



Kona Coffee for the Japanese Market

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The agriculture in Kona, a mountainous region on the western side of the Island of Hawaii (i.e., the Big Island), is known primarily for its coffee production. Until recently, Kona was the only location in the United States where coffee was grown commercially. Kona Coffee is an internationally renowned gourmet coffee. Production, harvesting, and processing are all done by hand on small farms averaging about four acres in size, and the coffee quality is carefully monitored and controlled. The name "Kona Coffee" is a federal trademark, and certification is strictly enforced by the state. For these reasons, the supply of Kona Coffee is low relative to world demand, and this coffee can be sold at a premium. Kona Coffee and Jamaican Blue Mountain are currently the most expensive coffees in the world, selling for as much as \$50 per pound in some specialty coffee retail stores.

While the final product receives a high price, the labor-intensive nature of its production means that costs are also relatively high. Farmers rely on transient, skilled, hand-harvest labor that is often difficult to obtain, especially during the peak of the harvest season. Indeed, costs are so high that the average "farm gate" price that growers receive is often less than the economic cost of production, which is about \$1.10 per pound of cherry. Further, in spite of the relatively high demand for their product, farm gate prices can be extremely volatile, ranging from below the \$0.40 per pound harvest cost to \$1.75 per pound of cherry.

Few if any producers are economically viable in the long run unless they take their product beyond the cherry stage. The next stage is the parchment or washed and dried stage. While this product will provide improved returns, there are several other stages culminating in a roasted and ground product that often offers better profit opportunities.

Innovative Niche Marketing: The Love Farm Approach

The Love Farm is a typical, small coffee farm in Kona. What distinguishes Ken Love's from others, even from those that do carry the processing beyond merely harvesting and delivering cherry



to a processor, is his focus on innovative niche marketing. The capital investment necessary for the washing, drying, milling, and roasting equipment to take cherry to the roasted coffee bean is exorbitant and well beyond the resources of the typical, relatively small Kona producer. Love is able to avoid this capital expense by being an active member of a farmers' marketing cooperative that processes members' coffee cherry and then either sells the roasted coffee for them or returns their coffee to them to market on their own.

Ken Love designs all of his own labels on his desktop computer and prints them using an inexpensive color printer and very high quality label paper from Japan. He packages his own roasted coffee (as beans or ground coffee) in small (from two ounces to two pounds), air-tight colorful foil packages. Coffee is then sold in one of two ways: (1) in the manner of a traditional estate-branded coffee in local retail outlets, in high-end restaurants and hotels, and on the Internet, or (2) as a custom product designed for a specific customer. In the latter case, the label focuses on the buyer rather than in describing the coffee roast or variety or the farm. People wishing to give presents (e.g., an unusual favor for a wedding party or a distinctive gift for business clients or a unique Hawaiian souvenir for friends) can have their name and any special event information printed on a label designed for the giver's purposes. Specific labels are then affixed to the size of packages desired by the gift giver.

Ken Love has an ongoing personal fascination with Japan and Japanese culture. He speaks some Japanese and has had business interests there for many years. He visits Japan frequently and keeps current on Japanese social, economic, and cultural trends. His orientation allows him to appreciate the Japanese emphasis on gift giving, with the attendant demand for high quality and the importance of presentation through packaging. His insight into this aspect of the Japanese psyche enabled him to perceive the opportunity to provide the kind of gift Japanese customers would desire.

Hawaii, and Kona in particular, annually receives many thousands of visitors from Japan and they constitute an important potential market that Ken has managed to tap successfully. Because of his understanding of the Japanese, he empathizes with their situation as visitors in Kona. Japan Airlines (JAL) flies thousands of Japanese tourists directly from Tokyo to Kona. The arriving passengers are whisked off to nearby Japanese-owned resorts, where guests remain isolated from everyday life in Kona for the duration of their stay, enjoying the weather, the beach, and golf. They are then returned to the airport where they can catch their JAL direct flight back to Japan. This tourism approach leads to (1) local resentment that all the revenues flow in a closed loop back to Japan and (2) dissatisfaction by the visitors who, while acknowledging that Kona is a "nice place," complain that there is "nothing to do" in Kona.

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Again, Love recognizes a marketing opportunity. He takes Japanese visitors up into the hills about 25 miles south of the airport to visit his farm. His familiarity with the Japanese language and customs puts the visitors at ease and allows them to be more open to the agricultural scene and other rural amenities. His website and printed materials are in both English and Japanese.

Love's most interesting agri-tourism enterprise is his coffee tree rental program. A person can rent a tree for \$1,100 per year. In return, the renter receives 50 seven-ounce bags (22 pounds total) of roasted "coffee from the rented tree." Since an average tree produces only the equivalent of about two to three pounds of roasted coffee, the amount provided to a tree renting customer comes from the rented tree plus nine or ten of the farm's other trees. Each bag comes with a label of the customer's choice. This amounts to a coffee price of \$50 per pound, equal to the highest U.S. mainland retail price and twice as much as the best Kona retail price. In addition, each customer is provided a location on the farm's website where s/he can go to see a picture of the rented tree. A renter can visit his or her tree at any time, and depending upon the time of year, can prune, harvest, or otherwise care for the tree.



Finally, Love Farm's longer-term goals include diversifying the operation by moving into exotic tropical fruits. Ken has identified over 100 fruits and nuts growing in the Kona area alone, ranging from more familiar products such as pineapples, macadamias, oranges, and papayas to mangos, guava, and lychee to wampi, rambutan, jaboticaba, and kitembilla. Ken is experimenting with several outlets and ways to add value to the fruit by use of point-of-purchase materials, packaging, and processing—he has over 70 different products. He has also created a poster *Exotic Fruit from the Big Island of Hawaii* and features many fruits on his website at www.mycoffee.net/fruitindex.html.

Threats to Business

Growers are vulnerable to the usual vagaries of the weather, pests, and other natural phenomena, as well as being vulnerable to the decreasing availability and the increasingly higher cost of water, land, and labor. An inadequate supply of skilled harvest labor will be an increasing problem, especially as more coffee comes into production in the Kona "coffee belt" region. Major production risks for the industry are the twig hole borer and the virulent Kona Coffee Root-knot Nematode, for which there is no remedy except to replant the infested acreage with expensive grafted rootstock.

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In the longer run, weakening Hawaiian and Japanese economies are a serious threat. Hawaii’s economy is important because the state must continue to enforce Kona Coffee certification. As the economy weakens, there will be calls for expenditure cutbacks. Without the reputation of the Kona name, Love Farm’s coffee could not attract high prices, and therefore it is critical to be able to have the state inspectors to assure buyers that Kona Coffee is, indeed, produced in Kona.

The strength of the Japanese economy is critical because a large part of Love Farm’s marketing is based on having a healthy Japanese visitor industry. With less disposable income, potential visitors may be lured to other destinations closer to Japan or they may continue to

visit Hawaii, but be less inclined to purchase Kona Coffee-related gifts, including renting trees. Related to this, a serious threat is not being able to generate an adequate cash flow for proper advertising and public relations in Japan.

Risk Management Tools

In the short run, Love Farm’s biggest risk involves coffee pest management. Love needs to stay abreast of current findings and regulations. To help manage this risk, the farm always has additional coffee nursery stock ready for planting in the orchard should something happen to the producing trees. However, Ken does not view nematodes as being as serious a threat to his operation as it is to others, given his method of operation.

The farm is managing longer-term risks by diversifying from coffee into other tropical fruits. Ken is always looking at unusual ways to market fruits and add value to them as he does with coffee. With his knowledge of markets and his costs, Ken sees a given acreage as being potentially more profitable if planted in the appropriate fruit trees rather than in coffee.

Competitive Edge

Love Farm’s competitive edge comes from knowing Japanese customers better than anyone else in Kona and from being able to conceive and implement creative marketing ideas for the coffee they produce. Like many farmers in Kona, the farm offers a quality coffee certified to have been grown in Kona. But what it offers beyond this product are options and choices for how customers receive this coffee. Ken’s customized labels are available if clients order ahead of time, or they can choose from a standard list. “We allow the customer to feel very much involved in the farm, to take some ownership in our efforts, even to the extent of allowing them to ‘rent’ a tree and maintain it as much as they may like,” said Ken. Admittedly, this involvement is mostly symbolic, but customers genuinely feel that this farm is “their coffee farm.” In some elemental way it is one of their psychological homes away from their real home.



Market Research

Ken Love's overall marketing plan emerged from his knowledge and understanding of the Japanese customer. By trying to see the world the way the customer does, ongoing research consists of spending time talking to customers and asking questions about their experience with Love's coffee and with other competitors'. This information helps Ken to refine the operation. The Love Farm also gives samples away in stores to help create a dialogue.

Business Sustainability

Ken believes that the business model underlying the Love Farm is sustainable, "But *only* if we are continually looking at new niches in which to market. We constantly strive for even more unusual and creative marketing approaches. The competition is fierce, and there are many large concerns that sell well under their actual cost of production in order to gain market share. We have chosen to concentrate our efforts in Japan and Europe with unusual marketing, rather than to try to compete locally. Each product has many attributes, including price. We do not compete on price."

When asked how he measures success, Ken indicated that it is hard to do so only by the bottom line—whether the coffee enterprise is covering all its expenses—since almost everything goes back into building the business. The farm has a positive cash flow, but Ken is not sure at this time whether their operation is actually economically profitable, covering all invested capital and labor. "A better measure of success at this point in the life of the business may be the positive feedback we receive from customers. For now, that is the most rewarding aspect of the business—and the feeling that we are making progress in the right direction." The Loves also believe that they are helping their rural community be more sustainable by providing tourists with a reason to visit their farm—such as tending their rented trees.

Product Pricing

Pricing is governed more by market factors than by the cost of coffee production in Kona. Coffee prices there are supported by certification as Kona Coffee, whose limited production region and supply generally provide protection from downward price movements. Most growers would prefer to compete on factors other than price, although there are many who promote their coffee simply as being the lowest-priced certified Kona Coffee.

“Kona growers are selling an experience.”

However, quite unlike Kona Coffee, fruit are perishable and relatively price sensitive. Therefore, Ken’s fruit prices are set more according to what the market will accept. “We try to keep the prices for more unusual fruit relatively lower than for the more common fruits, so that people will try the unfamiliar. On more common fruits such as avocado, we work with merchants to promote sales.” They will also drop prices every so often so that

vendors will feature the fruit in advertised sales.

Future Business Changes

At present, coffee for the Japanese market is their core business. The Loves have been planting coffee trees as if their business will continue to grow and provide quality coffee products that are unusual in their packaging. “We may try to change our coffee packaging for the local market to make it more unusual and thus more competitive locally. We would like to try a package that would have some kind of other use after the coffee is gone.” Overall, growth is planned to drive their core business and this is mainly limited by funds available for additional promotion.

In the long run, perhaps the greatest potential for real growth will be in the marketing of locally produced tropical fruits, especially relatively rare fruits. The Love Farm plans to build on what they have learned with coffee marketing by broadening their focus to include the local and U.S. mainland visitor markets. “Kona Coffee will then be just one item in the basket of our offerings. With processed products, we plan on starting an additional website and developing collateral for our rare fruit. Preliminary explorations have been very positive. There are many stores now asking for our fruit products, and we cannot produce them fast enough to fulfill the orders we have created simply by investigating the potential markets. We need to continue to develop the infant market for rare tropical fruits.”

To accomplish this, the Love Farm probably needs outside start-up funds, perhaps through a market development grant of some sort. Along this line, they will continue to work closely with the University of Hawaii’s researchers and extension specialists and agents at the Kona Experiment Station where Ken is currently engaged in a tropical fruit marketing development project. Ken is the vice president and past treasurer of the Kona Pacific Farmers Cooperative and president of the Tropical Fruit Growers Association, keeping him actively involved and aware of future developments in the business.

Guiding Principles Gleaned

In summary, there are at least four main components of the Love's Farm strategy that stand out.

- Love's whole farm strategy is essentially a *marketing strategy*. Production issues must, of course, be monitored, but there is not an overriding concern either to maximize (or even optimize) yield or to minimize costs. The farm product (coffee cherry) will be processed to the final roasted coffee stage, then packaged on farm to capture more of the added value. All the coffee grown and processed will be sold at retail values. The focus is on marketing the Kona Coffee, not on growing it.
- Competition is with other Kona Coffees, but it is *not price competition*. Love competes on some of the other product attributes, such as how the coffee is presented to the consumer, whether it be in a package selected by the consumer or from his own rented tree. The coffee produced is a quality product with the Kona appellation, but there are hundreds of other farmers producing a very similar product. Perhaps a "cupper" or professional taster might subjectively differentiate among the various Kona estate coffees from one year or another. But for all practical purposes, only a few of these hundreds of estate coffees have significantly branded or otherwise differentiated their product by, for example, the coffee's particular point of origin or its product qualities.
- The Kona name is critical for all Kona Coffee growers. Without it, their coffee would be worth half as much or less. It can be argued that the Kona location produces better coffee, but it is also a fact that visitors who enjoy the experience of visiting Kona are an important component of the buyers of Kona Coffee. Essentially, Kona growers are selling an *experience*, and to the extent that they can further enhance the experience, such as through a farm visit, the greater will be their competitive advantage.
- Competition is further defined by the particular market target: Japan. Kona Coffee, packaged appropriately, is marketed to Japanese consumers that have visited Kona, Hawaii. Love, given his personal interests, has developed an exceptional understanding of and appreciation for the Japanese consumer. *Understanding the Japanese customer's "needs"* gives him a competitive advantage, relative to the other Kona farmers who could provide a similar product. In short, he is freed from competing in the local market for local buyers or for visitors from the U.S. mainland. These markets are nearly saturated and usually involve competing largely on price.

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