create the most demand for seafood products in Hawaii are Christmas and New Year. During these times, consumers are usually willing to pay higher prices for seafood. At the same time, realize that the amount of fresh seafood caught or harvested on any particular day dictates what you will receive. In most cases, if there is an abundant supply of seafood, then suppliers will receive lower prices, and conversely, if the supply is small then those suppliers that have products to sell at that time will benefit from the higher prices.

Prices

In Hawaii, the fresh seafood auction is the main market indicator for seafood prices. The majority of local seafood suppliers sell their products at the auction, where the demand for the products dictates their price. In addition, many commercial buyers purchase their products there and, in turn, base their retail prices on the auction prices. This causes daily price fluctuations. Restaurants, however, would rather have a steady supply at a predictable price. So, good aquacultural products can often be marketed directly to restaurants because the supply can be better planned with less variation.

Grading

Many seafood buyers sort or grade the seafood that they purchase because they are ultimately responsible for satisfying consumers. In aquaculture, the most important grading issues are size classes, breakage, and product form. You should discuss whether the wholesaler would like you to grade your product before delivery.

Delivery

Generally, there is no required packaging or labeling of seafood products upon delivery, but most suppliers wash their products and clean them up in order to receive the highest price possible. Also, fresh fish must be iced down, and the temperature must be at 40° F. In other cases, such as seaweed, the temperature cannot go below a certain level because freezing could ruin the product. Prior to delivery, you should discuss with the buyer whether they require any specific preparation of the product.

Documents

Although little paperwork may be required, you should still keep accurate documentation of your sales. When a delivery is made, the buyer will give you an “intake receipt.” This receipt should be kept for your records, because when you renew your license you may need it. (See the chapter on *Good Sales Documentation and Procedures*).

Payment

Some different methods of payment include:

- cash on delivery (C.O.D.)
- *X* days receivable
- *X* days receivable with *X* % discount for payment within *X* amount of days

“Niche” Marketing

You should always be thinking of ways to provide better service or a better product to consumers. A slight differentiation in your product or services can enable you to successfully enter a “niche” market. Generally, “niche” markets are any market sector where you can establish some strategic advantage (e.g., fresher, tastier,

or nicer looking product), which allows you to receive higher prices. The consumer determines whether your features are valuable enough to merit higher prices.

Product Demonstrations

Chefs and retailers may request free products for food shows, charity fund-raisers, and product demonstrations. You can benefit from these events, because the buyers will have a chance to try your product, and you can usually display a sign that notes who donated the seafood. In addition, it is a good idea to do product demonstrations in the stores when they first begin carrying your product.

Industry Regulations

You should be aware of the regulations that can affect your business. For example, there is a new food safety program that will place stricter regulations on the seafood industry. The U.S. Food and Drug Administration, in cooperation with the U.S. Department of Agriculture, has spent the past five years preparing a whole new set of seafood inspection and quality control procedures, known as Hazard Analysis Critical Control Point (HACCP), that are expected to come on line in 1997. For more information, call the U.S. Food and Drug Administration’s local contact at 808-541-2662.

The Bottom Line

The seafood industry requires a lot of networking among people because of the unpredictability of supply and changes in demand over time. This network of information and relationships is key to the success of the industry and it is based on long-term working relationships and reliability. When suppliers and buyers work together and trust each other, they both benefit in the long run. Potential suppliers need to remember that planning for the long run is very important, and that they must *first* plan and do their homework before they get into the seafood industry.

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Marketing to Chefs

The emergence of “Hawaii Regional Cuisine” has created great demand for top quality, fresh local products and tremendous opportunities for Hawaii farmers to capitalize on this dynamic movement. Chefs depend on small cottage industries and specialized growers for the products that give the most creativity and flexibility in their regional menu approach. Here are some tips for working with chefs to create a “win-win” situation for everyone concerned.

Communication

Communication is very important. Initially, you should take time to talk to chefs about:

- what types of products they are looking for
- when they have busy and slow periods within the year
- when they are available for phone calls, and what their direct phone and fax numbers are
- how you can best work together to coordinate production with demand
- how much cooler space is available
- payment terms

This will also give you a chance to speak to chefs about what you have to offer. When you meet with a chef, you should bring your business card, samples of your product, and a detailed product list, such as:

Happy Fruit Farm Product List	
<u>Bananas</u>	
Size of cases	25 lb
Grade	A
Specific variety	Cavandish
Price/volume	\$.30/lb
Seasonality	June–Sept.
Availability	20 cases/week

If you plan to show your product to a chef “one-on-one” remember that scheduled appointments are preferred. If the chef is always busy when you “just happened to drop by,” it can be frustrating for both of you.

Hotels vs. Independent Restaurants

There is a difference between working with independent restaurants and working with hotels. Typically, at independent restaurants you’ll be dealing directly with chefs. In the case of hotels you’ll be working more closely with purchasing directors, but it is important to

remain in close contact with both director and chef. It is always a good idea to call the chef directly to get feedback on your product.

Using a Middleman

If you use a middleman to sell and distribute your products, make sure they are using the same high standards that you use. How and for what length of time do they store your product? What shape is it in when it’s delivered? If your product reaches its destination in poor condition, it will reflect a lack of consideration and responsibility on your part. You don’t want a middleman to undermine all your good work, because the chefs and other buyers will notice.



What Chefs Look For

Chefs want Hawaii-grown produce because it has more flavor and freshness than imports that have traveled long distances. So, if you can, *grow for taste!*

In the buying process, chefs value:

- *Product quality*
freshness, shelf life, flavor, appearance, and uniqueness
- *Availability*
consistent supply (within production capabilities)
- *Reliability*
in delivery, quality, quantity, packaging, price, and billing

Given the tastes of the current group of chefs in Hawaii, consider the possibility of cultivating indigenous Hawaiian foodstuffs that aren’t typically grown commercially. Surinam cherries, different varieties of papaya and mango, ulu that is available year-round, pohole ferns, and ohelo berries (which are now being used so extensively that shortages are occurring)—all of these types of foods are in demand by chefs.

Considerations For Pricing Your Product

When pricing your product, you should:

- *Consider all of your costs*
Including production, packaging, delivery, and overhead

- *Create a balance*
Between undercutting yourself and overpricing
- *Aim for price consistency*
Do your best to compensate for small fluctuations
- *Do your own market research*
Keep on top of both Mainland and local markets

Finding Your Chef Customers

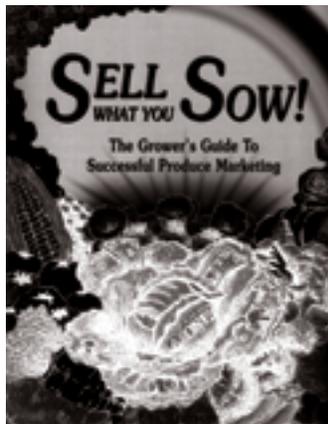
In his book, *Sell What You Sow!*, Eric Gibson recommends looking in your yellow pages for chefs within a 50-mile radius from your farm. You can also attend some of the many new food shows and talk to chefs there. Also, the Hawaii Department of Agriculture's book called *Hawaii's Farmer/Chef/Wholesaler Source Book* (see the section below on *Suggested Resources*) can help you locate chefs in your area.

The Bottom Line

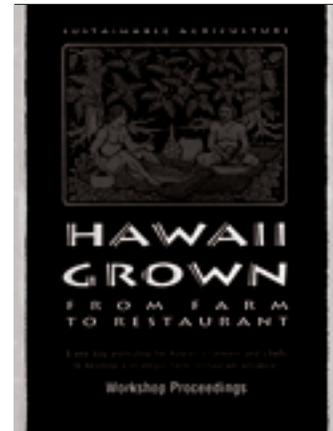
There will always be a market for a good product at a good price, but you can gain a competitive edge by knowing what your chef-customers really want and providing it to them. Remember, if you don't provide them with good products and services, someone else will.

Suggested Resources

Gibson, Eric. 1994. *Sell What You Sow! The Grower's Guide to Successful Produce Marketing*. New World Publishing, Placerville, CA. 304pp.



Fleming, Kent and Shelley Hoose. 1993. *Hawaii Grown: From Farm to Restaurant*. College of Tropical Agriculture and Human Resources, University of Hawaii at Manoa, Honolulu, HI. 65pp.



Hawaii Department of Agriculture, Market Development Branch. 1996. *Hawaii's Farmer/Chef/Wholesaler Source Book: A Guide to Locating Buyers and Seller of Local Products*. Tel: (808) 973-9595.



Hawaii Food Service News—monthly publication. Nicholas Publishing Company. Tel: (808) 941-4413.

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Marketing Produced-in-Hawaii Products to Specialty Stores

Kathy Rueter
The Compleat Kitchen

Produced-in-Hawaii (grown, harvested, or processed) products have a great potential to reach two different, but equally important market segments: the local Hawaii market and the visitor market. As a local specialty retailer, The Compleat Kitchen likes to offer our customers high-quality, produced-in-Hawaii products. Hawaii residents enjoy trying “local” products and our visitors love bringing back a “taste of Aloha” to share with their friends. This is a unique and potentially profitable situation for those who can capitalize on it.

Considerations for Marketing to Specialty Stores

In order to make your product appealing to the types of customers who shop in a specialty food-products store, we recommend that you consider the following:

Quality First

- First, and foremost, the product has to be of the highest quality and must taste delicious. We do a lot of product tasting so that customers can actually try something first hand before deciding to buy. Customers appreciate the chance to sample, and if the product is good, it will definitely sell. Typically, the product producer supplies the samples. The samples don't need to be provided in expensive packaging; rather, bulk lots are often nice, as we would dress up the product when it is served.
- Make sure that quality control is a top priority in your company. Bottles that leak, bags that tear, and labels that look worn from just slight handling simply won't sell.

Packaging and Labeling

- The packaging of the product, its shape, label design, etc. must be very professional in appearance. This does not mean superslick or glitzy. In fact, Hawaii products seem to sell best when they reflect a look that says “Hawaii.” Thus simple, tastefully rendered packaging can serve you well.
- It is very helpful to also have a label on the packaging that tells a story about the product; for instance, where the raw materials are grown, where it is processed, and what connection, if any, is there to the history and peoples of Hawaii.

- Recipes, either on the label or as a separate handout card, are great ways to encourage a customer to “take a chance” on your product. It's one of the best ways to market “foodstuffs.” Any time a customer can get more information about how to use a product, it aids in the selling of that product.
- Remember that this product has to be displayed on a shelf with other competing products. Make sure that it will be noticed by its shape, label style, and coloring.
- Visitors to Hawaii will need to pack your product in a suitcase. You will need to take this fact into consideration when planning your packaging. Use of non-glass, well-sealed, plastic jars or bags are some of the best ways for people to bring your product home.

Getting the Word Out—Our Newsletter

We have a newsletter that is distributed to 16,000 readers and is available at all of our stores. We select exciting, new products to advertise in the newsletter, so it's a great opportunity for entrepreneurs. In this way, we work together to make your product a success!



The Bottom Line

Hawaii is a very special place and we, as retailers, love to be able to showcase local products that reflect this distinction. By attending to the recommendations above you will increase your chances of being successful in this marketplace.

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Marketing Locally-Grown Agricultural Products to the Military in Hawaii

Emily Vallente
U.S. Defense Logistic Agency

The military (Army, Air Force, Navy, Marine) and Federal agency market in Hawaii is huge. There are 250 ships, 6 commissaries, 12 mini-marts and 75–80 dining facilities located throughout the state. To service this market, Hawaii produce wholesalers import an estimated four containers (not specifically dedicated for the government) of fresh produce every week, satisfying 95 percent of our total needs. For 1994, an average 17 million pounds of fresh produce were purchased from Mainland and local sources. The total bill for produce in that year was \$18 million.



If you would like to see if your product is purchased by Federal agencies, there is a publication called *U.S. Government Purchasing and Sales Directory*, which identifies around 4,000 goods and services purchased by the Federal government each year. Many of these items are fresh foods.

What Government Buyers Look For

Whenever possible, every effort is made to purchase local products, including beef, pork, chicken, dairy products, eggs, baked goods, and fresh produce. The produce items high on our shopping list include, but are not limited to:

- Celery
- Head cabbage
- Mustard cabbage
- Apple bananas
- Tomatoes
- Watermelons
- Local oranges
- Okinawan sweet potatoes
- Choisum
- Bell peppers
- Japanese cucumber
- Chinese cabbage
- Maui onions
- Manoa lettuce
- Green onions

Our food buyers are concerned with quality first, and then price. They also work within the confines of procurement specifications and standards set by the Federal, military and USDA authorities. If you would like to service a military or Federal market you must be very familiar with these regulations and follow them carefully to ensure that your product meets or exceeds required quality, grade, type, style, size and other standards. Furthermore, the food supplier must identify the origin of the goods to be sold (for the most part food consumed on American

facilities in the U.S. must be grown in the U.S.) and allow for our buyers to visually examine the goods so that the best purchase can be made. Also, the producer must bear all expenses incidental to USDA inspection at the origin. Finally, prices are to be quoted Free On Board (F.O.B.) at the final destination.

Hawaii School Lunch Program

As of October 1995, the Pacific Buying Office also buys fresh fruit and vegetables for the Hawaii School Lunch Program. The Pacific Buying Office purchases approximately \$31,000 of fresh produce per week for the Hawaii School Lunch Program. This program is optional for schools, but a number of schools have signed up because they are typically getting better quality and variety. See the chapter on *Marketing to Institutional Markets* for more information on the agricultural product needs of the Hawaii Department of Education.

The Bottom Line

The military and Federal agency market in Hawaii is very large. We would like to buy more Hawaii-grown produce, but producers must meet our standards of quality and be able to supply on a consistent basis. It is a great opportunity for those who are up to the challenge, so contact us! For more information, contact:

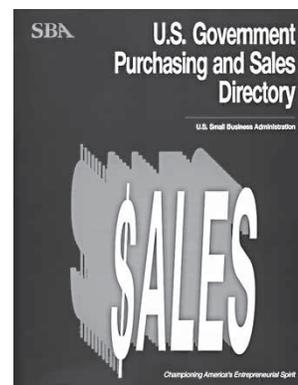
Pacific Buying Office
Box 300, Bldg. 1733
Pearl Harbor, HI 96860-3300
Tel: (808) 474-6632

Suggested Resources

U.S. Small Business Administration. *U.S. Government Purchasing and Sales Directory*, 11th Edition. To order this publication, call: (415) 512-2770.

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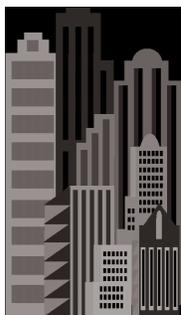
Marketing to Institutional Buyers

James R. Hollyer
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Large institutions, such as school systems, warehouse stores, ships, airlines, prisons, and the government, offer the potential for bulk sales of fresh and processed agricultural products. As the chapter *Marketing Locally-Grown Products to the Military in Hawaii* indicates, the military purchases millions of dollars of produce each year. Like any other buyer, they are looking for quality products in sufficient quantities to meet their specific needs.

The prospect of supplying a large buyer can be very exciting, but in order to meet these demands, you must plan your operation very carefully. It is important that you do not promise more than you can deliver. If you fail to deliver, even one time, you risk upsetting the customers of the buyer you are supplying and that could cost them their reputation.

Below are the results of interviews with a number of buyers who represent a diverse set of large-scale markets. All types of institutional markets are not addressed, but you will note that many of these buyers' needs are similar: quality, quantity, volume pricing, and timeliness. You must also know how to best service their needs, i.e. can you deal direct or should you go through a middleman. This is true whether you are marketing to a large grocery store chain such as Times, Foodland or Safeway or to a speciality store such as the Compleat Kitchen. The chapter on *Marketing Your Fresh Produce to a Wholesaler* can help to prepare for your first encounter with these types of operations.



Ships—The Royal Caribbean Cruises Example

There are a great many ships that pass through Hawaii's harbors each year. They range from small fishing vessels to cable-laying ships, cruises ships, and very large military vessels. One aspect of living aboard a ship that does not dock for several weeks is that after a week or so all the fresh food is exhausted and frozen food becomes the norm. Ship chefs typically try to provide their crew and guests with lots of fresh food for the longest time possible. For this reason, producers have the opportunity to supply a wide variety of freshly harvested products. In the case of a cruise ship, one ship could load as much as \$400,000 in meat, poultry, fish, dairy, produce, and fruit for one 21 day itinerary.

The Royal Caribbean Cruise line is one of the biggest cruise lines in the world. While they are not the dominant cruise line plying Hawaii waters, their Vice

President of purchasing, properties, and logistics, G. Edward Bollinger, sees a lot of potential in regional products. He thinks that there is a great opportunity for tropical products to be used in salads, bar drinks, and desserts (*subject to Animal and Plant Health Inspection Service (APHIS) quarantine regulations. This also means that fruit fly host material from Hawaii either as a fresh product carried in personal luggage or as garbage will be sealed, seized, or destroyed upon arrival at a U.S. mainland port. See section on Flight Kitchens at end of chapter*). There is also a need for traditional "Mainland" staples, such as meat, potato, milk, lettuce, and so forth. He recommends that if you would like to begin supplying a cruise line, or any ship for that matter, you should go and talk to the purchasing agent directly. This may require some detective work, since the purchasing agent/buyer is typically located at the company's headquarters, not on the ship itself. He also notes that suppliers who want to sell products and services to cruise lines must focus on the following six factors to achieve long-term success:

- Quality products—cruise lines expect high quality products that meet established specifications.
- On time deliveries: Cruise lines must have the product at the agreed upon date and generally not earlier and definitely not later.
- Knowledge of customer—most of Royal Caribbean's passengers are from North America; hence, the on-board products must meet their demands and expectations. Other cruise lines may have a different customer base with different tastes and preferences.
- Add value to either a product or a process—to be successful, the supplier must add value in terms of either processing (partial and full), where appropriate, or providing a service, such as quality checks, storage, distribution, product sourcing, and assembly.
- Listening skills—suppliers must be prepared to listen to the buyer to identify problems and find acceptable solutions.
- Establish trust—deliver what and when you promise!

Hawaii's image and tropical products provide a very good basis for marketing to cruise ships. In the cruise line industry, a buyer's main concern is satisfying their customers. If you, as a supplier, can help to meet their needs in a reliable and timely manner, then you have a great potential for business success.

Warehouse Stores—The PriceCostco Example

Many large-scale warehouse stores, such as PriceCostco and Sam’s Clubs, are being built across the nation and the world. These stores offer shoppers the chance to save money by buying large packages or quantities of certain items. In order to offer these savings to consumers, suppliers must price their product so that they are appealing to warehouse buyers. To get an idea of how a producer or processor might service PriceCostco, we talked to Robert Murvin, a dry-grocery buyer at their Los Angeles headquarters.

Mr. Murvin noted that first you should go to a warehouse store and see what is already being sold and what type of packages are being used. Then you should contact the warehouse and get a mailing address to send a sample of your product [PriceCostco (714) 534-7080 in Los Angeles; Sam’s Club (808) 456-7788 in Hawaii]. You will need to include your business card, some information about your company, and a price list with your sample. If the warehouse company is interested in your product, you should work directly with them, rather than through another wholesaler, so you can get your product to consumers at the lowest possible price. You will also be asked to provide proof of insurance, to add a UPC and warehouse code to your packaging, and to provide a consistent supply of quality product. The negotiated price is typically based on a low margin across a large volume. Selling to a warehouse store can be a great opportunity, if you can provide enough volume of product.

A School System—The Hawaii State Department of Education Example

There are over 180 public schools in Hawaii with cafeterias, and the private schools add over 100 more. The Hawaii Department of Education buys about \$1 million of fresh agricultural products each year with only a small portion being supplied by Hawaii farmers. Purchasing agent Wendy Osumi explains that they offer a 10 percent premium for locally grown products, but they have a hard time finding reliable supplies of the products they need. Nonetheless, there is a willingness to buy more locally produced fresh and processed (e.g., washed, sliced, bagged) products. High on DOE’s shopping list are:

- bean sprouts
- broccoli
- cabbages
- carrots
- celery
- cucumbers
- lettuce
- mushrooms
- onions
- peppers
- potatoes
- tomatoes
- bananas
- papayas
- oranges
- chop suey mix
- salad mixes

There is no formal bid process, nor is there one central buyer for the state. Each school food manager sources their own products to meet their budget and an established state-wide school menu. These managers typically work with an established wholesaler, but there may be opportunities for the entrepreneur who can provide a steady supply of a product delivered directly to the school. If you are interested in sourcing for this market, contact the Department of Education’s purchasing unit at (808) 733-8400, and they will be happy to provide you with the name and address of each school’s food manager.

A Prison System—The Hawaii State Department of Corrections Example

The Hawaii State Department of Corrections buys about \$300,000 worth of fresh agricultural products each year to feed nearly 3,000 inmates in its eight facilities; four on Oahu and four on the neighbor islands. Purchasing offices buy a large amount of produce because they try to promote a healthy diet and they are required to serve at least one non-meat item at each meal. The prison system is looking for the following agricultural products:

- cabbages
- carrots
- celery
- cauliflower
- cucumbers
- eggplant
- garlic
- ginger
- lettuces
- mushrooms
- onions
- parsley
- peppers
- potatoes
- radishes
- spinach
- sprouts
- sweet potatoes
- tomatoes
- watercress
- zucchini
- bananas
- grapes (seedless)
- honeydew melons
- lemons
- oranges
- papayas
- tangelos
- watermelons
- chow fun
- chow mein
- tofu

Because prison food service buyers are on a very limited budget, they are more concerned with price than overall appearance. Thus, this market may be a good place for both first grade and offgrade, yet safe, produce.

On Oahu there is one purchasing office for all facilities, and on the outer islands each facility purchases their own products. All facilities work from the same menu, making substitutions where appropriate. If you are interested in servicing this market, call (808) 587-2553 for the Oahu market and for the names of the contacts for neighbor island prison facilities.

Hotel Chains—The Outrigger Example

The Outrigger hotel chain has 22 properties on four islands. In Outrigger's case, only one of their hotels, Prince Kuhio Hotel in Waikiki, has a food and beverage department, and the rest lease out space to independent restaurants. We spoke to Geri Kondo, who is the purchasing agent for Outrigger's Prince Kuhio Hotel. Ms. Kondo deals primarily with wholesalers, as opposed to individuals growers, because it is convenient. As she put it, "I give my wholesaler a produce order and they do the leg work for me." She encourages the purchase and use of local products when they fit her menus and when they can be found by her suppliers. For example, she likes to use purple dendrobium and pineapple spears for garnishes especially for room service meals. Also, they try to put together picnic baskets for visitors that feature Hawaii-grown or made-in-Hawaii products. As for working directly with growers, she said it is up to the particular hotel chef, but they too are constrained by time and budget. She buys about \$300 of fresh produce a day for a 6-day week, totaling some \$94,000 per year. Ms. Kondo looks for the following fresh items:

- cabbages
- carrots
- lettuces
- onions
- potatoes
- tomatoes
- apples
- bananas
- grapes
- melons (cantaloupe, honeydew, watermelon)
- oranges
- papayas
- pineapples
- eggs
- milk
- meat

The hotel and motel market is very large, with over 250 properties in Hawaii. The concessions within the hotels, which are often owned by non-hotel entities, add additional marketing outlets. Convenience for the produce buyer is very important, and some hotels and their chefs encourage more direct buying from growers than others. In any case, Ms. Kondo encourages a grower to contact a hotel produce buyer and find out if they are interested in a direct relationship or perhaps an arrangement through the hotel's supplier.

Retail Chain Stores—The Example of ABC

Convenience stores have been one of the fastest growing types of business across the United States. In Hawaii this type of store includes ABC, 7-Eleven, and Island Mini-mart. One of the unique aspects of the ABC Discount stores, currently numbering 50 on all islands, is that they are most often located near high-density visitor centers such as Waikiki on Oahu, Lahaina on Maui, and Kailua-Kona on the Big Island. Customers shopping at these locations dictate the types of products the stores carry. ABC's Vice President, Paul Kosasa, says that their

surveys indicate there is a need for more made-in-Hawaii products. These products would typically break down into two categories: those that can be consumed/used on site or in the near future, such as snacks, drinks, and sun screen, and those that are intended as souvenirs or gifts, including boxes of macadamia nuts, coffee, and t-shirts. In the case of the first category, this can be a good business for Hawaii fresh fruit growers and processed food manufacturers, but they must work to conform to Department of Health Sanitation Branch regulations concerning food safety (see the chapter on *Going Commercial with a Kitchen Recipe* for more information).

In order to service this type of growing market, Paul recommends that a prospective supplier work with an established distributor, since they can cover many stores in their daily rounds. Also, it is easier for companies such as ABC to work with more-established products and companies because they handle so many products. Yet upstarts are welcome if they have an organized plan on how to handle product servicing, packaging, advertisement, and similar business issues. To find these types of stores look in the Yellow Pages under Convenience Stores, and ask them who they would recommend working with to get your product distributed in their market.

Retail Chain Stores— The Example of Longs Drugs

Retail stores such as Longs, Holiday Mart, and Valu-Rite have long been a source of discount products, including medicines. They also offer the opportunity to market many made-in-Hawaii products because their store buyers like to offer a variety of products to local consumers. Longs, for instance, has 32 stores on all islands and stocks many made-in-Hawaii products. There is no central buyer for Longs, and so each store must be approached independently. They are looking for any type of made-in-Hawaii product, from foods to housewares to souvenirs. If you are interested in trying to distribute your product through a particular store, it is recommended that you call the store manager to make an appointment. When you come in to introduce your product, make sure that you have a business card, product sample, and pricing information. Longs stores deal with vendors directly and also work with major distributors.

Airlines—The Flight Kitchen Example

Millions of passengers come to and leave from Hawaii each year and each one has to be fed while they're in the air. In some cases, airlines have their own flight kitchens while others subcontract out their food needs from companies such as Dobbs International Services, Inc. and Ogden Allied Aviation Service, Inc.

The purchasing, storage, and preparation of food on airlines is subject to U.S. Food and Drug Administration (FDA) and U.S. Department of Agriculture (USDA)

regulations. The FDA food-preparation regulations protect passengers from food-borne problems and the USDA regulations are there to protect agriculture from pests. USDA Animal and Plant Health Inspection Service (APHIS) works to ensure that no insect pests or plant diseases are transported on food loaded onto an aircraft, either as meals or cargo. This is especially true for fruit fly host products such as papayas, mangoes, guavas, and others unless they are “treated” as per APHIS specifications. Yet even with stringent regulations it is possible for more grown-in-Hawaii products to be sold to commercial flight kitchens if the supplier can satisfy the price and availability requirements of the buyer, and if the product is on the list below. Although the items on this list are not fruit fly host or quarantine material, they still require USDA inspection if destined to the U.S. mainland.

At publication, these are the Hawaii products that may be transported on airlines or ships, fresh or processed, in meals and as cargo to the U.S. mainland. Other destinations, such as Canada and Japan, have their own list of allowed products; check with APHIS for assistance in locating those lists. *This list is subject to change without notice and updates can be provided by APHIS.*

- *Aechmea bracteata* (SW.) Griseb, fruit-bearing panicles
- *Allium* spp., such as chives, garlic, leek, onions (bulbs are legal and green onions are prohibited), and shallot
- Arrowhead (*Sagittaria sagittifolia*)
- Arrowroot (*Maranta arundinacea*)
- Artichoke, globe (*Cynara scolymus*)
- Artichoke, Jerusalem (*Helianthus tuberosus*)
- Asparagus (*Asparagus officinalis*)
- Bean sprouts, soy (*Glycine hispida*)
- Bean sprouts, mungo (*Phaseolus aureus*)
- Beets (*Beta vulgaris*)
- Broccoli (*Brassica aleracea* [Botrytis group])
- Brussel sprouts (*Brassica oleracera* [Gemifera group])
- Burdock, great (*Arctium lappa*, *Lappa major*, *L. edulis*)
- Butterbur (*Petasites japonicus*)
- Cabbage (*Brassica oleracea*)
- Cabbage, Chinese (*Brassica pekinensis*, *B. chinensis*)
- Carrot (*Daucus carota satira*)
- Cassava (*Manihot* sp.)
- Cauliflower (*Brassica oleracea* [Botrytis group])
- Celery (*Apium graveolens*)
- Chinese spinach (*Amaranthus gangeticus*)
- Chrysanthemum, garland (*Chrysanthemum coronarium*)
- Coriander (*Coriandrum sativum*)
- Dandelion (*Taraxacum officinale*)
- Dropwort, water (*Oenanthe stolonifera*)
- Foxheads or Nipple fruits (*Solanum mamosum*)
- Ginger bracts (*Zingiber mioga*)
- Ginger root (*Zingiber officinale*)
- Honewort (*Cryptotaenia canadensis*)
- Jesuit’s nut (*Trapa bicornis*, *T. natans*)
- Kudzu (*Pueraria thunbergiana*)
- Lettuce (*Lactuca sativa*)
- Lily root (*Nelumbium nucifera*)
- Mahogany fruit (*Swietenia mahagoni* (L.) Jacq.)
- Mustard greens (*Brassica* spp.)
- Mugwort (*Artemisia vulgaris*)
- Nightshade, Malabar (*Bassella rubra*)
- Parsley (*Petroselinum hortense*)
- Perilla (*Perilla frutescens*)
- Pineapples (*Ananas sativa*), smooth Cayenne
- Pineapple hybrids 53-116, 59-433, D10, and D20 (*Ananas sativa*)
- Potato (*Solanum tuberosum*)
- Radish greens (*Raphanus sativus longipinnatus*)
- Radish, oriental (*Raphanus sativus longipinnatus*)
- Rhubarb (*Rheum rhaponticum*)
- Sausage fruit (*Kigelia pinnata* [Jacq.]
- Spinach (*Spinacia oleracea*)
- Sweet corn (*Zea mays*)
- Taro root, shoots and stalks (*Colocasia antiqorum esculentum*)
- Turnips (*Brassica rapa*)
- Watercress (*Nasturtium officinale*)
- Waternut (waterchestnut) (*Eleocharis dulcis* [*E. tuberosa*], [*Scirpus tuberosus*])
- Wood rose (*Ipomoea tuberosa* L.)
- Yam bean root (*Pachyrhizus erosus*)
- Yams (*Dioscorea* spp.)

Source: Subsection 318.13 of the Code of Federal Regulations

Currently, there are few, if any, producers in Hawaii that provide a great deal of agricultural products to flight kitchens, yet an opportunity for change is there if Hawaii farms can work closely with buyers to ensure that their produce is pest free. For more information on pest clearance, call APHIS at (808) 861-8517 on Oahu.

The Bottom Line

Institutional markets offer great opportunities to sell large quantities of agricultural products. Typically quality, quantity, volume pricing, and timeliness are the keys to success in this type of market.

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Marketing to Airport Shops

Unlike grocery stores, which have over 20,000 products for a customer to choose from, airport shops are small and have a more selective product line. In addition to making profitable sales in the local market, selling to airport shops can be a good way to get your fresh or processed product into new markets abroad. The high level of exposure and the fact that people buy the products on their way to other places creates enormous opportunities for exporting your product to other states or countries. The following suggestions can help you prepare your product for this market.



Marketing Fresh and Processed Products

In order to successfully market your fresh or processed product to airport shops, your product must meet certain expected standards. For example, locally-grown produce must meet plant quarantine guidelines (see the chapter on *How Quarantine Regulations Affect Importing and Exporting of Agricultural Commodities*). Additionally, your fresh produce can be successfully marketed as a unique tropical gift, but you need to take into account the perishability of the product and make sure the produce remains fresh. Processed food has a longer shelf life and is not as easily damaged as fresh food, but the quality must meet the same high standards.

The following information is important for marketing either fresh or processed products in airport shops:

Good Quality Product

- innovative products that are unique in the marketplace
- Market-tested
- good perceived value
- consistent and reliable quality

Competitive Product Cost

- competitive product cost + store mark-pp = competitive retail price
- promotions and incentives

Service

- reliable and convenient delivery and servicing (such as drop-off/pickup service)
- provision of extra services as needed (product demos, samples, etc.)
- efficient billing and accounting services
- ability to make special deliveries upon request

Packaging

- emphasize “Made in Hawaii”
- unique and attractive packaging
- clean, colorful graphics
- clear description of contents
- proper use of foreign languages
- use of proper labeling for import country
- reliable content information (FDA and Department of Agriculture requirements for labeling)
- UPC/EAN codes or resource ability to pre-ticket merchandise
- easy to carry and protect

The Bottom Line

Airport shops can allow your products to be seen and tried by millions of visitors. Working to meet the requirements of your future consumers can be well worth the time and investment.

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Direct Marketing: From Direct Mail Advertising to Catalogs



Even the most efficiently run business, producing an excellent product, will not be successful without incorporating an effective marketing system, that is, a method of packaging, communicating and then selling to the consumer.

If you have a product with a broad popularity plus the available capital to promote it in many markets, perhaps you may wish to hire an advertising agency to coordinate a large campaign. For most small businesses, however, carefully identifying their customer and specifically tailoring a message directly to them is the most cost-efficient way to market their product. This approach is generally termed *direct marketing*.

Direct Marketing Is One-to-One Communication

The goal of direct marketing is to build upon a personal relationship with a consumer. It targets the more specific tastes and motivation of a smaller, well-defined population group (demographic). Every dollar spent, therefore, has a much higher potential to generate business for your company when the targeted individuals are those most likely to buy.

There are many types of direct marketing, including telemarketing, direct sales, direct mail, electronic, and catalogs. We will focus on the optimal ones for your objectives.

What You Need To Know To Sell Your Product

Your potential customer will only consider buying your product if they have a *felt need* for it. You should attempt to precisely identify who your audience is. Remember that sometimes, through good marketing, you can also create this need in an unexpected consumer group. For instance, a picture of a sizzling steak featured in an ad can actually make us hungry!

Are there particular times or seasons when your potential customer is more likely to buy? This is when you should concentrate your advertising thrust and resources. Is there a particular manner in which your customer prefers to be communicated with? Are they more visual? Do they prefer more copy or just specific facts? You should also consider:

- What makes your product different from your competitor's (direct and indirect)?
- Is the pricing for your product competitive? Are you *price pointing* (setting the price so that the customer perceives that they are receiving the best value)?
- How much can you afford to discount for promotional purposes?

- What are the clear benefits and features of your product?
- How is your product best presented (packaging, etc.)?

What Kind of Direct Marketing Will Work Best For You?

Direct Mail Advertising

Direct mail advertising still remains the favorite choice of those companies who use direct marketing. In a recent study by Elrick & Lavidge, business owners who used direct mail rated it more effective by a 4 to 1 margin over their second choice of other media. In research performed by MediaMark, 75 percent of business leaders and marketing professionals expect direct mail to become more popular than ever as a way to reach customers. It is projected that total direct mail advertising expenditures for 1995–1998 will rise by 23 percent, compared to only 19.4 percent for TV and 17.5 percent for daily newspapers.

Most direct mail utilizes some sort of response mechanism to initiate a sale, to measure effectiveness, and/or build a customer/prospect list.

By carefully selecting the proper database, the mail piece is directed to the correct consumer, that is, one who is most likely to buy a particular product or service. Though the unit cost for such a mailing may seem expensive, in the long run a good deal of money is saved because waste is eliminated by targeting only qualified prospects.

The design of a direct mail piece is an important factor to its success. There are several books that can guide you through this process (see the section on *Suggested Resources* for a listing). If a particular approach, graphic component or copy does not create the desired reaction, alter it slightly and try again. If the response rate increases, continue on that track until you can fine-tune your message. The ability to easily “test and tune” is one of direct mail's greatest attributes. Remember to include:

- a photograph or graphic element
- a provocative headline
- a unique selling proposition (USP)
- a highlight of the benefits (vs. “features”) of your product (“What will it do for me?”)
- a response vehicle (e.g. business reply card, order form, 800 number, etc.)
- a motivating offer with a deadline or expiration date
- simple, clear, and interesting copy

Electronic Direct Marketing

Electronic direct marketing includes radio, television, or the Internet, which has been coupled with some form of direct response mechanism such as an “800” number or electronic mail.

Television is relatively expensive but appeals to a wide audience. It is, however, an excellent medium to visually showcase a product. Radio is less costly than television but it is difficult to convey a response telephone number to the average listener. Local-format stations, though, may be ideal avenues to reach consumers who would buy Hawaii products. If you can afford the expenditure, “mixing media” definitely increases response rates. Combining radio or television with direct mail advertising, for example, can quadruple sales.

The Internet may be a very economical way to market your product (see the Side Bar *Taking Your Business On-line* for more information). For a nominal investment, a business can create a “home page” and be listed through a local service featuring Hawaii products. For example, Hawaii Internet Emporium, Inc. has an Internet page where Hawaii businesses can advertise. For more information, contact:

Hawaii Internet Emporium, Inc.
1270 Queen Emma Street, Suite 410
Honolulu, HI 96813-2307
Tel: (808) 538-7080/Fax: (808) 531-7904
Internet: <http://www.pete.com/>

It is difficult to predict how successful Internet advertising will ultimately be, but the commercial use of this medium is expanding very rapidly. The technology is evolving and more people are getting “on-line” all the time (see the Side Bar *Taking Your Business On-line*).

Cooperative Direct Mail Advertising

If your company has a limited amount of money to spend on direct mail, one solution is to use *cooperative* direct mail advertising, whereby a number of advertising messages are grouped together and distributed in a single envelope. In this way the postage, list, labeling and envelope expenses are shared. Co-op direct mail can result in a savings of as much as 80 percent over solo-direct mail. If you wish to market to the Mainland, companies such as Val-Pak of Hawaii can economically include your ad in co-op envelopes anywhere throughout the U.S. and Canada.

The most popular response system used with co-op direct mail is the coupon. When the coupon is redeemed, it serves as an accurate means of measuring response. In addition, the incentive provided by the offers or savings on a coupon often generate a good deal of business. According to a report by Frankel & Company, 91 percent of the households who receive direct mail coupons enjoy

Taking Your Business On-line

Many businesses are finding that advertising on the Internet brings a great response for relatively little expense. Here are a few tips from the Detroit News, October 16, 1995, for getting started ‘on-line’:

- “Familiarize yourself with the Internet and its capabilities. You don’t have to become a computer expert, but some basic understanding is helpful.
- Research your potential customers. See if they’re likely to surf the ‘Net.
- Determine whether your competitors are on-line. If they are, you may want to move quickly.
- Identify your business objectives; for example, new customers, information for a database or increased customer awareness.
- Decide what kind of information and image will best meet your goals. You can tailor your message specifically to Internet users.
- Shop around for web service providers. A large company may offer better prices; a small one, better service and support.
- Design a visually interesting site. It’s the best way to attract attention.
- Make sure your customers will be able to find you. Internet has lots of information, but it’s not organized.
- Most service providers do some kind of on-line public relations: They alert the major “search engines” about your company and establish links with other firms or topics.
- Be prepared for the potential response. Make sure you can fulfill all the information requests you’re likely to generate.”

receiving them. Because co-op mailings contain assorted advertisers, distributions are targeted to households or businesses in geo-demographic zones that are close to where the recipients shop. According to the U.S. Department of Commerce, the average business draws 95 percent of its customers from within a five mile radius of its location. Eighty percent are from within three miles.

Catalogs

Selling products by catalog has been, in recent years, an unusually successful approach to marketing. Currently, there are literally thousands of varieties of catalogs available worldwide and some retailers, based solely upon the success of their catalog sales, have closed their walk-in operations. Obviously, profit margins can be much higher without expensive store overhead.

On the other side of the coin, though, the production and distribution of a catalog can be an expensive undertaking. Professional photographs, copyrighting, design, prepress, color separations, printing, binding and distribution (either through direct mail or a catalog distribution company) can cost tens of thousands of dollars. Order fulfillment, likewise, requires a well-organized system (it is possible, however, to subcontract out to companies that specialize in this service). Before you decide to produce a catalog, you should:

- have a sufficient array of products to create an interesting catalog
- have calculated pricing to include all contingencies, including wholesale price increases
- have an adequate budget to pay for production and distribution of the catalog without compromising your company financially
- first test market the products you plan to sell through the catalog to confirm that they have sufficient “pull”
- make sure that adequate inventory is available and/or component parts for manufacturing the items can be easily obtained

When you are ready to produce your catalog, remember:

- hire a top-notch photographer who specializes in *your type of product*
- unless you are personally a good copywriter, use an experienced professional—it could make a significant difference in the overall number of orders
- have a designer coordinate the entire “look” of the catalog. Research has demonstrated that having a general theme throughout creates continuity and increases product interest
- create a “consumer friendly” order form that can be conveniently used and mailed (preferably with a postage-free business reply envelope) or faxed back. Provisions should be made for ordering by telephone also (credit card payments plus a toll-free telephone number)
- include a preface which tells the consumer about your company, why they should buy from you and that a money-back guarantee is provided if they are not satisfied

Be prepared to mail your catalog to the same consumers several times before you start getting regular orders. Not only does your target audience have to gain confidence in your company before they “risk” their money, but the majority of them must also go through the “pre-buying stages” of awareness, attention and consideration. Successive editions of your catalog need only include approximately 15 percent new products, according to the experts, the remainder may be repeats. This, fortunately, makes your second distribution much less expensive.

Database and Lists

Most catalog and all direct mail advertising is directed to the consumer through addresses grouped into specialized lists. A business can develop its own custom database or it can purchase names and addresses from a *list broker* or *list compiler*. In most cases you will be renting through a broker. They will advise you on how to choose the correct list for your needs and if it is necessary to

combine several kinds of lists to match the exact target market you desire. As was mentioned earlier, you must first understand who your potential customer is.

Letter Shops

If you have a number of items to be mailed out, it is often easier to go to a *letter shop* to have it taken care of. Not only are they usually list brokers, but they can also process (fold, insert, label, affix postage, mail) your mail. Some letter shops can also coordinate your printing.

U.S. Postal Service

The weight, size, number, and preparation of your mail, as well as the address labels, will determine the unit postage cost of your mailing. In some cases, a few minor changes can save a great deal of money. It is very important to know the appropriate postal regulations *prior* to preparing your direct mail piece or catalog.

Your business reply elements must be correct or your orders may never reach you. If you use bulk mail or business reply, a permit and assigned number are required.

The USPS Postal Business Center (Tel: 808-423-3761) is the business mailer’s one-stop source for answers to practically all business mailing questions. They will be glad to consult with you about your project.

Suggested Resources

Books

Freeman Gosden. 1985. *Direct Marketing Success*. John Wiley & Sons, New York.

Ray Jutkins. 1994. *Power Direct Marketing*. NTC Business Books, Lincolnwood, Illinois. (available at the Chamber of Commerce of Hawaii)

Murray Rafael & Ken Erdman. 1986. *Do-It-Yourself Direct Mail Handbook*. The Marketers Bookshelf, Philadelphia, Pennsylvania. (available through Pac Rim Marketing Group)

Data Service

Direct Mail Lists Rate and Data Services
Tel: (800) 323-4601

The Internet

- Lava Net (Tel: 808-545-5282)
- AT&T World Net (Tel: 800-967-5363)
- Hawaii On Line (Tel: 808-533-6981)
- PixiNet (Tel: 808-596-7494)
- Virtual Hawaii (Tel: 808-486-9050)
- Hawaii Internet Emporium (Tel: 808-538-7080)

Catalog Distribution Companies

Publisher Inquiry Services
951 Broken Sound Pkwy., NW, Bldg. 190
Boca Raton, FL 33431

USA Weekend Catalogs
P.O. Box 2158
Marion, OH 43305
Tel: (212) 715-2115

PacRim Marketing Group (for Japan)
2758 S. King St., Suite 206
Honolulu, HI 96826
Tel: (808) 949-4592

The Yellow Pages

For local vendors look under:

- advertising agencies
- direct mail
- mailing lists
- mailing services

- Printers
- Photographers
- Graphic designers
- Letter shop service
- Internet

The Bottom Line

Direct marketing is a readily accessible tool for any business because it can be done on a small or large scale. There are different types of direct marketing, and you can choose to incorporate one or a combination of techniques to suit your business size and your available capital. *Best of Luck!*

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Exporting Your Hawaii Product to a Foreign Market

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The structure of the world economy is changing rapidly, and the growth and potential in foreign markets present a great opportunity for Hawaii businesses. As an entrepreneur, you should think globally and realize that your real competitors are not your neighbors but rather the many exporting countries around the world. The success of your business may depend on how competitive you can be against foreign competitors.

The United States, now representing only 25 percent of the world economy, can no longer claim dominance in global markets. With strong competition in the United States from developing countries supplying low-cost products, U.S. consumers are becoming more and more price sensitive. For Hawaii producers, who must receive premium prices for their products, due to relatively high production and shipping costs, this creates the need to seek out opportunities in regions where people are more quality-conscious and willing to pay more for upscale products.

In light of these considerations, the greatest non-Mainland export prospects for fresh and processed Hawaii agricultural products include markets in Japan, the European Community, Canada, Hong Kong, China, Taiwan, Korea, and Singapore. The ability to succeed in these and other foreign markets requires long-term

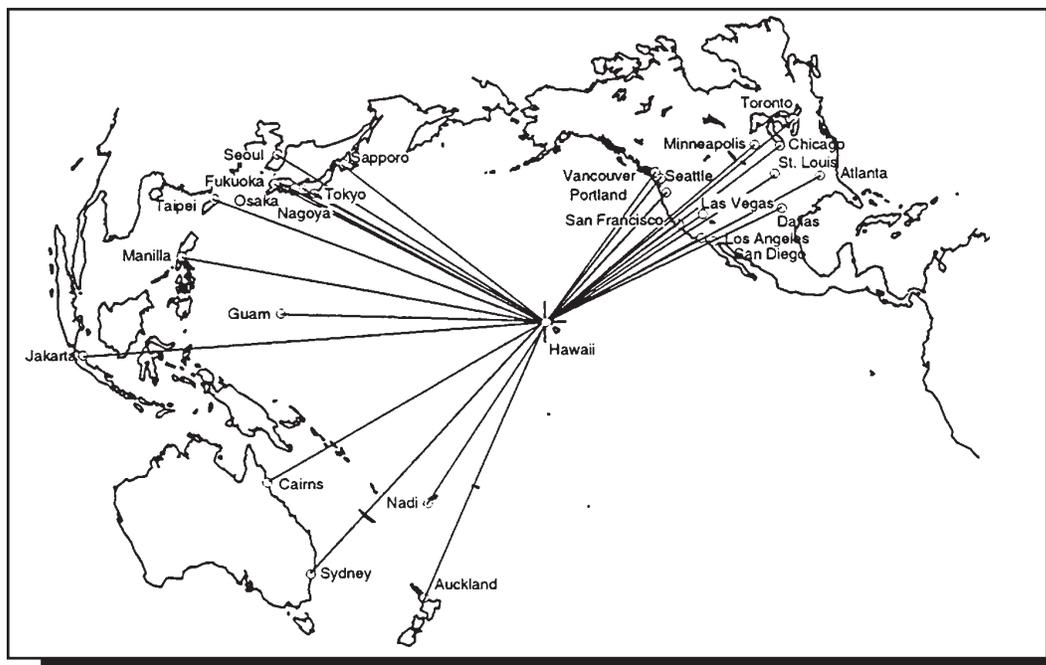
commitment, planning, and an understanding of different cultures, tastes, and preferences.

Whether you are currently exporting or planning to export your product in the future, there are many useful resources to assist you in the export process. In addition to this chapter, which serves as an introduction to the area of exporting, two good sources of information about exporting are *The World Is Your Market: An Export Guide for Small Business* and *The Do's and Taboos of International Trade* (see the section on *Suggested Resources for Exporters* for details). Another source, which is a good place to stop first for export assistance, is the *Hawaii District Export Assistance Center*, U.S. Department of Commerce, 300 Ala Moana Blvd., Room 4106, Honolulu, HI 96813, Tel: (808) 541-1782. These and the other resources listed in this chapter can provide a lot of insight into the complex world of exporting.

Competing in the Global Economy

Many developing countries have the ability to produce tropical products at a fraction of the costs that Hawaii producers face. In order to avoid direct competition with these low-cost commodities, Hawaii producers and processors must differentiate their products through quality and service, so that consumers have a reason to pay a higher price for the product.

Figure 1. Major Cities with Non-Stop Air Cargo Service From Hawaii



Note: Although non-stop service is the preferred type of service for many goods, Hawaii products are not restricted to these destinations. Source: *Enhancing Air Carrier Yields: Air Cargo Development in the State of Hawaii*, 1995.

Advantages for Hawaii Products

Some factors that help to differentiate your Hawaii product in foreign markets include:

- Hawaii's image as a beautiful tourist destination
- strict U.S. regulations on pesticide use
- high U.S. standards for packaging and labeling

Many consumers in industrialized countries have the ability and interest to purchase products not only based on price but also for the perceived benefits associated with buying the product. For example, a consumer who lives in a cold climate may be willing to pay more for a product from Hawaii because it reminds them of their wonderful vacation or takes their mind off of the weather outside. The important thing to remember is that Hawaii products must be more than "expensive products from a pretty place"—they need to be quality products, backed by good service.

New Market Opportunities

Producers and other exporters must be aware of and respond (sometimes rapidly) to changing market demand in order to take advantage of opportunities in foreign markets.

Many new market opportunities are developing in foreign markets. For example, the Japanese market for healthy and organic food, which has been growing steadily since the mid-1980s, presents an opportunity for Hawaii products. According to the U.S. Department of Agriculture, imports currently play only a small role in this booming market. Thus, the potential for growth in exports to this market is significant. Some other market opportunities for Hawaii products may result from:

- changing diets and an emerging middle class in Asia
- a younger generation that is more willing to pay for imported quality products than to become farmers
- marketing to smaller provinces within a country, instead of only to major cities and ports where markets may be saturated
- political developments and trade agreements

Hawaii producers need to look for these types of trends and opportunities, and research the possibilities for entering these and other markets.

Assessing Potential Export Markets

The best way to assess a potential market is by conducting market research (see the chapter on *Putting Together a Marketing Strategy*). Market research is simply collecting and interpreting information about your customers, your competition, and the market. You can use market research to determine whether or not to enter certain markets or to make decisions about how best to market your products in different markets.

You can get market information from industry trade associations, private companies that do market research for you, government agencies, and published data. In addition, you can collect your own data, called primary data, from surveys, in-store demonstrations, talking to customers, and many other ways. You should choose the best method for your company, depending on your needs and financial situation. For assistance in conducting market research, a great place to begin is the U.S. Department of Commerce, District Export Assistance Center (see the section on *Assistance in Foreign Trade* for details).

When assessing a potential export market, some important areas to research include the country's political climate, the competition and demand in your target market, the country's import system and infrastructure, and the culture. Each topic is discussed below.

Country's Political Climate

The political climate within a country can significantly impact your ability to export products to that country. You should be aware of the relationship between business and government, and any other political events or attitudes that may affect foreign companies. The political and trade relations that exist between the United States and a particular country will affect that country's trade status and, consequently, the process and cost of exporting to that country. For example, if a country has a favorable trade agreement with the United States, then the import process for U.S. goods into that country will likely be easier and more efficient. For information about the trade status of specific countries, contact the Trade Assistance and Promotion Office of the USDA Foreign Agricultural Service (see the section on *Assistance in Foreign Trade* for address).

Competition and Demand in Your Target Market

An assessment of the competition and demand in your target market is critical in determining if your business venture is feasible. Using market research, you can find out which companies are supplying a product similar to yours in a particular market, where it is being sold, at what price, and in what quantities. From this information, you will be more prepared to price your product competitively and to determine whether you can be profitable in that market.

Every country has certain commodities that are protected or have some barriers to entry, because the country typically does not want any competition or threat to their dominance in that market. For instance, rice is a commodity that is strongly protected in Japan. In such cases, the demand for that product as an import is extremely low, and it is very difficult for an imported product to compete against a local product. This does not mean that these commodities will always be protected, but it is important to be aware of the status of your

Marketing to the Mainland

In many ways, shipping to the Mainland and exporting your product to a foreign country are very similar. For example, in both cases you need to process many of the same business forms and follow all applicable quarantine regulations. But there are also many differences because shipping to the Mainland is considered “interstate commerce” and therefore there are certain advantages. When shipping to the Mainland you are:

- working in U.S. dollars and with U.S. banks
- protected by U.S. laws
- working in English (for the most part)
- working on the same calendar day (6 hours apart at the most)

These differences can make dealing with a Mainland buyer somewhat easier than dealing with a foreign buyer. But, although marketing to the Mainland can be less difficult than exporting, there are some drawbacks. For example, it can be difficult to get a product from Hawaii to New York because of quarantine regulations and the availability of shipping options. In addition, the Mainland markets, especially in California, are very competitive. Therefore, you will still need to distinguish your product through quality and service.

commodity within that country and the future trends regarding its protection.

One source for obtaining information about the competition and demand for your product is *The National Trade Data Bank*, which is put out by the U.S. Department of Commerce, Economics and Statistics Administration, and includes trade promotion data and international economic data from 15 federal agencies on a monthly basis. From this information, you can look at price and demand trends for specific commodities and in specific countries. The information is stored on a CD-ROM, which can be purchased separately each month or annually through subscription and can also be found at major public libraries. For more information, call the U.S. Department of Commerce at (202) 482-1986, contact the main public library, or look on the Internet at <http://www.stat-usa.gov/BEN/>.

Another helpful source, *Annual Exports and Imports Through the Honolulu Customs District*, provides data about many commodities exported from and imported into Hawaii from foreign countries, with a listing of the countries that import or export these products. A copy can be obtained from the Department of Business, Economic Development & Tourism’s Business Resource Center, Tel: (808) 586-2424.

You can also obtain information about foreign markets by talking to other local companies that are exporting, talking to a distributor, paying a private company to do market research for you, or contacting government agencies, such as the Department of Commerce.

Country’s Import System and Infrastructure

When conducting your market research, an important factor to consider is the efficiency of a country’s import system and infrastructure. An inefficient system causes delays, which can result in reduced product freshness, an increased retail price, and a decrease in your competitiveness. In order to reduce your business risk, you should be familiar with the country’s system and do what is required to make things run smoothly. In addition, the country’s infrastructure, such as warehouse facilities and local transportation, can greatly affect the quality of your product. Therefore, you need to know how your product will be handled within the country. You can gather this type of information by talking to a freight forwarder, embassy attache, or knowledgeable exporting company, or by travelling to do your own research.

Cultural Considerations

Once you have decided that you would like to export to a certain market, you should extend your research to include a study of the country’s cultural values, preferences, and holidays. The way that people perceive your product and your marketing message

can be the one reason that you fail or succeed in a particular market, regardless of the quality of your product. For example, in Japan fresh fruit isn’t viewed as a necessary part of their daily diet, as it is in the U.S., but rather it is considered a luxury item for gifts and desserts. Therefore, the quality and marketing of fruits in Japan must reflect the perception of fruit as a luxury item, or the product won’t sell. Moreover, this means that fruits are not in direct competition with vegetables, but with sweets and snacks, and an exporter must be aware of these differences to market such products appropriately.

If you are familiar with the major holidays and customs within the country that you export to, you can cater to their special needs for a particular time of year or special occasion. These types of events can create a very large demand for certain types of foods, and if you are prepared, this knowledge can lead to great business opportunities.

A good source for finding out about a country’s culture is the *Lonely Planet* series of travel guide books, which you can find in any bookstore.

Locating a Potential Buyer

Once you have finished your market research, you will need to get your product into the market(s) that you choose. There are many ways to locate an international buyer for your product. To locate a buyer for *direct* sales, you can:

- look on the World Trade Centers Association’s Internet site (<http://www.wtca.org/table.html>)

- ask people in your industry for leads
- attend overseas trade shows
- look at the ads in trade magazines
- work with government agencies, such as the U.S. Department of Commerce and USDA's Foreign Agricultural Service
- get leads through trade associations, such as the Western United States Agricultural Trade Association (WUSATA), and chambers of commerce
- look in industry directories, such as The Red Book and The Blue Book (see *Appendix A*)

Another option, more commonly used by small companies that are new to exporting, is to sell a product indirectly through a U.S.- or foreign-based intermediary. To sell your product by way of *indirect* sales, you can:

- hire a broker or agent
- sell through an export management company (EMC) or export trading company (ETC)
- sell through a foreign trading company
- hire a foreign agent or distributor

You can get leads about these types of export service companies from trade specialists at the U.S. Department of Commerce or the USDA's Foreign Agricultural Service, representatives from your industry trade association, foreign chambers of commerce in the United States, and U.S. chambers of commerce in foreign countries.

Whether you choose direct or indirect sales, you should use caution in establishing business relationships, and check out the credentials and credit of the buyer or company that you choose.

Export Pricing

As in any business venture, before exporting your product you must make sure that the benefits will outweigh the costs of doing business. In pricing your product for export, the strategy is very similar to pricing for domestic markets (see the chapter on *Your Cost of Production and Product Pricing*), but you need to take into account the extra costs associated with transporting and marketing to a foreign market, including:

- freight charges
- banking fees
- customs fees
- import duty
- pier and airport handling
- insurance
- international sales and promotional costs
- miscellaneous "local" fees

In addition to these cost considerations, it is important to consider how currency differences and fluctuations can affect the affordability of your product.

Shipping Tips

Shipping is a very important part of marketing your product because, among other things, the mode of transportation, the packing of your product, and the company that you choose can all affect the condition in which your product arrives at its destination.

The most complex aspect of shipping your product overseas is probably the paperwork. You and your buyer must protect yourselves from any "misunderstandings," therefore each step in the process requires documentation. Fortunately, there are companies that can take care of most of the paperwork for you. These companies are called freight forwarders, and typically they can provide a great deal of information about the export process and give advice to help you make decisions about your shipments.

Trade Terms

Along with the paperwork involved in shipping your product, knowledge of trade terms is also important. Trade terms, the "language" of the business, are used by exporters to describe what is included in the price of the shipment and at what point ownership of the goods is transferred. There is a standard interpretation of these terms, called INCOTERMS or International Commercial TERMS (see *Appendix C* for more details).

The following information was taken from the booklet *A Business of Details: Exporting High Value Agricultural Products* and provides a breakdown of the commonly used export terms as they relate to pricing:

Total product cost (cost per unit x number of units)
plus Profit
 Commissions
 Banking fees
 Palletization
 Freight forwarding and documentation fees
 USDA inspection and phytosanitary certificate fees
 Temperature recorder charges
 = **Ex Works price**

Ex Works price
plus Inland transportation
 = **FAS (free along side ship) price**

FAS price
plus Terminal handling charges
 = **FOB (free on board) price**

FOB price
plus Ocean freight charges
plus Ancillary charges
 = **CFR (cost and freight) price**

CFR price
plus Insurance
 = **CIF (cost, insurance, and freight) price**

These trade terms are frequently used in exporting and they define what is included in the price that you quote to your buyer. For example, if you quote an FAS price to your buyer, then your price will include, and you will pay for, all of the items in the Ex Works price *plus* the inland transportation. In other words, these terms help to determine exactly when ownership and responsibility for the shipment transfer from the seller to the buyer.

For more detailed information about preparing for and shipping your product, refer to the chapters on *Preparing Your Fresh and Processed Products for Transport* and *The Basics of Transporting Your Product*.

Getting Paid

Before shipping your product overseas, you need to make sure that the company that you're doing business with has a good credit history. You should ask the prospective buyer for credit references, so you can call some of the companies that they have done business with in the United States.

The next step is to determine the method of payment. In order to avoid any service charges for foreign currencies, the payment should be in U.S. dollars. Table 1 outlines some of the different methods of payment used in international trade. You should consult with your banker about the best method for your situation. In international trade, the most common methods of payment are letter of credit, documentary drafts for collection, and open account. Typically, open accounts are only used with established, creditworthy customers. The book, *The Do's and Taboos of International Trade*, has more information on this topic (see the section on *Suggested Resources for Exporters*).

Canada—An Example

As you can see from the information in this chapter about exporting, you have a lot of work ahead of you if you decide to export your product. Here is an example of the type of information that can be helpful when searching for potential markets.

Canada presents a great opportunity for Hawaii businesses. The Canadian market is attractive because of:

- direct flights from Hawaii to Canada through Vancouver and Toronto
- a growing Asian population in Canada (with food preferences similar to Hawaii)
- good U.S.-Canada political relations
- the North American Free Trade Agreement (NAFTA)

If you would like to know more about the potential for exporting your product to Canada, there are a number of recent resources that may be helpful. One resource is called *Marketing in Canada: A Guide for U.S. Food and Agricultural Products Exporters*, which is an excellent handbook that provides an overview of the Canadian market and U.S. trade with Canada, including information about regulations, NAFTA, packaging and labeling, and much more. In addition, there is a commodity section with specific information about the export requirements for a variety of products, such as fresh and processed fruits and vegetables, cut flowers and foliage, and nursery stock, plants, and plant materials, among others. There is also information about which products have restricted market access, trade shows, and USDA support services for the Canadian market.

Another report, called *Canada's Food Market*, gives a

Table 1. Comparison of Payment Methods for Exports

Method of Payment	Time of Payment to Seller	Goods Available to Buyer	Risk to Seller	Risk to Buyer
Cash in Advance	Prior to Shipment	On Arrival	None	Buyer has risk of loss of funds until merchandise arrives. Relies completely on seller to ship goods as ordered
Sight Letter of Credit	Within a few days after shipment	Upon settlement of Letter of Credit (L/C)	Very little, but depends on L/C conditions	L/C requires proof of shipment, but relies on seller to ship goods as described in L/C documents
Time Letter of Credit	At maturity of draft or at discounting of draft	Upon acceptance of time draft	Very little, but depends on L/C conditions	Payment must be made regardless of product quality
Sight Draft for Collection	Upon presentation of collection draft	After payment...if all Ocean Bills of Lading are in collection	Possible non-payment of draft	Buyer has assurance of shipment, but relies on seller to ship goods as described in documents accompanying draft
Time Draft for Collection	At maturity of draft	Upon acceptance of draft	Possible non-payment of draft, and buyer has possession of goods	Actual payment is due after receiving goods, payment should be made regardless of quality
Open Account	Upon payment of invoice	Upon delivery	Relies on buyer to pay invoice when due	No risks
Consignment	Upon sale of goods	Upon arrival	High risk: Goods are in buyer's control; payment delayed	No risks

Source: After USDA, AMS, *Agricultural Export Transportation Workbook #700*.

thorough description of Canada's food market, including trends, domestic and third-country competition within Canada, and regulations pertaining to Canada's food market. This report can be found on the U.S. Foreign Agricultural Service's Internet homepage (see the address below).

For more information about these two publications or a copy of either report, contact:

Trade Assistance and Promotion Office
USDA/Foreign Agricultural Service/AgExport Services Div.
Washington, D.C. 20250-1000
Tel: (202) 720-7420/Fax: (202) 690-4374
Internet: <http://www.fas.usda.gov>
email: fasinfo@fas.usda.gov

A third report, that provides current information about the potential for marketing Hawaii's tropical and specialty fruits in Canada, is called *A Market Study for Exporting Hawaii's Tropical and Specialty Fruits to Canada*. This report results from extensive market research and provides recommendations to producers. For more information, contact:

Hawaii Department of Agriculture
Market Development Branch
P.O. Box 22159
Honolulu, HI 96813
Tel: (808) 973-9595

Assistance in Foreign Trade

Although Canada is a good example of a potential export market for Hawaii businesses, there are many other markets throughout the world. There are a number of agencies and associations that provide assistance to those who want to export their product(s) to any number of foreign markets. Here are a few helpful sources of information and assistance:

Western United States Agricultural Trade Association
The Western United States Agricultural Trade Association (WUSATA) is a nonprofit regional trade association that promotes the export of high-quality products from the western United States. The Association works with international food buyers, western U.S. suppliers, state agricultural agencies, and the U.S. government to develop new market opportunities and promote U.S. agricultural products.

WUSATA publishes a complete guide to exporting called the *Export Assistance Packet*. The information presented in the packet



includes topics such as:

- An Export Checklist
- 94 Things Every Exporter Should Know
- Guide to Foreign Agricultural Service and Other AgExport Services
- Determining Your Export Price
- The Marketing Plan/Export Plan
- Evaluating Your Distributor or Agent
- The Ten Most Common Mistakes and Pitfalls to Be Avoided by New Exporters
- Overcoming the Obstacles to Export Documentation
- How to Pack Samples for Overseas Trade Shows
- Marketing Tips for Consumer-Oriented Exporters

The information provided in the WUSATA packet is extremely thorough and well organized and will be helpful for potential exporters or people currently exporting who have any questions or need references to other sources of information. A copy of the book can be purchased from:

Western United States Agricultural Trade Association
13101 N.E. Highway 99
Vancouver, Washington 98686-2786
Tel: (360) 574-2627
Fax: (360) 574-7083
<http://www.wusata.org>

U.S. Department of Agriculture Foreign Agricultural Service

The Foreign Agricultural Service (FAS) provides information to potential and current exporters about trends in agricultural trade, new market developments, foreign import requirements, and much more.

FAS offers a collection of helpful information in their *AgExport Action Kit*, which includes a copy of the *AgExporter* magazine with the most commonly asked questions about exporting, a questionnaire to see if exporting is right for you, a trade show calendar, information on access to trade leads, order forms for foreign buyer and U.S. supplier lists, and a guide to AgExport services, among other things. For a free copy of the Kit, contact AgExport Connections at (202) 720-7103 or fax your order to (202) 690-4374.

FAS also administers the *Market Promotion Program (MPP)*, which encourages the development, maintenance, and expansion of commercial export markets for some U.S. agricultural commodities. A subcomponent of MPP is the Export Incentive Program (EIP), which helps U.S. businesses with brand promotion activities, such as advertising, trade shows, in-store demonstrations, and trade seminars.



For more information on FAS and their services, or for export counseling and referrals, contact:

Trade Assistance and Promotion Office
USDA/Foreign Agricultural Service/AgExport Services
Washington, D.C. 20250-1000
Tel: (202) 720-7420/Fax: (202) 690-4374
Internet: <http://www.fas.usda.gov>
email: fasinfo@fas.usda.gov

The FAS Internet homepage (address listed above) is a great resource that offers information about FAS services, plus current market information. Under the heading "Foreign Market Research" you can find country reports, trade leads, food market reports for specific countries, foreign buyer lists, and market-specific reports. There is also information on FAS publications, international trade shows, trade policy, and export programs, among other things.

The FAS has about 80 overseas offices around the world to assist exporters in marketing U.S. agricultural products. These offices provide in-country statistics (which may also be obtained on the FAS Internet homepage), including trade leads, market reports, and foreign buyer lists, on most major products in many countries around the world. Here is a list of some of those addresses, including complete telephone dialing instructions from the United States:

Canada

Office of Agricultural Affairs
P.O. Box 5000
Ogdensburg, NY 13669-0430
Tel: (613) 238-4470 ext. 267/Fax: (613) 233-8511

China, Beijing

Office of Agricultural Affairs
U.S. Embassy
Xiu Shui Dong Jie 2
Beijing 100600, China
Tel: (011-86-1) 6532-3431 x 275/Fax: (011-86-1) 6532-2962

China, Guangzhou

Agricultural Trade Office
China Hotel Office Tower, Room 1259
Liu Hua Road
Guangzhou, China
Tel: (011-86-20) 667-7553/Fax: (011-86-20) 666-0703

Germany, Hamburg

Agricultural Trade Office
Alsterufer 28
20354 Hamburg, Germany
Tel: (011-49-40) 41-46-0730/Fax: (011-49-40) 41-46-0720

Hong Kong

Agricultural Trade Office
St. John's Building, 18th Floor
33 Garden Road, Central, Hong Kong
Tel: (011-852-2) 841-2350/Fax: (011-852-2) 845-0943

Japan, Osaka

Agricultural Trade Office
2-11-5 Nishi-tenma
Kita-ku, Osaka 530, Japan
Tel: (011-81-6) 315-5904/Fax: (011-81-6) 315-5906
email: atoosaka@atoosaka.ppp.bekkoame.or.jp

Japan, Tokyo

Agricultural Trade Office
8th Floor, Tameike Tokyu Building
1-14, Akasaka 1-chome
Minato-ku, Tokyo 107, Japan
Tel: (011-81-3) 3224-5115/Fax: (011-81-3) 3582-6429

Korea, Seoul

Office of Agricultural Affairs
Leema Bldg., Rm. 303
146-1 Susong-dong
Chongro-ku, Seoul 110-140, Korea
Tel: (011-82-2) 397-4188/Fax: (011-82-2) 720-7921

Singapore

Agricultural Trade Office
541 Orchard Road, #08-03
Liat Towers, Singapore 0923
Tel: (011-65) 737-1233/Fax: (011-65) 732-8307

Taiwan

Agricultural Trade Office
54 Nan Hai Road
Taipei, Taiwan
Tel: (011-886-2) 305-4883 x 286/Fax: (011-886-2) 305-7073

Most of the information that the above offices generate (e.g., market reports, trade leads, etc.) is maintained in the FAS Washington office (or on the FAS homepage), so you may be able to order the information you want with a single domestic telephone call, fax, or letter (see address below).

The Foreign Agricultural Service also publishes a variety of materials to assist U.S. exporters. For example, the:

AgExporter, a monthly magazine for agricultural and food exporters. Articles analyze U.S. agricultural trade, highlighting market opportunities and export promotion activities. Provides tips on exporting, descriptions of markets with the greatest sales potential, and info on export assistance available from USDA.

Agricultural Trade Highlights, a monthly news bulletin that provides a timely and comprehensive overview of recent developments and trends in U.S. agricultural trade. Each issue contains a summary of current trade statistics and the latest trade policy and marketing developments.

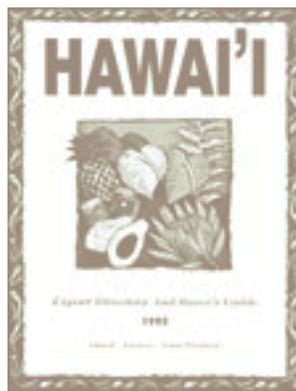
FAS Circulars, which present U.S. and world production and trade statistics for specific commodities, with an explanation of key developments in international markets.

These and other FAS publications can be ordered from:

National Technical Information Service (NTIS)
Technical Administration
U.S. Department of Commerce
Springfield, VA 22161
Tel: (703) 487-4630/Fax: (703) 321-8547

*Hawaii Department of Agriculture
Market Development Branch*

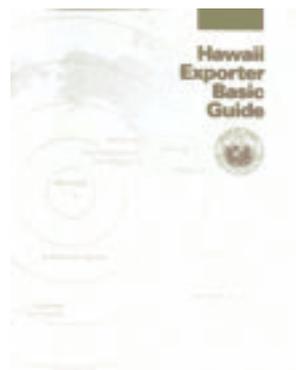
The Market Development Branch (MDB) of the Hawaii Department of Agriculture (HDOA) is very active in promoting Hawaii agricultural products locally, nationally, and internationally. MDB provides assistance with trade shows and printed materials. For instance, the *Export Directory & Buyer's Guide*, which is published by HDOA and distributed worldwide at trade shows, provides a list of many of Hawaii's products and producers (see the chapter on *Government Assistance in Marketing and Promoting Hawaii's Agricultural Products*). For more information, contact:



Hawaii Department of Agriculture
Market Development Branch
P.O. Box 22159
Honolulu, HI 96822-0159
Tel: (808) 973-9595/Fax: (808) 973-9590

*Hawaii Department of Business, Economic
Development & Tourism*

The State of Hawaii's Department of Business, Economic Development & Tourism (DBEDT) provides a guide to exporting called *Hawaii Exporter Basic Guide*. This guide gives potential exporters an overview of the export process and outlines the steps you need to take to reach your goals. The guide also provides contacts to other local departments and agencies that can help you with the different steps. You can get information about DBEDT's services and obtain a copy of this guide from:



Business Action Center
1130 N. Nimitz Highway, Suite A-254
Honolulu, HI 96817
Tel: (808) 586-2545/Fax: (808) 586-2544
Neighbor islands: (800) 468-4644 ext. 6-2545

*U.S. Department of Commerce
Hawaii District Export Assistance Center*

The Hawaii District Export Assistance Center (DEAC) is one of 84 such offices around the country where exporters and export-ready firms can obtain assistance and access to the export promotion programs and services of several federal government agencies. Assistance includes counseling on all aspects of exporting, access to market research, help in finding overseas representation, counseling on trade finance, and overseas product/service promotion and advertising. The office also conducts periodic workshops on exporting. For more information, contact:



U.S. Department of Commerce
Hawaii District Export Assistance Center
300 Ala Moana Blvd., Room 4106
Honolulu, HI 96813
Tel: (808) 541-1782/Fax: (808) 541-3435

Suggested Resources for Exporters

Since this chapter cannot include all of the information about exporting, here is a list of some additional publications. Some of these publications may also be found in your public library.

Books

- Axtell, Roger. 1994. *The Do's and Taboos of International Trade: A Small Business Primer*. John Wiley and Sons.
- Delphos, William A. (Ed.) 1990. *The World Is Your Market: An Export Guide For Small Business*. Braddock Communications. Washington, D.C.
- Horizon Pacific Ventures Limited. 1995. *Enhancing Air Carrier Yields: Air Cargo Development in the State of Hawaii*. Richmond, B.C., Canada. For a copy, contact Hawaii Department of Agriculture's Market Development Branch at (808) 975-9595.
- Institute of Research, Extension and Training for Agriculture. 1994. *Quality Standards and Marketing of Selected South Pacific Root Crops*. University of the South Pacific, Alafua Campus, Apia, Western Samoa.
- U.S. Department of Commerce. 1992. *A Basic Guide to Exporting*. Government Printing Office.
Tel: (415) 512-2770.

Periodicals

Business America—Bi-weekly publication. Contains information on international trade leads, marketing advice, export tips, and directories. Government Printing Office. Tel: (415) 512-2770 or (213) 239-9844.

Produce Business—Monthly magazine. An international business magazine serving the fruit, vegetable, and floral industries. MultiPress International, P.O. Box 810425, Boca Raton, FL 33481. Tel: (407) 241-4333.

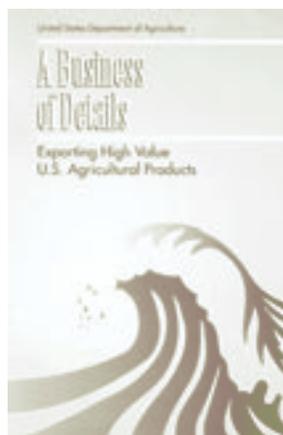
The Packer—Weekly newspaper. The business newspaper of the produce industry. Covers U.S. produce industry trade, domestic and international. 10901 W. 84th Terrace, Lenexa, Kansas 66214-1631. Tel: (800) 255-5113 or (913) 438-8700.

The Produce News—Weekly news publication. Covers U.S. produce industry trade, domestic as well as international interests. 2185 Lemoine Avenue, Fort Lee, New Jersey 07024. Tel: (201) 592-9100/Fax: (201) 592-0809.

1996 Directory of U.S. Importers and 1996 Directory of U.S. Exporters—Published yearly in late December. Provides list of U.S. companies (about 30,000 each) that import and export, with company profiles that include SIC codes, commodities, countries, size indicators and more. Available on CD-ROM. Tel: (800) 222-0356 ext. 6877 or (908) 454-6877.

Video

A Business of Details: Exporting High Value Agricultural Products. Provides an introduction to exporting high value agricultural products by following a sample shipment from a California farm to Taiwan. USDA, Agricultural Marketing Service. Tel: (202) 690-1304.



The Bottom Line

There are many opportunities for Hawaii businesses to market products in foreign markets. Exporting requires a lot of preparation, planning, and commitment, but the rewards can be great. If you are considering exporting your product, you must be prepared and willing to do what it takes to succeed.

There are many resources out there to help you export your product. So, seek out the answers to your questions and find out whether you would be a good candidate for exporting. *Good Luck!*

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Have Your Product Tested Before Exporting

Exporting your product can be very exciting and at the same time, risky. Reduce some of the potential problems with ingredients, labeling and packaging by having it first tested at the Oregon Department of Agriculture's Export Service Center in Portland. Billed as a "One Stop Technical Assistance Center for U.S. Food Manufacturers and Exporters," this facility can provide

- product evaluation
- product certification
- quality assurance for Japan Agricultural Standards labeling
- food additive evaluation
- food contamination evaluation

The Export Service Center reviews hundreds of products a year, 80 percent of which come from outside of Oregon. Fees are typically based on set hourly rates. For more information contact them at:

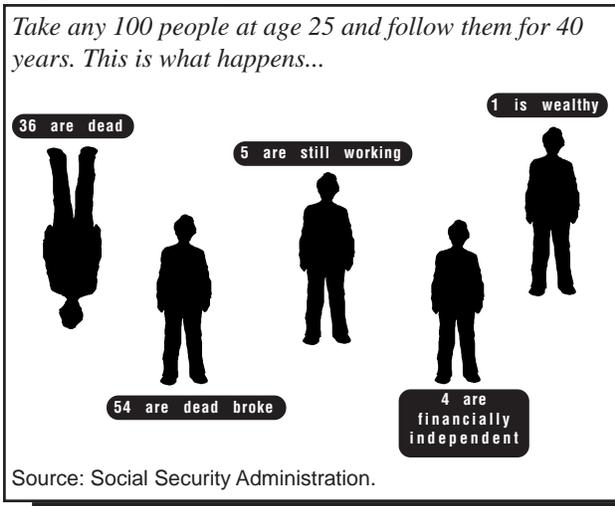
Oregon Department of Agriculture
Export Service Center
Alberts Mill Building
1200 N.W. Front Avenue, Suite 320
Portland, OR 97209-2898
Tel: (503) 229-6557/Fax: (503) 986-4762
email: esc-food@oda.state.or.us
http://www.oda.state.or.us/Lab_Services/esc_brochure.html

Saving and Investing Your Earnings

Bill Mason
Financial Network Investment Corporation

Throughout this book, the authors have talked about the importance of planning before you start a business, or plant, catch, or process a product, and the same holds true for saving and investing your earnings. The following statistics are somewhat dismal, because nobody plans to fail financially, but rather many people fail to plan . . . period.

Figure 1. 100 People at 65



Many busy growers, fishers, or processors, for instance, don't want to take the time to learn about the world of finance; there is too much other work to be done on the farm, on the boat, or at the factory to think about that stuff. Besides, the rationale goes, the farm or business will only increase in value and can be sold some day for enough money to live on forever. So, real retirement planning takes a perpetual back seat to often wishful thinking. Sound familiar? If the answer is yes, read on, because selling your business at the price you want and when you want is typically not all that easy.

In order for you to really begin to plan and get a handle on your financial future, you need to take a few simple steps:

- Take a guess about how long you can expect to live. Subtract that number from the number of years you have until retirement; your working years.
- Then estimate, in today's dollars, how much annual income you will need to have to live comfortably in your retirement years. A typical rule of thumb is 70–80 percent of your gross pre-retirement income.
- To reach that goal, you should then plan to save at least 5 percent of your gross income for your remaining working years. However, you may need to save even more, depending on factors such as:
 - your age
 - when you start saving
 - how many savings goals you have
 - your retirement plans
 - your investments' earnings

The most important action you can take is to start saving NOW! Even a small monthly savings can grow to large amounts, especially when you begin to save early.

The second most important thing you can do is to choose your investments wisely. The list of possibilities is long and growing and some are more appropriate than others for certain types of savings goals such as school and retirement.

Grades K–12 and College

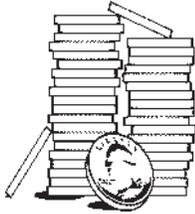
If you are planning to save money for your child's education, whether it is private school in grades K–12 or college, it is best to start as early as possible (conception), but the sooner the better. How much you regularly save depends again on how soon you start and the expected investment return.

For example, starting a college savings program for a one-year-old allows for more investment flexibility than one begun for a 15-year-old. This is because higher returning investments, such as stocks, are highly unpredictable in the short term. So while there has never been a holding period of 10 years or longer that resulted in a loss in the stock market, substantial losses can occur during shorter holding periods. Therefore, the later you get started, the more highly predictable your investment choices have to be, and the lower expected returns you have to settle for ¹.

An appropriate investment plan for someone with a 15-year or longer time horizon could be: 80 percent of the money invested in three or four types of common stock mutual funds, including 15–20 percent foreign stocks, and 20 percent in high yield or zero-coupon bonds with maturities matching the years in which the money will be spent. Conversely, if your child is only a few years away from college or private school, a more appropriate investment mix might be 20 percent in stock funds and 80 percent in various interest-bearing vehicles such as certificates of deposit (CDs), zero coupon bonds, U.S. treasury bills and notes, and perhaps tax-exempt municipal bonds, depending on your tax bracket.

Retirement Income

Take the same general approach in developing your retirement strategy as you would for a college education; the further away from retirement you are, the higher the percentage of equity-based investments, such as stocks of all types and real estate, you should have in your portfolio. Be sure to understand clearly, however, the possible downside to each mix of investments you consider and pick one plan you can stick with. This is because no long-term plan will work if you abandon it when prices are temporarily depressed.



The main difference between developing an investment strategy for retirement versus college (or another financial objective where the money will be spent all at once, such as for a down payment on a home), is that the money for retirement will be spent over many years . . . hopefully. Therefore, you don't have to totally change from a high-growth, higher-risk strategy to a conservative, lower-risk strategy as you get closer to retirement. Rather, it can be reallocated to a more balanced strategy with some income (lower risk) and some growth (higher risk) investments. This way your income from investments can grow throughout your retirement years, preserving your life-style in the face of the ever-increasing cost of living.

One way to take maximum advantage of your retirement savings opportunities is to fully fund all the tax-deferred options available to you as soon as possible.

Tax-deferred Retirement Plans— An Incentive to Save

A tax-deferred retirement plan, such as an IRA, Keogh, 403(b), or 401(k), can provide an incentive for you to save as much as possible towards retirement. In some cases, the money you invest is not subject to income tax at the time it's invested. To top it off, earnings on your investments grow tax-deferred until you withdraw the money!

If you can, start an automatic investment plan. This will help you "pay yourself first." Many employers will automatically deduct a portion of your salary and transfer the money into a 401(k), 403(b), or other company savings plan. You can also open an IRA or other retirement investment account and arrange for the bank or life insurance company to transfer automatically a fixed amount from your bank account into your IRA at regular intervals. Here's an overview of the different types of tax-deferred retirement plans.

Individual Retirement Account (IRA)

IRA's are available to anyone under age 70 1/2 with taxable compensation. In addition:

- an IRA provides the benefit of tax-deferred compounding interest on your investment and, thus, has more growth potential than ordinary taxable savings
- maximum contribution is \$2,000
- you may be able to deduct all or part of your contribution, providing an upfront tax savings as well
- if you participate in your employer's qualified plan and earn more than \$40,000 annually (\$25,000 for single taxpayers), your contribution is not fully deductible
- this upfront deduction phases out completely for taxpayers earning more than \$50,000 (\$35,000 for single taxpayers)

Simplified Employee Pension (SEP)

This plan allows the self-employed and small business owner to set aside a percentage of annual earnings in a tax-deferred plan.

401(k) Plan

Many companies offer their employees one of the best tax breaks available these days—a 401(k) plan. Under this plan:

- workers can voluntarily contribute pre-tax earnings to a retirement savings account that grows tax-deferred
- employees can contribute up to 15 percent of their salary or \$9,500, whichever is less (in 1996)
- many employers match worker contributions, making 401(k)s an almost unbelievable deal

Keogh Plan

These money-purchase or profit-sharing plans allow contributions of up to \$30,000 per year or as much as 25 percent of self-employment income, depending on the type of plan.

Tax Sheltered Annuities 403[b] and Tax Sheltered Custodial Accounts (403[b][7])

These plans are for employees of nonprofit organizations, such as public schools and universities. Under these plans:

- those who qualify (and their spouses, if eligible) may set aside up to \$9,500, or 20 percent of their income, whichever is less per year, toward retirement
- contributions are taken out of the salary before taxes, which reduces taxable income, and earnings grow tax-deferred

IRA's and SEP's are the easiest to set up and least expensive to track and administer for the self-employed and smallest business.

Most people who successfully maintain their standard of living during retirement receive income from pension plans, social security, *and* personal investments and

savings. (To check on your Social Security earnings record, call (800) 772-1213 and order a Personal Earnings and Benefit Estimate Statement form.)

How to Find and Choose an Investment Counselor

Similar to looking for an insurance agent, you can find an investment counselor by talking to friends who are satisfied with a certain company or counselor or by looking in the yellow pages; or if you are new in town, you could attend some of the investment seminars that are listed in local papers. Once you have collected the names of a few counselors, you will then need to decide what type of services you desire. For instance, do you want your investment counselor to just give you general advice, do you want them to invest in stocks or bonds, do you want them to review your portfolio and help you plan the next 5 years, and so forth. Make sure you understand what services they do and do not offer—not all counselors are alike. From there you will need to choose how you would like to pay for their services, e.g., set fee per hour, a percentage of the amount invested, a percent commission, and so on.

Once you have narrowed down your choices, ask your prospective counselor(s) for their professional credentials and for the names and phone numbers of 3–5 clients that have been with them for at least one year. Lastly, you may want to check with the State Securities Division of the State Department of Commerce & Consumer Affairs at (808) 586-2730 to see if they are registered to practice in the State and for how long, and also to find out if there have been any complaints against them. Once these decisions have been made you are ready to start planning for a successful future.

Start Saving Early

Remember, the most important action you can take is to

start saving and investing now! See Figure 2 below. The person who begins saving \$2,000 per year starting at age 31 will end up with \$8.52 for each dollar invested at age 65, while the person who waits until age 51 to begin saving will only accumulate \$2.33 for each dollar invested². This time advantage is often referred to as “The Power of Compounding.”

¹ As measured by the S&P 500 Index, an unmanaged list of common stocks often used as a measure of stock market performance. Excludes brokerage commissions and other costs. Source: Ibbotson & Associates.

² This assumes a 10 percent average annual return, which is approximately the return of the S&P 500 Stock Index over the last 30- and 60-year time periods.

Suggested Resources

Lynch, Peter with John Rothchild. 1993. *Beating the Street*. Simon and Schuster, New York, NY. 318 pp.

Coyle, Joseph S. 1996. *How to Retire Young and Rich*. Money Magazine. Warner Books, Inc., NY.

Porter, Sylvia. 1991. *Planning Your Retirement*. Prentice Hall, NY. 264 pp.

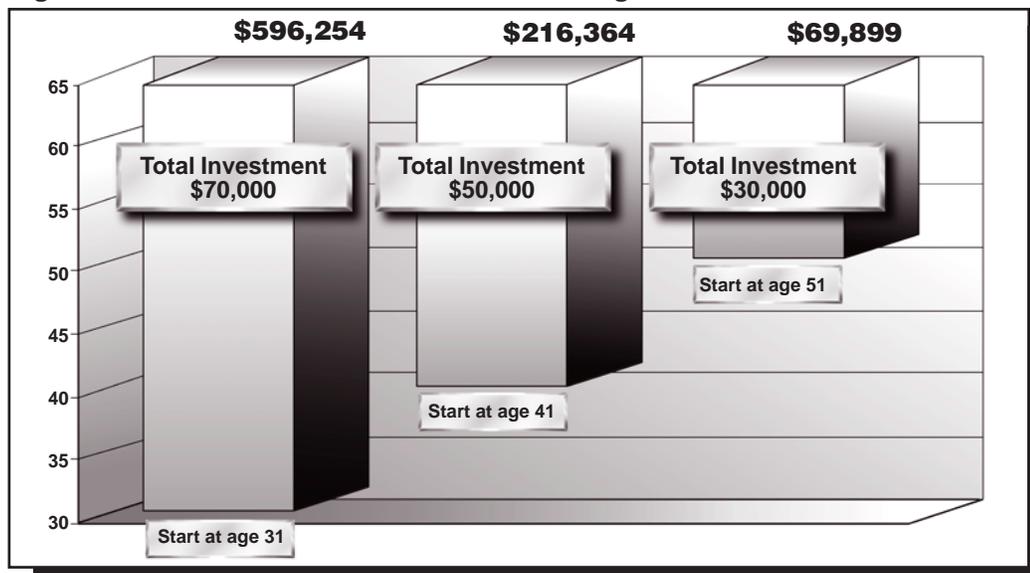
The Wall Street Journal. 1995. *Guide to Planning Your Financial Future*. Lightbulb Press, Inc. 187 pp.

Van Caspel, Venita. 1988. *Money Dynamics for the 1990's*. Simon and Schuster.

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Figure 2. The Value of Different Investments at Age 65



Afterword



J.W. A. Buyers
Chairman and CEO, C. Brewer and Company, Limited

The entrepreneurial traits of commitment, determination, and persistence are needed if Hawaii's communities are to meet the challenges of the future. A successful entrepreneur must have the courage, optimism, and clarity of vision to manage change, but most important, they must have the passion for the product or service that will be developed and marketed. Furthermore, an entrepreneur must be willing to take tremendous risks to fulfill his or her dreams, and have a passionate belief in the timeliness and potential of the business mission that has been chosen. Everyone, and especially our youth, can learn to be entrepreneurs, but without the passionate commitment to the dream, it is all in vain. Certain entrepreneurial endeavors require a lot more capital than others, and with the need to borrow huge sums of money, the risk increases, but so does the reward.

Many successful entrepreneurs have failed first before succeeding, so the road to success is rarely easy. Any new venture requires vision, planning, hard work, great risk, dedication, and usually a few tears, because of the sacrifices that are required. However, the well-earned rewards that a successful entrepreneur brings to himself or herself, his or her family, the community, and the State of Hawaii, make any sacrifice well worth the effort. The satisfaction that comes from a job well done and a vision fulfilled is exhilarating and fulfilling. Your most passionate dream is not only one of life's greatest challenges, but also one of life's greatest rewards.

Appendix A: Suggested Resources List

Chapter 1. Introduction

Kondo, Dennis. 1995. *Business Basics in Hawaii: Secrets of Starting Your Own Small Business in Our State*. Dennis Kondo Publisher, Honolulu, HI.

Looker, Dan. 1996. *Farmers for the Future*. Iowa State University Press/Ames. 182 pp. Tel: (800) 862-6657.

Chapter 2. Business Basics

Goodman, Robert B. and Robert A. Spicer (Ed.) 1974. *The Richest Man in Babylon*. Norfolk Island, Australia. Adapted from the original story by George S. Clason.

Chapter 3. The “TRICC” to Success

University of Hawaii at Hilo, Small Business Development Center Network Publications

- *The Business Planning Guide—Creating a Plan for Success in Your Own Business*
- *Cash Flow Control Guide—Methods to Understand and Control the Small Business' Number One Problem*
- *Market Planning Guide—Creating a Plan to Successfully Market Your Business Products or Services*
- *Innovation in Hawaii—A Resource Manual*

Chapter 4. Business Assistance

Hawaii Department of Business, Economic Development & Tourism. 1995. *Checklist for Employers in Hawaii*. Business Services Division. Tel: (808) 586-2545.

Hawaii Department of Business, Economic Development & Tourism. 1995. *Hawaii's Business Regulations: A Summary*. Business Services Division. Tel: (808) 586-2545.

Hawaii Department of Business, Economic Development & Tourism. 1995. *Starting a Business in Hawaii*. Business Services Division. Tel: (808) 586-2545.

Internet

University of Hawaii, Pacific Business Center Program
<http://www.cba.hawaii.edu/pbcp/>

College of Tropical Agriculture and Human Resources,
Cooperative Extension Service
<http://www.ctahr.hawaii.edu>

University of Hawaii at Manoa, Office of Technology
Transfer and Economic Development
<http://www.mic.hawaii.edu/otted/otted.html>

U.S. Small Business Association, Hawaii Branch
<http://www.sbaonline.sba.gov>

The Business Information and Counseling Center
<http://sbaonline.sba.gov/regions/states/hi>

Chapter 5. Choosing the Legal Structure

Hawaii Department of Business, Economic Development & Tourism. 1995. *Hawaii's Business Regulations: A Summary*. Business Services Division. Tel: (808) 586-2545.

Hawaii Department of Business, Economic Development & Tourism. 1995. *Starting a Business in Hawaii*. Business Services Division. Tel: (808) 586-2545.

Kansas State University. *Legal Considerations for Small Business*. Small Business Development Center, 2323 Anderson Ave., Suite 100, Manhattan, KS 66502-2912 Tel: (913) 532-5529.

Kondo, Dennis. 1995. *Business Basics in Hawaii: Secrets of Starting Your Own Small Business in Our State*. Dennis Kondo Publisher, Honolulu, HI.

Chapter 6. Business Plan

Hawaii Department of Business, Economic Development & Tourism. 1995. *Starting a Business in Hawaii*. Business Services Division. Tel: (808) 586-2545.

Hawaii Department of Business, Economic Development & Tourism. 1995. *State of Hawaii Data Book: A Statistical Abstract*. Research and Economic Analysis Division. Tel: (808) 586-2423.

Jenkins, Michael D. 1988. *Starting and Operating a Business in Hawaii*. Michael D. Jenkins Publisher.

Kondo, Dennis. 1995. *Business Basics in Hawaii: Secrets of Starting Your Own Small Business in Our State*. Dennis Kondo Publisher, Honolulu, HI.

Software

BizPlan Builder
by Jian

Business Plan Writer
by Graphic Software

Chapter 7. Business Funding

See chapter for listing of organizations.

Chapter 8. Business Insurance

See chapter for contacts.

Chapter 9. Marketing Strategy

Doman, Don, Dell Dennison, and Margaret Doman. 1993. *Look Before You Leap: Market Research Made Easy*. International Self-Counsel Press Ltd.

Chapter 10. Employees

Hawaii Department of Business, Economic Development & Tourism. 1995. *Checklist for Employers in Hawaii*. Business Services Division. Tel: (808) 586-2545.

Hawaii Department of Labor and Industrial Relations. *HIOSH Handbook for Small Businesses*. Hawaii Occupational Safety and Health Division (HIOSH). Tel: (808) 586-9100.

Nelson, Bob. 1994. *1001 Ways to Reward Employees*. Workman Publishing, New York, NY. 274 pp.

The Chamber of Commerce of Hawaii. 1996. *Chamber Desk Manual: Labor and Employment Law for Hawaii Employers*. 3rd Edition. Tel: (808) 545-4312.

U.S. Department of Education. *Choosing the Right Training Program: A Guidebook for Small Business*. Tel: (202) 512-1800.

Computer Software

Employee Appraiser

This software makes writing employee evaluations easier. To order, call the Austin-Hayne Corporation at (800) 809-9920.

Review Writer

This software makes writing employee performance reviews easier. To order, call Avantos Performance Systems at (800) AVANTOS.

Chapter 11. Cost of Production and Product Pricing

Fleming, Kent. 1994. *The Economics of Wetland Taro Production in Hawaii*. College of Tropical Agriculture and Human Resources, Honolulu, HI. Agribusiness #7.

Chapter 12. Managing Your Finances

Barry, P., J. Hopkin and C. Baker. 1994. *Financial Management in Agriculture*. Interstate Printers & Publishers, Inc.

Computer Software

QuickBooks by Intuit

M.Y.O.B. Small Business Accounting by BestWare

Peachtree Accounting by Peachtree Software

Chapter 13. Market Statistics

See the chapter for lists of Hawaii Agricultural Statistics Service (HASS) and Market News Service reports.

Internet

U.S. Department of Agriculture, Economics and Statistics System, includes data sets with agricultural data and reports with economic forecasts.
gopher://usda.mannlib.cornell.edu/

U.S. Department of Agriculture, National Agricultural Statistics Service (NASS), includes data from the Agricultural Statistics book.
<http://www.usda.gov/nass/>

U.S. Department of Agriculture, provides livestock, fruit, and vegetable statistics on two different websites. For livestock: <http://ianrwww.unl.edu/markets/>

For fruits and vegetables: <http://www.milcom.com/fintrac/prices.html>

Chapter 14. Production Agriculture

Crawford, David Livingston. 1937. *Hawaii's Crop Parade: A Review of Useful Products Derived from the Soil in the Hawaiian Islands, Past and Present*. Advertiser Publishing Co., Ltd., Honolulu, HI. pp 305.

Hamilton, Neil. 1995. *A Farmer's Legal Guide to Production Contracts*. Top Producer Book, Center Square West, 1500 Market Square 28th Floor, Philadelphia, PA 19102-2181. Tel: (215) 557-8963. \$16.95

Philipp, Perry F. 1953. *Diversified Agriculture of Hawaii: An Economist's View of its History, Present Status, and Future Prospects*. University of Hawaii Press, Honolulu, HI. pp 226.

Roecklein, John C. and PingSun Leung (Ed.) 1987. *A Profile of Economic Plants*. Transaction Books, New Brunswick, NJ. pp 623.

Small Farm Center (Ed.) 1994. *Small Farm Handbook*. University of California, Davis. ANR Publications, Division of Agriculture and Natural Resources, University of California, 6701 San Pablo Ave., Oakland, CA 94608-1239. \$20.00

Software

Knowledge Master

(Windows-based pest information software)

Department of Entomology
University of Hawaii at Manoa
3050 Maile Way, Gilmore 310
Honolulu, Hawaii 96822
Tel: (808) 956-7076

Farmer's Bookshelf

(Mac and Windows production information software)
Department of Horticulture
University of Hawaii at Manoa
3190 Maile Way, St. John 102
Honolulu, Hawaii 96822
Tel: (808) 956-8351

Chapter 15. Aquaculture

Bardach, J., J. Ryther, and W. McLarney. 1972. *Aquaculture: The Farming & Husbandry of Freshwater & Marine Organisms*. John Wiley & Sons Interscience Pub., New York, NY. 868pp.

Bay, J.H. 1994. *Permits and Regulations For Aquaculture in Hawaii: A Brief Guide*. Hawaii Department of Land and Natural Resources, Aquaculture Development Program. Honolulu, HI.

Boyd, C. E. 1982. *Water Quality Management for Fish Pond Culture*. Elsevier Science Publishing Co. Inc. New York, NY. 482pp.

Browser, P.R., and J.K. Buttner. 1991. *General Fish Health Management*. Northeastern Regional Aquaculture Center (NRAC Fact Sheet No. 111-1991), University of Massachusetts at Dartmouth.

Conte, F.S. 1992. *Evaluation of a Freshwater Site for Aquaculture*. Western Regional Aquaculture Center (Fact Sheet No. 92-101), University of California at Davis, Cooperative Extension Service.

Fleming, K., G. Keala, and W. Monohan. 1994. *The Economics of Revitalizing Hawaiian Fishpond Production*. AgriBusiness. AB-009. The College of Tropical Agriculture and Human Resources, University of Hawaii at Manoa, Honolulu, HI.

Landau, M. 1991. *Introduction to Aquaculture*. John Wiley & Sons, Inc. New York, NY. 440pp.

Lipton, D.W. and R.M. Harrell. 1990. *Figuring Production Costs in Finfish Aquaculture*. Finfish Aquaculture Workbook Series (Pub. No. UM-SG-MAP-90-02). Cooperative Extension Service, University of Maryland System, Maryland Sea Grant Extension Program.

New, M.B. and S. Singholkla. 1985. *Freshwater Prawn Farming: A Manual for the Culture of Macrobrachium rosenbergii*. FAO Fisheries Technical paper 225. United Nations press, Rome, Italy.

Piper, R., McElwain, et al. 1982. *Fish Hatchery Management*. United States Department of Interior, Fish and Wildlife Service, Washington, D.C. 517pp.

Spotte, S. 1979. *Fish and Invertebrate Culture: Water Management in a Closed System*. 2nd ed. John Wiley & Sons, Inc., New York, NY. 179pp.

Stickney, R.R. 1979. *Principles of Warmwater Aquaculture*. John Wiley & Sons, Inc., New York, NY. 179pp.

Strombom, D.B., Tweed, S. M. 1992. *Business Planning for Aquaculture—Is It Feasible?* Northeastern Regional Aquaculture Center (NRAC Fact Sheet No. 150-1992), University of Massachusetts at Dartmouth.

Szyper, J. 1989. *Backyard Aquaculture in Hawaii*. Aquaculture Development Program, Windward Community College. 104pp.

Van Gorder, S.D., and D.J. Strange. 1992. *Home Aquaculture: A Guide to Backyard Fish Farming*. Alternative Aquaculture Association, Inc. Rodale Research Center Press. 136pp.

Chapter 16. Commercial Fishing

Smith, Frederick J. 1975. *The Fishermen's Business Guide*. International Marine Publishers, Co.: Camden, ME.

Marine Fisheries Review. 1993. *Fisheries of Hawaii and U.S.-Associated Pacific Islands*. Vol 55(2).

Internet

The National Marine Fisheries Service website
<http://kingfish.ssp.nmfs.gov>

Chapter 17. Livestock Products and Markets

Hawaii State Department of Health. 1996. *Guidelines for Livestock Waste Management*. Wastewater Branch, Honolulu, HI.

Hawaii Department of Agriculture. 1994-95. *Statistics of Hawaiian Agriculture*. Hawaii Agricultural Statistics Service, Honolulu, HI.

U.S. Department of Agriculture. *Hawaii Monthly Livestock Review*. Hawaii Agricultural Statistics Service, Honolulu, HI.

Internet

U.S. Department of Agriculture, Food Safety and Inspection Service
<http://www.usda.gov/agency/fsis/homepage.htm>

Chapter 18. Intellectual Property Rights

Department of Commerce. 1993. *Basic Facts About Patents*. Patent and Trademark Office. Government Printing Office Bookstore. Tel: (415) 512-2770.

Department of Commerce. 1993. *Basic Facts About Registering a Trademark*. Patent and Trademark Office. Government Printing Office Bookstore. Tel: (415) 512-2770.

U.S. Department of Agriculture. 1995. *Agricultural Inventions: How to Apply for a Patent License*. Agricultural Research Service. Program Aid No. 1369. Tel: (301) 504-6786.

Chapter 19. Office Equipment, Services, and Supplies

Computer magazines:

Home Office Computing
Consumer Reports
Mac World and *MacUser*
PC World and *PC Magazine*

Chapter 20. Sales Documentation and Procedures

Hawaii Administrative Rules, Chapter 4–90, Uniform Packaging and Labeling

Chapter 21. Protection and Regulation in the Produce Industry

Hamilton, Neil. 1995. *A Farmer's Legal Guide to Production Contracts*. 175 pp. Top Producer Book, Centre Square West, 1500 Market Street 28th Floor, Philadelphia, PA 19102-2181. Tel: (215) 557-8963.

Chapter 22. Government Assistance

Hawaii Department of Agriculture. 1996. *Hawaii's Farmer/Chef/Wholesaler Source Book: A Guide to Locating Buyers and Seller of Local Products*. Market Development Branch. Tel: (808) 973-9595.

Hawaii Department of Agriculture. 1994-1995. *Export Directory and Buyer's Guide*. Market Development Branch. Tel: (808) 973-9595.

Chapter 23. Grower/Trade Associations

Internet

Hawaii's Agriculture Gateway
<http://makaha.mic.hawaii.edu:80/hawaiiag>

The University of Hawaii, College of Tropical Agriculture and Human Resources' Publications and Information Office keeps an official list of the hundreds of Hawaii-based agricultural and human resource organizations on their home page at <http://www.ctahr.hawaii.edu>.

Chapter 24. Marketing Cooperatives

U.S. Department of Agriculture, Rural Business-Cooperative Service publications:

Cooperative Information Report 7: How to Start A Cooperative, revised 1993.

Cooperative Information Report 1: Fruit and Vegetable Cooperatives, Section 13, revised 1990.
Cooperative Principles and Legal Foundations, Section 1, revised 1993.
Cooperative Benefits and Limitations, Section 3, revised 1990.

Chapter 25. Trade Shows

See chapter for organizational resources.

Chapter 26. Package Design

Graphic Artists Guild. 1991. *Graphic Designers Guild Handbook: Pricing and Ethical Practices*. Graphic Artists Guild, 11 West 20th Street, New York, NY 10011. Tel: (212) 463-7730.

Chapter 27. Preparing Fresh and Processed Products for Transport

Air Transport Association of America, National Fisheries Institute. *Guidelines for the Air Shipment of Fresh Fish and Seafood*. 2nd Ed. Washington, DC.

Ashby, B.H. 1995. *Protecting Perishable Foods During Transport by Truck*. USDA, Agricultural Marketing Service. Agriculture Handbook #669. Tel: (202) 690-1304.

Hardenburg, R.E., A.E. Watada, C.Y. Wang. 1986. *The Commercial Storage of Fruits, Vegetables, and Florist or Nursery Stocks*. USDA, Agricultural Research Service. Agriculture Handbook #66. (Out of print, but may be available in government libraries.)

McGregor, Brian M. 1989. *Tropical Products Transport Handbook*. USDA, Agricultural Marketing Service. Agriculture Handbook #668. Tel: (202) 690-1304.

Welby, Ellen M., Brian M. McGregor. 1993. *Agricultural Export Transportation Workbook*. USDA, Agricultural Marketing Service. Agriculture Handbook #700. Tel: (202) 690-1304.

Chapter 28. Transporting Your Product

Axtell, Roger E. 1994. *The Do's and Taboos of International Trade*. John Wiley and Sons, Inc.

Envirocontainer Leasing Company
Leases insulated shipping containers and sells packaging products for perishables.
Tel: (800) 227-8298/(619) 232-1935

Gray, M. Elizabeth, and Ellen M. Welby. 1995. *A Business of Details: Exporting High Value U.S. Agricultural Products*. Video and booklet. USDA, Agricultural Marketing Service. Tel: (202) 690-1304.

Welby, Ellen M., and Brian M. McGregor. 1993. *Agricultural Export Transportation Workbook*, USDA, Agricultural Marketing Service. Agriculture Handbook #700. Tel: (202) 690-1304.

Chapter 29. Quarantine Regulations

See chapter for organizational resources.

Chapter 30. Going Commercial with a Kitchen Recipe

Chilton Company. *Food Engineering Master Catalog*. 1 Chilton Way, Radnor, PA 19089. Published annually and for sale by Chilton Company, Tel: (215) 964-4000/Fax: (215) 964-2915.

Cunniff, Patricia (Ed.) 1995. *Official Methods of Analysis of the Association of Official Analytical Chemists*. 16th Edition. Association of Official Analytical Chemists, Inc. 481 North Frederick Ave., Suite 500, Gaithersburg, MD 20877. Tel: (301) 924-7077.

Hall, Stephen F. 1992. *From Kitchen to Market: Selling Your Gourmet Food Specialty*. Upstart Publishing Co. Chicago, IL. 190 pp. Tel: (800) 235-8866.

Nelson-Stafford, Barbara. 1991. *From Kitchen to Consumer—The Entrepreneur's Guide to Commercial Food Production*. Academic Press, Inc. San Diego, CA. 343 pp.

Office of the Federal Register National Archives and Record Administration. *Code of Federal Regulations*, Title 21, Parts 100 to 169. Washington, D.C. Published annually and for sale by the U.S. Government Printing Office. Tel: (415) 512-2770.

Chapter 31. "Adding Value"

Gibson, Eric. 1994. *Sell What You Sow! The Growers Guide to Successful Produce Marketing*. New World Publishing, Placerville, CA. 304pp. Tel: (916) 622-2248.

Chapter 32. Marketing Fresh Produce to a Wholesaler

No resources listed.

Chapter 33. Alternative Marketing Outlets

Courter, J.W. and R.B. How. 1990. "Marketing Small Fruits" in *Small Fruit Crop Management*, Galletta and Himelrick, editors. Prentice-Hall, Inc., Englewood Cliffs, New Jersey.

Gibson, Eric. 1993. *Sell What You Sow! The Grower's Guide to Successful Produce Marketing*. New World Publishing, Placerville, CA. 304 p.

Lee, Andrew. 1993. *Backyard Market Gardening: The Entrepreneur's Guide to Selling What You Grow*. Good Earth Publications, Burlington, VT. 351 p.

Woods, Michelle and Anne Zumwalt. 1990. *How to Establish & Operate a Roadside Stand*. Small Farm Center, University of California, Davis, CA. 29 p.

Young, Deborah. 1995. "Characteristics of Direct Marketing Alternatives". In the *Direct Farm Marketing and Tourism Handbook*. Arizona Cooperative Extension, University of Arizona, Tucson, AZ. 250 p.

Chapter 34. Marketing to a Local Retail Florist

No resources listed.

Chapter 35. Marketing Seafood Products

See chapter for organizational resources.

Chapter 36. Marketing to Chefs

Gibson, Eric. 1994. *Sell What You Sow! The Grower's Guide to Successful Produce Marketing*. New World Publishing, Placerville, CA. 304pp.

Fleming, Kent and Shelley Hoose. 1993. *Hawaii Grown: From Farm to Restaurant*. College of Tropical Agriculture and Human Resources, University of Hawaii at Manoa, Honolulu, HI. 65pp.

Hawaii Department of Agriculture, Market Development Branch. 1996. *Hawaii's Farmer/Chef/Wholesaler Source Book: A Guide to Locating Buyers and Seller of Local Products*. Tel: (808) 973-9595.

Hawaii Food Service News—monthly publication. Nicholas Publishing Company. Tel: (808) 941-4413.

Chapter 37. Marketing to Specialty Stores

The Compleat Kitchen newsletter
Ala Moana Center, 240 F Puuhale Road, Honolulu, HI 96819. Tel: (808) 944-1741.

Chapter 38. Marketing to the Military

U.S. Small Business Administration. *U.S. Government Purchasing and Sales Directory*, 11th Edition. To order this publication, call: (415) 512-2770.

Chapter 39. Marketing to Institutional Buyers

See chapter for organizational resources.

Chapter 40. Marketing to Airport Shops

No resources listed.

Chapter 41. Direct Marketing

Freeman Gosden. 1985. *Direct Marketing Success*. John Wiley & Sons, New York.

Murray Rafael & Ken Erdman. 1986. *Do-It-Yourself Direct Mail Handbook*. The Marketers Bookshelf, Philadelphia, Pennsylvania. (also available through Pac Rim Marketing Group, Hawaii)

Ray Jutkins. 1994. *Power Direct Marketing*. NTC Business Books, Lincolnwood, Illinois. (available at the Chamber of Commerce of Hawaii)

Internet

Hawaii Internet Emporium, Inc.
<http://www.pete.com/>

Chapter 42. Exporting Your Product to Foreign Markets

Axtell, Roger. 1994. *The Do's and Taboos of International Trade: A Small Business Primer*. John Wiley and Sons.

Delphos, William A. (Ed.) 1990. *The World Is Your Market: An Export Guide For Small Business*. Braddock Communications. Washington, D.C.

Hawaii Department of Agriculture. 1995. *A Market Study for Exporting Hawaii's Tropical and Specialty Fruits to Canada*. Prepared by Abel, Daft, Earley and Ward, International, Virginia. For a copy, contact the Market Development Branch at (808) 973-9595.

Horizon Pacific Ventures Limited. 1995. *Enhancing Air Carrier Yields: Air Cargo Development in the State of Hawaii*. Richmond, B.C., Canada. For a copy, contact Hawaii Department of Agriculture's Market Development Branch at (808) 975-9595.

Institute of Research, Extension and Training for Agriculture. 1994. *Quality Standards and Marketing of Selected South Pacific Root Crops*. University of the South Pacific, Alafua Campus, Apia, Western Samoa.

U.S. Department of Agriculture. 1994. *Canada's Food Market*. Agricultural Affairs Office of the Foreign Agricultural Service, Ottawa, Canada.

U.S. Department of Agriculture. 1992. *Marketing in Canada: A Guide for U.S. Food and Agricultural Products Exporters*. Agricultural Affairs Office of the Foreign Agricultural Service, Ottawa, Canada.

U.S. Department of Commerce. 1992. *A Basic Guide to Exporting*. Government Printing Office. Tel: (415) 512-2770.

Internet

U.S. Department of Agriculture, Foreign Agriculture Service, <http://www.fas.usda.gov>

World Trade Center Association
<http://www.wtca.org/table.html>

Periodicals

Business America—Bi-weekly publication. Contains information on international trade leads, marketing advice, export tips, and directories. Government Printing Office. Tel: (415) 512-2770 or (213) 239-9844.

Produce Business—Monthly magazine. An international business magazine serving the fruit, vegetable, and floral industries. MultiPress International, P.O. Box 810425, Boca Raton, FL 33481. Tel: (407) 241-4333.

The Packer—Weekly newspaper. The business newspaper of the produce industry. Covers U.S. produce industry trade, domestic and international. 10901 W. 84th Terrace, Lenexa, Kansas 66214-1631. Tel: (800) 255-5113 or (913) 438-8700.

The Produce News—Weekly news publication. Covers U.S. produce industry trade, domestic as well as international interests. 2185 Lemoine Avenue, Fort Lee, New Jersey 07024. Tel: (201) 592-9100/Fax: (201) 592-0809.

1996 Directory of U.S. Importers and 1996 Directory of U.S. Exporters—Published yearly in late December. Provides list of U.S. companies (about 30,000 each) that import and export, with company profiles that include SIC codes, commodities, countries, size indicators and more. Available on CD-ROM. Tel: (800) 222-0356 ext. 6877 or (908) 454-6877.

Video

A Business of Details: Exporting High Value Agricultural Products. Provides an introduction to exporting high value agricultural products by following a sample shipment from a California farm to Taiwan. USDA, Agricultural Marketing Service. Tel: (202) 690-1304.

Chapter 43. Saving and Investing

Lynch, Peter with John Rothchild. 1993. *Beating the Street*. Simon and Schuster, New York, NY. 318 pp.

Coyle, Joseph S. 1996. *How to Retire Young and Rich*. Money Magazine. Warner Books, Inc., NY.

Porter, Sylvia. 1991. *Planning Your Retirement*. Prentice Hall, NY. 264 pp.

The Wall Street Journal. 1995. *Guide to Planning Your Financial Future*. Lightbulb Press, Inc. 187 pp.

Van Caspel, Venita. 1988. *Money Dynamics for the 1990's*. Simon and Schuster.

Appendix B: U.S. Small Business Administration Publications Resource Directory for Small Business Management

Title	Item Number	Cost (per item)
<i>Emerging Business Series</i>		
Transferring Management/Family Businesses	EB01	\$3.00
Marketing Strategies for Growing Businesses	EB02	\$3.00
Management Issues for Growing Businesses	EB03	\$3.00
Human Resource Management for Growing Businesses	EB04	\$3.00
Audit Checklist for Growing Businesses	EB05	\$3.00
Strategic Planning for Growing Businesses	EB06	\$3.00
Financial Management for Growing Businesses	EB07	\$3.00
<i>Financial Management</i>		
ABC's of Borrowing	FM01	\$2.00
Understanding Cash Flow	FM04	\$2.00
A Venture Capital Primer for Small Business	FM05	\$2.00
Budgeting in a Small Service Firm	FM08	\$2.00
Record Keeping in a Small Business	FM10	\$2.00
Pricing Your Products and Services Profitably	FM13	\$2.00
Financing for Small Business	FM14	\$2.00
<i>Management and Planning</i>		
Problems in Managing a Family-Owned Business	MP03	\$2.00
Business Plan for Small Manufacturers	MP04	\$2.00
Business Plan for Small Construction Firms	MP05	\$2.00
Planning and Goal Setting for Small Business	MP06	\$2.00
Business Plan for Retailers	MP09	\$2.00
Business Plan for Small Service Firms	MP11	\$2.00
Checklist for Going into Business	MP12	\$2.00
How to Get Started With a Small Business Computer	MP14	\$2.00
The Business Plan for Home-Based Business	MP15	\$2.00
How to Buy or Sell a Business	MP16	\$2.00
Developing a Strategic Business Plan	MP21	\$2.00
Inventory Management	MP22	\$2.00
Selecting the Legal Structure for Your Business	MP25	\$2.00
Evaluating Franchise Opportunities	MP26	\$2.00
Small Business Risk Management Guide	MP28	\$2.00
Child Day-Care Services	MP30	\$3.00
Handbook for Small Business	MP31	\$3.00
How to Write a Business Plan	MP32	\$3.00
<i>Marketing</i>		
Creative Selling: The Competitive Edge	MT01	\$2.00
Marketing for Small Business: An Overview	MT02	\$2.00
Researching Your Market	MT08	\$2.00
Selling By Mail Order	MT09	\$2.00
Advertising	MT11	\$2.00
<i>Products/Ideas/Inventions</i>		
Ideas Into Dollars	PI01	\$2.00
Avoiding Patent, Trademark and Copyright Problems	PI02	\$2.00
<i>Personnel Management</i>		
Employees: How to Find and Pay Them	PM02	\$2.00
<i>Procurement</i>		
U.S. Government Purchasing and Sales Directory	CM0001	\$23.00
<i>Video Tapes</i>		
Marketing: Winning Customers With a Workable Plan	VT01	\$30.00
The Business Plan: Your Roadmap to Success	VT02	\$30.00
Promotion: Solving the Puzzle	VT03	\$39.00
Home-Based Business: A Winning Blueprint	VT04	\$39.00
Basics of Exporting	VT05	\$39.00

Source: U.S. Small Business Administration, 300 Ala Moana Blvd., Room 2314, Honolulu, HI 96850-4981. To order publications, send check or money order to SBA Publications, P.O. Box 46521, Denver, CO 80201-0030; or call, (202) 205-6666.

Appendix C: INCOTERMS

INCOTERMS, or INternational COMmercial TERMS, provide a standard interpretation of trade terms (such as the ones below). The sections are divided into the modes of transportation that the terms apply to. Where the subterm (... named place/port of ...) or (... named place) is inserted after an INCOTERM, that place name must be specified and becomes a legal part of the term.

Any Mode of Transportation

Terms in the following section apply to any mode of transport, including multimodal. These terms are also used for roll-on/roll-off and containerized ocean freight.

EXW: Ex Works

This represents the minimum risk and cost for the supplier and the maximum risk and cost for the buyer. The seller's only responsibility is to make the goods available at his premises. He is not responsible for loading the goods on the vehicle provided by the buyer, unless otherwise agreed.

FCA: Free Carrier (plus...named place of destination)

The seller fulfills his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point.

CPT: Carriage Paid To

(plus... named place of destination)

The seller pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier, is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier.

CIP: Carriage and Insurance Paid To

(plus...named place of destination)

The seller has the same obligations as under CPT but with the addition that the seller has to procure cargo insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIP term the seller is only required to obtain insurance on minimum coverage.

DAF: Delivered at Frontier

(plus...named place of destination)

The seller fulfills his obligation to deliver when the goods have been made available, cleared for export, at the named point and place at the frontier but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term.

DDU: Delivered Duty Unpaid

(plus...named place of destination)

The seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes, and other official charges payable upon importation as well as the costs and risks of carrying out customs formalities). The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time.

DDP: Delivered Duty Paid

(plus...named place of destination)

The seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes, and other charges of delivering the goods thereto, cleared for importation. Whilst the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation.

Marine (Sea) Transportation

Terms defined in the following section apply only to Marine (Sea) movement, other than roll-on/roll-off and containerized cargo.

EXW: Ex Works

This represents the minimum risk and cost for the supplier and the maximum risk and cost for the buyer. The seller's only responsibility is to make the goods available at his premises. He is not responsible for loading the goods on the vehicle provided by the buyer, unless otherwise agreed.

FAS: Free Alongside Ship (plus...named port of shipment)

The seller fulfills his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and risks of loss or of damage to the goods from that moment. The FAS term requires the buyer to clear the goods for export.

FOB: Free On Board (plus...named port of shipment)
The seller fulfills his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can only be used for sea or inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the FCA term is more appropriate to use.

CFR: Cost And Freight (plus...named port of destination)
The seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment. The CFR term requires the seller to clear the goods for export.

This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the CPT term is more appropriate to use.

CIF: Cost, Insurance and Freight
(plus...named port of destination)
The seller has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the seller is only required to obtain insurance on minimum coverage. The CIF term requires the seller to clear the goods for export.

DES: Delivered Ex Ship (plus...named port of destination)
The seller fulfills his obligation to deliver when the goods have been made available to the buyer on board the ship uncleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing goods to the named port of destination.

DEQ: Delivered Ex Quay (Duty Paid)
(plus...named port of destination)
The seller fulfills his obligation to deliver when he has made the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation. The seller has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto.

DDU: Delivered Duty Unpaid
(plus...named place of destination)
The seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes, and other official charges payable upon importation as well as the costs and risks of carrying out customs formalities). The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time.

DDP: Delivered Duty Paid
(plus...named place of destination)
The seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes, and other charges of delivering the goods thereto, cleared for importation. Whilst the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation

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