



Hawaii Agribusiness Guidebook

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**College of Tropical Agriculture
and Human Resources**
University of Hawai'i at Mānoa

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With contributions from

Agribusiness Incubator Program, University of Hawai'i
Agricultural Development in the American Pacific Program,
University of Hawai'i at Mānoa
Oahu Resource Conservation and Development Council
USDA Rural Development



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Introduction

Would you like to run your own agricultural business or take your present agribusiness to a higher level?

Starting, owning, and/or improving your own agribusiness might be a lifelong dream of yours. With determination, preparation, research, and a lot of hard work, you could turn that lifelong dream into a reality. Running an agribusiness could be profitable and rewarding, but there are a number of potential pitfalls – you need to be able to recognize, then address, those pitfalls.

The Hawaii Agribusiness Guidebook was conceived as a consolidation of training information into one basic, need-to-know reference for you. It was prepared with the intention of being presented in a classroom format, supplemented with other training material; however you may also use this Guidebook independently, depending on your schedule and learning style.

The owner of a small agribusiness must, by necessity, be a generalist, who knows enough about all facets of running the agricultural operation and business. Over-concentrating on any one aspect of the business and neglecting everything else is a sure way to fail. This Guidebook was developed in the same vein – it consists of a series of lessons on various aspects of owning and operating an agribusiness that a generalist needs to understand and manage.

Preparation of this Guidebook was a collaborative effort of the University of Hawai‘i at Mānoa’s College of Tropical Agriculture and Human Resources’ (CTAHR) Academic and Student Affairs Office, the University of Hawai‘i’s Agribusiness Incubator Program, CTAHR’s Agricultural Development in the American Pacific Program, the Oahu Resource Conservation and Development Council, and USDA Rural Development. The

narratives in the individual lessons of the Guidebook are brief, highlighting important points to be discussed by the instructor and/or understood by the reader. The lessons span a continuum of issues ranging from accounting and taxes, to marketing the company and its products, to regulatory compliance, and other aspects that any agribusiness needs to understand to be successful. The Guidebook is not meant to be an encyclopedia on agribusiness, rather a summary of important points and tips for farmers relating to the business (versus production) aspects of running an agribusiness. You might find that you need more information about a particular subject than is presented in this Guidebook – each lesson includes a list of additional references on the subject covered in the lesson. In using this Guidebook, you won’t find all the solutions to the myriad of pitfalls that might arise in agribusiness, but you’ll know what questions to ask and where to obtain additional information.

The Guidebook is divided into four chapters, each containing several lessons:

Accounting and Taxes takes you through basic bookkeeping, determining your cost of production, tracking cash flow, and preparing financial statements so that you may make informed production and business decisions, and submitting financial filings required by the government.

Marketing covers identifying and becoming familiar with your target markets, positioning and branding your company, products, or services to your markets, and adjusting your marketing mix to appeal to your target markets.

Regulations deals with permitting, licensing, certification, and zoning requirements; conservation planning; insurance and labor requirements; food safety on the farm; and structuring and registering your agribusiness.

Other Lessons covers such topics as distributing your products locally or exporting your products; obtaining loans and other financing; and provides a listing of various organizations that offer services to agricultural entrepreneurs.

Each lesson is intended to be covered in the classroom in a single 30 to 90 minute training session.

Starting and operating a successful business in today's world requires a lot of time, energy and belief in a lifelong dream. The belief in that dream is what will motivate you to take the journey necessary to turn your dream into a reality. The more work and dedication you put into nurturing that journey, the more successful your future will be.

Prepared by:
Office of Academic and Student Affairs, CTAHR,
University of Hawai'i at Mānoa
and Oahu Resource Conservation and Development



Basic Bookkeeping

Tracking your money for compliance and business success

Overview

Bookkeeping is the recording of all financial transactions for a business. Keeping good financial records (“books”) is an essential part of sound business management and a requirement for success. Good financial records will provide you with information to make sound business decisions and are necessary to get financing and to pay taxes.

Why is this important?

You need accurate records of your transactions to monitor the progress of your farming business – to determine whether your business is improving, which crops are selling, and what changes you could/should make.

You need records to prepare accurate financial statements for grants and loans and to manage your business.

You can maximize your tax savings by identifying non-taxable income and tracking deductible expenses.

Good records allow you or your tax preparer to easily prepare your tax return, saving your business time and/or money.

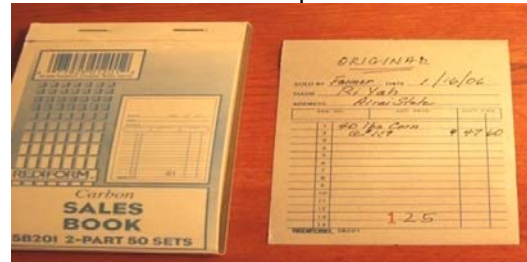
Basic system components

A basic manual bookkeeping system should include the following:

Sales Receipt Book – Book of receipts, each with a unique number, with carbon-copy duplicates for filing, which are used for evidence of sales and for capturing information for the Monthly Income Record.

Fill this out each time you make a sale; give the original to the customer.

Sales Receipt Book



Checking Account – Bank checking account that is used only for your business transactions, with a checkbook that generates carbon copies. Use this account to pay vendors who don’t accept cash or credit cards, help manage your cash flow, assist in tracking business expenses, as evidence of payment, and to capture information for the Monthly Expense Record.

Pay for business expenses using the checks from this account. Don’t pay for non-business items using this account.

Checking Account Register – Log sheet that records all transactions for the checking account and maintains the expected bank balance. The register is used to track available bank balance and when reconciling against the bank’s monthly statement.

Record all checks written and other account transactions (e.g., ATM withdrawals, deposits) in this log and update the running balance.

Checking Account Register

Check # or Deposit or Cash	Date	To/From	Withdrawal	Deposit	Balance
Opening balance	5/8/08	n/a		\$ 2,000.00	\$ 2,000.00
1001	5/12/08	AgriSupply	\$ 100.00		\$ 1,900.00
1002	5/13/08	HECO	\$ 200.00		\$ 1,700.00
Cash (ATM)	5/15/08	petty cash	\$ 100.00		\$ 1,600.00
1003	5/20/08	Board of Water	\$ 500.00		\$ 1,100.00
Deposit	5/13/08	Foodland		\$ 1,000.00	\$ 2,100.00

Expense Filing Folder – Durable 12-pocket accordion folder, with each pocket labeled with the months of the year. The folder is used to track business expenses, as evidence of payment, and to capture information for the Monthly Expense Record.

Place all receipts for business purchases into the corresponding month pocket.



Monthly Income Record – Log sheet to record sales information for the month, with each crop/product/service receiving a separate sheet. This record provides (at-a-glance) a recap of total sales per product and who it was sold to, and captures information for the Annual Income Summary.

Transfer information from the Sales Receipt Book and record any sales for which you do not use the Sales Receipt Book for the month. Different products go on different sheets.

Monthly Income Summary

Month/Year: _____ Crop: _____

Receipt #	Date	Sold To	# of units sold (lb./bag/piece)	Price per unit	Total Dollar Amount
Totals				(a)	(b)
Average Price				(b)/(a)	

Monthly Expense Record – Log sheet to record expenses for the month, categorized by expense type. This record provides a recap (at-a-glance) of expenses per category, and captures information for the Annual Expense Summary.

Record information from the Expense Filing Folder for the month, along with the checks written in the month and any other business expenses paid with cash or credit card. Write down the amounts for each item or service purchased in the correct category.

Annual Summaries of Income and Expenses – Log sheets to record income (sales) and expenses for the year, categorized by crop and expense category, which give you an “at-a-glance” recap of all farm income and expenses throughout the year and to determine net profit/loss.

Transfer totals from the Monthly Income and Expense Records to the corresponding fields on these tables. For the Annual Income Summary, total the entries by month and then by crop/product/service. For the Annual Expense Summary, total the entries by month and then by category.

Capital Expense Record – Log sheet to record equipment purchased for the business that are depreciable on your tax returns, used in preparing your tax returns to calculate depreciation, amortization or depletion deduction and to determine your basis for computing gain (or loss) when you sell or otherwise dispose of the equipment. You will maintain this record for as long as there are items on the list that you are still depreciating, amortizing, or depleting.

Monthly Expenses for Month/Year: _____

Check # or Cash	Date	Paid to	Car/Truck Expense	Chemicals	Custom hire (machine work)	Feed	Fertilizer	Gas/Oil	Insurance	Labor	Rent or Lease	Repairs and Maintenance	Seed or plants	Supplies	Taxes	Utilities	Other
Totals																	

Annual Income Summary for year: _____	Crop	Crop	Crop	Crop	Crop	Crop	TOTAL
January							
February							
March							
April							
May							
June							
July							
August							
September							
October							
November							
December							
Total Annual Income	\$	\$	\$	\$	\$	\$	\$

Annual Expense Summary for: _____															
	Car/Truck Expense	Chemicals	Custom hire (machine work)	Feed	Fertilizer	Gas/Oil	Insurance	Labor	Rent or Lease	Repairs and Maintenance	Seed or plants	Supplies	Taxes	Utilities	Other
January															
February															
March															
April															
May															
June															
July															
August															
September															
October															
November															
December															
TOTALS	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Record any purchases of items that cost more than \$500 and that you expect to use in more than one tax year.

- Payroll Taxes (Federal and State)
- General Excise Taxes
- Income Taxes (Federal and State)

Capital Expenses					
Date	Bought From	Description (File by First Letter Used in Description)	Units Bought	Price Per Unit	Total Dollar Amount

File copies of related documents in each section as you receive or generate them. Order the items chronologically, with the newest documents toward the front of each pocket.

Daily record keeping activities

Every day:

- As you make sales, record each sale in your Sales Receipt Book. If you make a sale that does not use the Sales Receipt Book (e.g., mail order sale over the internet), enter the sale information in the Monthly Income Record.

Folders for Other Records – Six-pocket accordion folder, used to organize documents, with the following sections (labeled):

- Bank Account Statements
- Equipment and Capital Expense Records
- Loan and Credit Card Statements

- As you purchase items, save the receipt in the proper month's pocket of the Expense Filing Folder. If you make a purchase that does not produce a receipt or use the checkbook, write down the following information on a sheet of paper:
 - Date
 - Vendor
 - Total amount
 - Description of item(s) with amount of each item (if they would fall under two or more expense categories)
 - Method used to pay (e.g., cash)

File the sheet in the Expense Filing Folder.

- Any transaction that impacts your checking account should be recorded in the Checking Account Register, and the balance updated.
- If you purchase a capital expense item, record it in the Capital Expense Record and save the receipt in the Other Records Folder.
- File copies of any relevant papers you receive and things you create in their respective pockets of the Other Records Folder.

Monthly activities

At the end of every month (or more frequently):

Transfer Sales

- Transfer all the sales information from your Sales Receipt Book to a new Monthly Income Record for the month/crop, and total the number of units sold and dollar amounts. If you want to calculate your average price per unit, divide the total number of units by the total dollar amount.

Transfer Expenses

- Transfer all expense information from your Expense Filing Folder and checking account register to a new Monthly Expense Record for the month. Total the expenses by category.

Bank Reconciliation

- Perform a bank reconciliation of each bank account. A bank reconciliation involves comparing the account balance given by the bank with that of your records (Checking Account Register) and explaining or resolving any discrepancy. A discrepancy may simply be due to a difference in timing between the bank's records and your own, but if errors are found, they should be corrected so that your records and the bank's are in sync. The worksheet below can be used to reconcile your bank account.
- Enter the Bank Statement Date in field A.1.
- Enter the ending Bank Statement Balance in field A.2.
- Enter Deposits in Transit in section B. (Deposits in Transit are any deposits listed in your check register that have not been posted to the bank statement.)
- Calculate and enter the Total Deposits in Transit in field B.1.
- Enter Outstanding Checks in section C. (Outstanding Checks are any checks that you've written that have not been posted to the bank statement.)
- Calculate and enter the Total Outstanding Checks in field C.1.

Book Reconciliation

Bank Statement Date A.1 _____ Bank Statement Balance A.2 \$ _____

B. Add: Deposits in Transit

	Date	Amount		Date	Amount

Total Deposits in Transit B.1 \$ _____

C. Less: Outstanding Checks

	Date	Amount		Date	Amount

Total Outstanding Checks C.1 \$ _____

Calculated Account Balance D.1 \$ _____

Ending Check Register Date E.1 _____ Check Register Balance E.2 \$ _____

Variance F.1 \$ _____

- Enter the Calculated Account Balance in field D.1. This is computed as shown below:
 - A.2 *Bank Statement Balance*
 - + B.1 *Total Deposits in Transit*
 - C.1 *Total Outstanding Checks*
 - = D.1 *Calculated Book Balance*
- Enter the Ending Check Register Date for the period shown on the bank statement in field E.1.
- Enter the Check Register Balance as of the Ending Check Register Date in field E.2. (This is the balance in your check register as of the date in E.1.)
- Calculate the Variance (F.1) between the Calculated Account Balance (D.1) and the Check Register Balance (E.2). This calculation is shown below:
 - D.1 *Calculated Account Balance*
 - E.2 *Check Register Balance*
 - = F.1 *Variance*
- The Variance (F.1) should be zero (0). If the Variance is not 0, review your

Check Register and Bank Statement to identify discrepancies. Repeat the bank reconciliation until the Variance (F.1) is equal to 0.

Transfer Annual Income Summary

- Transfer the total dollar amount of the sales for the month, per crop, to the corresponding crop/month on the Annual Income Summary.

Month/Year: Julz 2008		Crop: Bananas			
Receipt #	Date	Sold To	# of units sold (lb./bag/piece)	Price per unit	Total Dollar Amount
0123	7/1/08	Fred Lee	25	\$2.00	\$50.00
0124	7/2/08	Corner Market	30	\$1.75	\$52.50
Cash	7/5/08	Farmers Market	100	\$1.75	\$175.00
0126	7/30/08	Chinatown Market	150	\$1.60	\$240.00
0127	7/12/08	Fred Lee	25	\$2.00	\$50.00
0128	7/20/08	Corner Market	50	\$1.50	\$75.00
0129	7/25/08	Down to Earth	100	\$2.00	\$200.00
Totals			455		\$842.50
Average Price				\$1.85	

Annual Income Summary for: 2008		Crop	Crop
		Banana	Mango
January			
February			
March			
April			
May			
June			
July		\$842.50	
August			
September			
October			
November			
December			
Total Annual Income		\$	\$

- Transfer the total dollar amount of the expenses for the month, per expense category, to the corresponding category/month of the Annual Expense Summary.

Monthly Expense for Month/Year: July 2008										
Check # or Cash	Date	Paid to	Progress	Car/Truck Expense	Chemicals	Custom Hire (machine work)	Feed	Fertilizer	Gas/Oil	Insurance
CC	07/02/08	Chevron	Gas						\$ 75.25	
1002	07/02/08	ABC Farm Supply	Seeds							
CC	07/02/08	Chevron	Gas						\$ 60.10	
1003	07/02/08	HECO	Electric							
Cash	07/02/08	City Mill	Irrigation Parts							
CC	07/24/08	Chevron	Gas						\$ 70.50	
1009	07/25/08	Board of Water Supply	Water							
Cash	07/20/08	Home Depot	TOOLS							
CC	07/22/08	Chevron	Gas						\$ 75.75	
1005	07/25/08	Office Max	Office Supplies							
CC	07/25/08	Chevron	Gas						\$ 72.50	
1006	07/30/08	ABC Properties	Monthly Lease							
Totals									\$ 559.10	

Annual Expense Summary for: 2008							
	Car/Truck Expense	Chemicals	Custom hire (machine)	Feed	Fertilizer	Gas/Oil	Insurance
January						\$ 350.21	
February						\$ 350.00	
March						\$ 360.05	
April						\$ 351.20	
May						\$ 358.25	
June						\$ 359.25	
July						\$ 359.20	
August						\$ 470.60	

Annual activities

At the end of your fiscal (tax) year:

- In the Annual Income Summary, total the monthly dollar amounts for each crop and total the dollar amounts for the crops for each month.
- In the Annual Expense Summary, total the monthly dollar amounts for each category and total the dollar amounts for the categories for each month.

Using your records for your taxes

Report your farm income on Schedule F (IRS Form 1040). Use this schedule to calculate the net profit or loss from regular farming operations.

- Income from farming is reported on Part I of Schedule F (Form 1040) and includes amounts you receive from cultivating, operating, or managing a farm for gain or profit, either as owner or tenant. Transfer the total from the Annual Income Summary to box 1 of Schedule F, Part I.

Annual Income Summary for: 2008		Crop	Crop	Crop	Crop	Crop	Crop	TOTAL
		Banana	Mango	Lochee				
January		\$752.34	\$480.32	\$0.00				\$1,232.66
February		\$890.34	\$421.49	\$0.00				\$1,311.83
March		\$732.93	\$491.81	\$0.00				\$1,224.74
April		\$739.56	\$345.93	\$458.29				\$1,543.78
May		\$855.23	\$342.32	\$652.93				\$1,850.48
June		\$913.40	\$489.34	\$739.84				\$2,132.58
July		\$842.50	\$575.00	\$999.25				\$2,416.75
August		\$843.92	\$523.23	\$1,294.42				\$2,661.57
September		\$953.42	\$432.67	\$942.45				\$2,328.54
October		\$734.89	\$528.29	\$0.00				\$1,263.18
November		\$793.40	\$489.24	\$0.00				\$1,282.64
December		\$845.82	\$532.56	\$0.00				\$1,378.38
Total Annual Income		\$9,897.75	\$5,832.20	\$5,126.18				\$20,856.13

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 11. Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.)										
1	Sales of livestock and other items you bought for resale	1	20856.13							
2	Cost or other basis of livestock and other items reported on line 1	2								
3	Subtract line 2 from line 1	3								
4	Sales of livestock, produce, grains, and other products you raised	4								
5a	Cooperative distributions (Forms 1099-PATR)	5a								
5b	Cooperative distributions (Forms 1099-PATR)	5b								
6a	Agricultural program payments (see page F-3)	6a								
6b	Agricultural program payments (see page F-3)	6b								
7	Commodity Credit Corporation (CCC) loans (see page F-3)	7								
8	CCC loans reported under election	8								
9	CCC loans forgiven	9								
10	Crop insurance proceeds and federal crop disaster payments (see page F-3)	10								
11	Other income, including federal and state gasoline or fuel tax credit or refund (see page F-3)	11								

- The ordinary and necessary costs of operating a farm for profit are deductible business expenses. Part II of Schedule F lists expenses common to farming operations. Transfer the annual total for each expense category from the Annual Expense Summary to the corresponding expense category of Schedule F, Part II.

Annual Expense Summary for: 2008							
	Car/Truck Expense	Chemicals	Custom hire (machine)	Feed	Fertilizer	Gas/Oil	Insurance
January						\$ 350.21	
February						\$ 350.00	
March						\$ 360.05	
April						\$ 351.20	
May						\$ 358.25	
June						\$ 360.25	
July	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 354.10	\$ -
August						\$ 410.60	
September						\$ 450.75	
October						\$ 475.85	
November						\$ 470.15	
December						\$ 470.15	
TOTALS	\$	\$	\$	\$	\$	\$ 4,756.86	\$

Part II Farm Expenses—Cash and Accrual Method.

Do not include personal or living expenses such as taxes, insurance, or repairs on your home.

12 Car and truck expenses (see page F-4). Also attach Form 4562	12			25 Pension and profit-sharing plans	25
13 Chemicals	13			26 Rent or lease (see page F-6):	
14 Conservation expenses (see page F-4)	14			a Vehicles, machinery, and equipment	26a
15 Custom hire (machine work)	15			b Other (land, animals, etc.)	26b
16 Depreciation and section 179 expense deduction not claimed elsewhere (see page F-5)	16			27 Repairs and maintenance	27
17 Employee benefit programs other than on line 25	17			28 Seeds and plants	28
18 Feed	18			29 Storage and warehousing	29
19 Fertilizers and lime	19			30 Supplies	30
20 Freight and trucking	20			31 Taxes	31
21 Gasoline, fuel, and oil	21	4756.86		32 Utilities	32
22 Insurance (other than health)	22			33 Veterinary, breeding, and medicine	33
23 Interest:				34 Other expenses (specify):	
a Mortgage (paid to banks, etc.)	23a			a	34a
b Other	23b			b	34b
24 Labor hired (less employment credits)	24			c	34c
35 Total expenses. Add lines 12 through 34f. If line 34f is negative, see Instructions				d	34d
36 Net farm profit or (loss). Subtract line 35 from line 11.				e	34e
• If a profit, enter the profit on Form 1040, line 18, and also on Schedule SE, line 1.				f	34f
• If you file Form 1040NR, enter the profit on Form 1040NR, line 19.					
• If a loss, you must go to line 37. Estates, trusts, and partnerships, see page F-6.					

How long should you keep records?

- You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, you must keep records that support an item of income or deduction for at least 3 years from when your tax return was due or filed or within 2 years of the date the tax was paid, whichever is later.
- If you have employees, you must keep all employment tax records for at least 4 years after the date the tax becomes due or is paid, whichever is later.
- Keep records relating to property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure any depreciation, amortization, or depletion deduction and to figure out your basis

for computing gain or (loss) when you sell or otherwise dispose of the property.

- When your records are no longer needed for tax purposes, do not discard them until you check to see if you have to keep them longer for other purposes. For example, your insurance company or creditors may require you to keep them longer than the IRS does.

Next steps and resources

- Purchase the record-keeping tools mentioned in this article.
- Develop your own record-keeping forms based on the examples in this article, or obtain electronic copies of the forms by contacting one of the following:

Farm Services Agency
 99-193 Aiea Heights Dr. #207
 Aiea, HI 96701
 (808) 483-8600 x2
<http://www.fsa.usda.gov/FSA/stateofhapp?mystate=hi&area=home&subject=landing&topic=landing>

Oahu Resource Conservation and Development
 99-193 Aiea Heights Dr. #111
 Aiea, HI 96701
 (808) 483-8600 x113
<http://www.oahurcd.org/>

Agribusiness Incubator Program
 3050 Maile Way, Gilmore 115
 Honolulu, HI 96822
 (808) 956-3530
<http://aip.hawaii.edu/>

- If you are using, or are planning to use, a tax professional for assistance in preparing your tax return, ask them for input on how they would like you to keep records for their purposes.
- Definitions of deductible and non-deductible expenses on Schedule F can

be found on the IRS web site
(www.irs.gov) in Publication 225 -
Farmer's Tax Guide.

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i

Cost of Production

Determine your true costs per unit to evaluate pricing and more

Overview

Cost of Production reflects the dollar amount associated with growing a specific crop. Cost of Production is commonly expressed as a unit quantity (e.g., dollars per pound). For example, to produce an acre of tomatoes, you may need seed, fertilizer, irrigation water, labor, machinery time, etc. In addition, you may have office, advertising, and insurance expenses. Each of these is associated with a dollar value. When you add them up, you can determine the cost to produce each pound of tomato.

Why is this important?

Understanding your Cost of Production helps you:

- Determine the optimum product pricing and sales volume
- Forecast the impact of changing costs (e.g., rising fuel prices)
- Determine individual product profitability
- Prioritize cost-cutting efforts

Getting started

Cost of Production can be calculated in several ways, depending on the intended use. In general, calculating the Cost of Production requires identifying all costs associated with your operation, then allocating them to either a specific crop (aka “Direct Costs”) or towards general business expenses (aka “Indirect Costs”).

Identify Expenses – Specific expenses can be determined using historic information (from tax forms, your financial

recordkeeping, or receipts) or gathered estimates. The costs you list on the Cost of Production Worksheet should reflect the current cost (rather than historic costs).

Estimate Annual Production – Production can be determined based on your prior experience or can be based on the average of a smaller sample. For example, if on average, one tomato plant produces 15 pounds of tomatoes per cycle and you have 2,000 plants per acre, your production estimate would be 30,000 pounds per cycle per acre. If you have 4 cycles per year, your annual tomato production is 120,000 pounds per acre-year.

The Cost of Production Worksheet and instructions referenced in this document can be used for crop production (e.g., vegetables, nursery plants). Value-added product calculations will differ.

Determining direct costs

Direct Costs can be thought of as those costs directly associated with a specific crop.

Examples of Direct Costs include:

- Farm Labor
- Planting Expenses
- Weeding Costs
- Fertilizer Costs
- Other Materials
- Packaging Costs
- Delivery Costs

Use the Crop Specific Worksheets to document information about your crop as well as all tasks and corresponding costs associated with each crop.

Direct Costs Itemized in Crop Worksheet example

Task	Labor Cost / Hr	Time (hrs) per Application	Labor Cost per Application	Material Cost per Application	Total Labor and Material Cost per Application	Number of Applications per Crop	Total Labor and Material Cost
Planting	\$ 10.00	10	\$ 100.00	\$ 300.00	\$ 400.00	1	\$ 400.00
Weeding	\$ 10.00	4	\$ 40.00	\$ -	\$ 40.00	1	\$ 40.00
Fertilizing	\$ 10.00	2	\$ 20.00	\$ 300.00	\$ 320.00	1	\$ 320.00
Watering				\$ 20.00	\$ 20.00	120	\$ 2,400.00
Picking	\$ 10.00	2	\$ 20.00	\$ -	\$ 20.00	8	\$ 160.00
Delivery to Packing Shed	\$ 10.00	1	\$ 10.00		\$ 10.00	80	\$ 800.00
Grading	\$ 10.00	1	\$ 10.00	\$ -	\$ 10.00	80	\$ 800.00
Selecting	\$ 10.00	1	\$ 10.00	\$ -	\$ 10.00	80	\$ 800.00
Packing	\$ 10.00	2	\$ 20.00	\$ 2.00	\$ 22.00	80	\$ 1,760.00
Labeling	\$ 10.00	2	\$ 20.00	\$ 0.75	\$ 20.75	80	\$ 1,660.00
Delivery to Shipping Location	\$ 10.00	2	\$ 20.00		\$ 20.00	80	\$ 1,600.00
							Labor and Material Cost per Crop \$ 10,770.00
							Labor and Material Cost per Pound \$ 0.09
							Labor and Material Cost per Plant \$ 1.34
							Labor and Material Cost per Acre per Crop \$ 2,685.00

The Crop Sheet calculates the per pound Direct Cost associated with each crop cycle.

Determining indirect costs

Indirect Costs are those required for the farm business to operate and typically do not vary greatly by individual crop. Examples of Indirect Costs include:

- Utilities
- Insurance
- Advertising and Marketing
- Bank Fees and Interest
- Professional Services (e.g., accountants and attorneys)
- Office Supplies

Use the Indirect Cost Allocation Worksheet to document *annual expense* information on your Indirect Costs.

The Indirect Cost Allocation Worksheet will calculate your total annual Indirect Costs.

Allocating costs

If you are producing a single crop, you can add your annual direct and indirect expenses and divide the sum by your annual sales volume to determine your cost of production per unit; however, if you are producing

Indirect Cost Allocation Worksheet example

Non-Cash Costs, Annual			
Depreciation	\$ 5,000		
Decrease in inventory	\$ -		
Total annual non-cash costs	\$ 5,000		
Production area	304,920		
Noncash costs/sqft	\$ 0.0164		
Noncash cost per sqft per month	\$ 0.0014		
Machinery & Equipment (M&E) Costs, Annual			
Fuel and oil	\$ 0.000		
M&E Repairs & maintenance	\$ 12,000		
Other machinery & equipment cost	\$ -		
Total annual M&E costs	\$ 18,000		
Production area	304,920		
Unallocated M&E costs/sqft	\$ 0.0590		
Unallocated M&E cost per sqft per month	\$ 0.0049		
Overhead Costs, Annual			
Utilities	\$ 1,200		
Insurance	\$ 10,000		
Repairs & maintenance	\$ 10,000		
Advertising & promotion	\$ 10,000		
Rent	\$ 12,000		
Travel & entertainment	\$ 6,000		
Cash interest expense	\$ 120		
Other overhead	\$ -		
Total annual overhead costs	\$ 49,320		
Production area	304,920		
Overhead costs/sqft	\$ 0.1617		
Overhead costs per sqft per month	\$ 0.0135		
Total Indirect Costs		Per Month	Per Year
Noncash cost per sqft	\$ 0.0014	\$ 5,000	
Unallocated M&E cost per sqft	\$ 0.0049	\$ 18,000	
Overhead cost per sqft	\$ 0.0135	\$ 15,920	
Total indirect costs per sqft	\$ 0.0198	\$ 72,320	

multiple crops, you will need to allocate a percentage of your Indirect Costs to each crop. Allocating Indirect Costs per square foot of production is a common practice. The Cost of Production Worksheet will calculate the Indirect Cost per square foot and allocate it per crop.

Use the Crop Worksheets to enter information about the size of specific crops and use the Production Space Worksheet to enter information about your non-producing areas.

Production Space Worksheet example

XX Farm		
20XX Total Production Space		
Production Space	Sqft	Acres
Production Area	261,360	6.0
Aisles, office, roads, etc (non-producing areas)	43,560	1.0
Total Space	304,920	7.0

The Cost of Production Worksheet uses the entered information to allocate Indirect Costs based on the acreage of each production. It will also allocate a percentage of the non-producing areas to each crop.

Investment information

Use the Capital Investment Worksheet to enter information about start-up costs and equity provided to the company. The desired return on the initial capital investment can also be included here.

The Cost of Production Worksheet calculates your desired return per square foot and allocates the amount to each crop.

Capital Investment Worksheet example

XX Farm	
20XX Capital Investment	
Capital Investment	
Land & Improvements	\$0
Buildings and improvements	\$75,000
Machinery & equipment	\$50,000
Inventories and supplies	\$0
Equity	\$100,000
Total	\$125,000
Desired return on investment	10%
Desired total return on investment	\$12,500
Production area	261,360
Desired return per sqft per year	\$0.048
Months in year	12
Desired return per sqft per month	\$0.0040

Cost, volume, and profit analysis

Use the Crop Worksheet to enter your estimated annual production and sales volume for each crop.

Annual Production Itemized in Crop Worksheet example

Type/Size of Crop:	Tomato
Square Footage Per Plant:	3
Total Acres of this Plant:	4
Total Square Feet of this Plant:	174,240
Plants per Acre:	2,000
Total Plants:	8,000
Pounds Produced Per Plant:	15
Avg Pounds Per Crop Cycle:	120,000
Annual Production Volume	250,000
Annual Sales Volume (in Pounds)	240,000
Number of Months Land Used for this Crop	12

Use the Unit Sales Analysis Worksheet to enter your sales price per pound.

Unit Sales Analysis Worksheet example

XX Farm		
20XX Unit Sales Analysis		
Sales analysis per plant	Tomato	Cucumber
Sales price per pound	\$ 0.75	\$ 1.50
Direct costs per pound (per plant DC wkst)	(\$0.09)	(\$0.34)
Unit contribution margin	\$0.66	\$1.16
Indirect cost allocation per pound	(\$0.19)	(\$0.27)
Less desired return on investment per pound	(\$0.03)	(\$0.05)
Cost of plant losses	(\$0.28)	(\$0.61)
Total indirect cost per plant plus return on investment adjusted for plant losses	(\$0.51)	(\$0.92)
Expected profit (loss) per pound	\$0.15	\$0.24
Breakeven Price	\$0.60	\$1.26
Indirect cost allocation detail		
Sqft per plant	3	2
Number of months in production	12	12
Indirect cost rate per sqft per month	\$ 0.0231	\$ 0.0231
Total indirect cost allocation per plant	\$ 0.8301	\$ 0.5534
Total indirect cost per pound	\$ 0.1929	\$ 0.2679
Plant loss percentage	4%	6%

The Cost of Production Worksheet will calculate a plant loss percentage based on production and sales information.

Using the results

After documenting the information above in the Cost of Production Worksheet, you will be able to analyze the following:

Forecasting – You will be able to estimate your annual revenues and expenses.

Breakeven Price – You will know how much you need to sell your product for in order to breakeven.

Breakeven Units – You will know how many products you need to sell at specific prices to cover your costs.

Cost Reduction Targeting – You can identify high cost items and target specific costs for possible reduction.

Product Mix Selection – You can evaluate the profitability of each product and determine whether you should change your crop mix.

Adjustments – You can use the worksheet to evaluate the effects of adding staff, changing prices and expenses, and increasing or reducing production.

Next steps and resources

- Use the Cost of Production Worksheet to document all costs and production information.
- Obtain electronic copies of the Cost of Production Worksheet by contacting one of the following:

Oahu Resource Conservation and Development
99-193 Aiea Heights Dr. #111
Aiea, HI 96701
(808) 483-8600 x113
<http://www.oahurcd.org/>

Agribusiness Incubator Program
3050 Maile Way, Gilmore 115
Honolulu, HI 96822
(808) 956-3530
<http://aip.hawaii.edu/>

- Apply for personalized assistance from:
Agribusiness Incubator Program
3050 Maile Way, Gilmore 115
Honolulu, HI 96822
(808) 956-3530
<http://aip.hawaii.edu/>

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i

Hawaii Business and Tax Filings

Standard required filings for businesses operating in the State

Overview

Operating a successful business generates revenues for you, the owner, which, in turn, requires the submission of several financial documents (primarily in the areas of business registration and taxes) with appropriate State agencies. This lesson gives an overview of the required financial filings you have to address to ensure that your business is in compliance with State laws and regulations.

Why is this important?

If you generate income, own property, buy or sell goods, or hire employees, most likely you will have to pay taxes. There are several taxes associated with running a business, which are described in the following section.

To ensure that you pay the appropriate amount of taxes and avoid any penalties or liens, it is essential that you keep accurate records (this is described in greater detail in the “Basic Bookkeeping” lesson of this Guidebook).

Types of business-related taxes

Common taxes that you have to file as a new business include:

State Income Tax – Depending on the business structure of your company, you have to file taxes with the State government on either an individual or corporate basis.

Individual income tax rates vary from 2% for the first \$1,500 to a maximum 10% for taxable income over \$20,500. Capital gains are taxed at a maximum 7.25%.

Reports and taxes are due on the 20th day of fourth month after close of the taxable year. Withholding returns are due

on or before the 15th day of the following month. Employers with tax liabilities exceeding \$100,000 a year, must file on or before the 10th day of the following month. Estimates of income are due on the 20th of April, June, September and January.

The net income of corporations is taxed at a rate of 4.4% if taxable income is not over \$25,000; 5.4% if over \$25,000 but not over \$100,000; and 6.4% on all taxable income over \$100,000. The tax imposed on capital gains is 4%. Deductions, in general, conform to the Internal Revenue Code.

Reports and taxes are due on the 20th day of the fourth month after the end of the taxable year. Income estimates are due on the 20th of September and January.

General Excise (Gross Income) Tax

(GET) – General Excise Tax (or GET) is a tax levied on gross income (i.e., total business income before any business expenses are deducted) derived from business activity in Hawaii.

GET is calculated on gross income, gross receipts or gross proceeds of all business activities: 0.5% on wholesaling, intermediary services, manufacturing, producing, canning, and activities of businesses operated by blind, deaf or totally disable persons; 0.15% on insurance solicitors; 4% on retail sales of goods, services, and other activities. Exemptions are allowed for goods manufactured for export and certain services and a refundable tax credit for GET paid on depreciable tangible personal property is available.

Reports and taxes are due monthly by the end of following month. You may elect to file quarterly or semi-annually under certain conditions. An annual summary and

reconciliation return is due on the 20th day of the fourth month following the tax year.

Use Tax – Use Tax is a tax on tangible personal property imported or purchased without payment of the GET. Rates are 0.5% on goods imported for resale at retail; 4% on all other imports. There is a refundable income tax credit for Use Tax paid on depreciable tangible personal property.

The Use Tax was enacted to reduce the price advantage that untaxed out-of-state sellers of goods, services, and contracting have over Hawaii sellers. Because of the complementary nature of these taxes, businesses are automatically registered for the Use Tax when they register for the General Excise Tax, and report both taxes on combined General Excise/Use Tax returns.

Real Property Tax – Real Property Tax is that assessed on real property, land and improvements. Assessments are taxed at 100% of "fair market value." Maximum exemption for owner-occupied homes is \$40,000, with multiple exemptions allowed for those over 55. There are various rates for land, improvements, and classes of property. Fiscal year 2007 agricultural rates per \$1,000 net assessed value were: Hawai'i, \$9.00; Honolulu, \$8.57; Kauai, \$4.30 (building), \$6.95 (land); Maui, \$4.50.

Taxes are paid in semi-annual payments. In Honolulu, assessment notices to taxpayers are sent by December 15; any appeals by the taxpayer must be filed by January 9; the tax base is certified by February 1; and May 30 is the last day to amend rates. All other counties: assessment notices to taxpayer by March 15; appeals filed by April 9; tax base certified by April 19; June 20 last day to amend rates.

Motor Vehicle Weight Tax – On vehicle weights are as follows:

- *Hawai'i, commercial vehicles*: 1 cent per pound; passenger vehicles: 0.5 to 1.0 cent per pound; \$6 minimum on motor vehicles.
- *Honolulu, commercial vehicles*: 2 cents per pound; passenger vehicles: 1.25 cents per pound; \$12 minimum on motor vehicles
- *Kauai, commercial vehicles*: 2 cents per pound; passenger vehicles: 0.75 cent per pound; \$12 minimum.
- *Maui, commercial vehicles*: 1.5 cents per pound; passenger vehicles: 0.75 cent per pound; \$6 minimum on motor vehicles.
- *In addition to county taxes, state tax of*: 0.75 cents per pound to 1.25 cents per pound; \$3 minimum. Flat rate of \$150 for vehicles weighing more than 10,000 pounds.

Fees are paid annually upon vehicle registration renewal.

Additional financial filings

Registering your business – In Hawaii, corporations, partnerships, limited liability companies, and limited liability partnerships must be registered with the Department of Commerce and Consumer Affairs (DCCA), Business Registration Division and are required to file an annual report.

For more information on registration and to obtain required forms, visit the DCCA website at <http://hawaii.gov/dcca>.

Unemployment Insurance – An individual or organization, which has or plans to employ one or more workers performing services must register with the Unemployment Insurance (UI) Division within twenty (20) days after services in employment are first performed. A family-owned corporation which has two family members, related by blood or marriage, who, as the only

employees each own at least 50% of the shares issued by the corporation may apply for exclusion from UI coverage. To elect this exclusion option, Form UC-336, “Election by Family-Owned Corporation to be Excluded From Coverage Under Section 383-7(20),” can be obtained at <http://www.hawaii.gov/labor/ui> or from the nearest UI office.

Employers must complete Form UC-B6, “Employer’s Quarterly Wage, Contribution and Employment and Training Assessment Report,” and pay all contributions and assessments by the end of the month after the end of the calendar quarter. Completed reports and payments should be mailed to State Tax Collector, PO Box 3223, Honolulu, HI 96801-3223. Employers preferring to file reports and make payments online can download the free Quarterly Wage Reporting System (QWRS) software program to prepare reports, compute taxes and transmit reports and payment. Go to: <https://hui.ehawaii.gov> to download the QWRS software and create an account to obtain a username and password.

Workers’ Compensation Insurance – In Hawaii, employers having one or more employees (other than those excluded from this requirement), full-time or part-time, permanent or temporary, are required to provide Workers’ Compensation (WC) coverage for their employees. Employers may provide WC coverage by purchasing insurance from an authorized carrier or becoming a self-insured employer who pays statutory benefits directly to its employees (must be approved by the Dept. of Labor and Industrial Relations). Additional information and required forms can be located on the DLIR Disability Compensation Division website at <http://hawaii.gov/labor/dcd>.

Temporary Disability Insurance – In Hawaii, employers are required to provide Temporary Disability Insurance (TDI), or sick leave benefits, when their eligible employees are unable to work because of a nonwork-related illness or injury. The employer may pay for the entire cost or share the cost with the employees eligible for coverage, in which case the employer may deduct one-half the premium cost but not more than 0.5% of the employees’ weekly wages up to a maximum of \$4.21 per week for 2008, which is set annually by the Disability Compensation Division. The employer may select from several options to provide TDI, which are described in detail on its website at <http://hawaii.gov/labor/dcd> where you can find additional information and required forms.

Next steps and resources

- Tax rates and due dates should be confirmed with the appropriate state and county agencies to ensure that you are in compliance with the most recent regulations or you should consult a tax professional for assistance. Additional information can be found in the State of Hawaii, Dept. of Taxation’s Tax Facts for agricultural producers which can be found online at <http://hawaii.gov/tax/taxfacts/tf01-02.htm>
- The Business Action Center can assist you with obtaining your GET license, Unemployment Insurance tax registration, business and trade name registrations and Federal Employer’s Identification Number (FEIN). They also provide comprehensive information on licensing requirements for the state, county and federal governments as well as information on business assistance, counseling, workshops offered by other agencies, and alternative financing programs

Business Action Center
1130 North Nimitz Highway
Second Level, Suite A-220
Honolulu, Hawai`i 96817
Phone: (808) 586-2545
<http://hawaii.gov/dcca/areas/bac/>
Open: 7:45 am - 4:30 pm
Monday thru Friday

Neighbor Islands toll free:
Hawai`i - 974-4000, ext.6-2545
Kauai - 274-3141, ext. 6-2545
Maui - 984-2400, ext. 6-2545
Molokai/Lanai - 1-800-468-4644, ext. 6-2545

- The following resources provide information and forms for starting a business in the State of Hawaii. Many services are available online.

Department of Commerce and Consumer Affairs Business Registration Division
Mailing Address
P. O. Box 40
Honolulu, Hawaii 96810

Office Location
King Kalakaua Building
335 Merchant Street, Rm. 201
Honolulu, Hawaii 96813
<http://hawaii.gov/dcca/areas/breg/>
Open: 7:45 am - 4:30 pm
Monday thru Friday
Phone:
(808) 586-2744 (administration)
(808) 586-2727 (documents registration)

Hawaii Business Express
An online registration service provided by the state that covers all the forms required for business registration with all the state agencies and partners. It provides easy to read instructions and context sensitive help.
<http://hbe.ehawaii.gov/BizEx/home.eb>

Prepared by:
The Agribusiness Incubator Program
University of Hawai`i

Cash Flow

Document how you generate and use cash to plan for cash shortfalls and surpluses

Overview

A cash flow projection enables you to anticipate how much cash is expected to flow in and out of your business. It is a forecast of your company’s cash income and expenses on a periodic basis (e.g., weekly or monthly).

Why is this important?

Preparing a Cash Flow Statement allows you to predict cash shortfalls and financing needs, and allows you to plan for investments and expenditures.

For new businesses, cash flow projections can give you a better idea of how much capital investment your business idea needs.

Getting started

A simple spreadsheet tool can help you keep track of your cash flow. You can use the Cash Flow Worksheet to document the income you expect to receive and the expenses you expect to pay each month.

Cash Flow Worksheet

	Yr 1 Beg Balance	Jan	Feb	Mar
Cash on Hand (beginning of month)	10,000	10,000	9,005	20,770
CASH RECEIPTS				
Customer Payments		12,000	24,000	24,000
Loans or other cash receipts				
Additional Paid-In Capital				
TOTAL CASH RECEIPTS	-	12,000	24,000	24,000
TOTAL CASH AVAILABLE	10,000	22,000	33,005	44,770
CASH PAID OUT				
Prepwork				
Planting		160	-	160
Poles		120	-	120
Packing				
Grading / Selecting		800	800	800
Packing		5,800	5,800	5,800
Labeling		1,100	1,100	1,100
SUBTOTAL	-	9,240	8,480	9,240
Auto Expense		500	500	500
Bank Service Charges		5	5	5
Contributions				

The Cash Flow Worksheet includes various sheets:

- Cash Flow Detail: Details anticipated incoming cash and cash paid out to determine the monthly cash position.
- Crop Sheet: Details anticipated production, revenues and expenses for labor and material associated with each crop.
- Production Summary: Consolidates information from all Crop Sheets.

Start-up costs

If you are a new agribusiness, you should include an estimate of your production and operations-related start-up costs. Use the Cash Flow Worksheet to document your production costs (including labor and material costs) in each Crop Sheet. Use the Cash Flow Detail Sheet to document your estimated operational expenses.

Cash in

Use the Crop Sheet to enter your estimated sales figures for each month. This should include all money you anticipate to receive during the month (do not include receivables).

Use the Cash Flow Detail to enter any other sources of cash including include:

- Loans
- Revenue from services performed
- Any other cash coming into the business

You should guard against being overly optimistic in projected sales and try to be as realistic as possible in putting together your Cash Flow Projection.

Cash out

Use the Cash Flow Worksheet to enter your estimated expenses for each month.

Each Crop Sheet should include the production expenses associated with each crop. Examples of crop-related expenses include:

- Labor
- Production Materials and Supplies

The Cash Flow Detail should include all expenses associated with operating the business. Examples of expenses include those relating to:

- Land Lease or Mortgage Payment
- Payroll Expenses
- Employee Benefits
- Insurance
- Auto
- Marketing
- Taxes
- Utilities

The Cash Flow Detail will automatically capture expense information entered in each Crop Sheet to reflect all expenses associated with the business.

Reconciliation of cash flow

After entering your initial cash on hand, your anticipated cash coming into, and your anticipated cash out, the Cash Flow Worksheet will calculate your cash position every month.

Using the results

After documenting this information in the Cash Flow Worksheet, you will be able to analyze the following information:

Forecasting – You will be able to estimate your annual revenues and expenses.

Manage Cash Flow Deficits – You will know when you will run out of cash:

Cash Flow Detail Sheet – Analyzing Cash Flow Deficits

	Yr 1 Beg Balance	Jan	Feb	Mar
Training				
Payroll Taxes				
Real Property Taxes				
General Exise Taxes				
Land Lease				
Utilities - Telephone		100	100	100
Interest Expense				
Miscellaneous				
SUBTOTAL	-	3,755	3,755	3,755
Loan principal payment				
Capital purchase (Land)				
Capital purchase (Equipment)		15,000		
Capital purchase (Site Renovation)				
Other startup costs				
Reserve and/or Escrow				
Owners' Withdrawal				
SUBTOTAL	-	15,000	-	-
TOTAL CASH PAID OUT	-	27,395	12,235	12,995
Cash Position (end of month)	10,000	(5,395)	5,770	16,775

With this information, you can explore the following options during a cash flow deficit:

- Obtain financing
- Reschedule purchases and investments for months where you have surplus cash.
- Speed up collections on account receivables so you have enough cash during the particular month
- Liquidate available investments.
- Cut expenses.
- Delay payment to vendors

Manage Cash Flow Surplus – You will know when you will have adequate cash. With this information, you can explore the following options during a cash flow surplus:

- Consider short-term investments
- Purchase supplies in advance at bulk rates

Next steps and resources

- Use the Cash Flow Worksheet to document all projected income and expense information.
- Obtain electronic copies of the Cash Flow Worksheet by contacting one of the following:
Oahu Resource Conservation and Development
99-193 Aiea Heights Dr. #111
Aiea, HI 96701
(808) 483-8600 x113
<http://www.oahurcd.org/>

Agribusiness Incubator Program
3050 Maile Way, Gilmore 115
Honolulu, HI 96822
(808) 956-3530
<http://aip.hawaii.edu/>

- Apply for personalized assistance from:
Agribusiness Incubator Program
3050 Maile Way, Gilmore 115
Honolulu, HI 96822
(808) 956-3530
<http://aip.hawaii.edu/>

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Outsourcing the Back Office

Sometimes it's better to let the professionals handle your back office functions while you focus on growing your business

Overview

When you are actively involved in your business operations, your focus should be on growing your business. And although critical to your business, the last thing you may want to think about is paperwork. To eliminate burdensome requirements associated with human resources, payroll, and accounting, you might want to consider hiring other companies (“outsourcing”) to perform these important business functions.

Why is this important?

When a company grows, the “back office” operations (the paperwork functions) of the business tend to expand also. This expansion can start to consume human and financial resources at the expense of core business activities. Outsourcing some back office functions will allow you to focus on those business activities that are critical to your success.

Outsourcing can also have the following benefits:

- Cost savings – you can eliminate overhead costs associated with your accounting and human resources efforts such as office space and utilities, high staff salaries and fringe benefits.
- Minimize staff turnover and training – you can reduce costs associated with staff turnover and the time required to manage your in-house personnel.
- Improve financial operations – good financial information, including budgets and analyses, provide the insight management needs to control and reduce costs.
- Faster transaction processing times – outsourcing companies typically process

all received documents in a timely manner.

- Easy access to documents and records – many outsourcing companies can provide categorized online access to their records, reports and documents and maintain backups of your data.
- Knowledge – professionals and specialists tend to have wider experience and knowledge that you can take advantage of. It also gives you access to operational best practices that would be too difficult or time consuming to develop on your own.
- Compliance – it is difficult for the small agribusiness owner to ensure that the agribusiness is complying with human resource, financial, and tax regulations. Outsourcing companies can help.

What functions can be outsourced?

You can outsource a single or a variety of functions including the following:

- Human Resource Services
 - Health Benefits Management
 - Health and Wellness Programs
 - Worksite Safety Programs
 - Employee Benefits Administration
 - Retirement Services
 - Employee Retention and Productivity
 - Employee Assistance Programs
 - Workers’ Compensation
 - Regulatory Compliance
- Payroll Services
 - Payroll Processing
 - Tax Filing

- Accounting/Financial Services
 - Accounting policies and procedures
 - Transactions processing - AP/AR/Payroll
 - Fixed asset accounting
 - Order entry and invoicing
 - Cash receipts and disbursements
 - Bank statement reconciliations
 - Credit and collections
 - Cash flow management
 - Account reconciliations
 - Variance analyses
 - Financial statements and complete and integrated management reporting including analytical commentaries
 - Budgets and forecasts
 - Business planning and projections
 - Financial analysis
 - Create and maintain formal financial policies and procedures
 - Tax planning and preparation

Employee leasing

To lower costs associated with insurance and health benefits, you might consider a relationship with an employee leasing company. An employee leasing company will “hire” your employees and place them on its payroll. In turn, the leasing company “leases” these employees back to you.

For many employees, the switch is financially beneficial. Since a typical leasing company handles a large volume of employees from multiple companies, health insurance and other benefits can be negotiated in bulk. Your worker can have the same level of benefits as a worker in a much larger company.

Because workers are not considered employees of your company, personal injuries and workers’ compensation claims become the responsibility of the leasing company. In many cases, however, wages and performance reviews might be controlled by the leasing company. You

should understand that because workers are not completely under your control, conflicts may involve and termination procedures may be outlined by the leasing company.

Considerations when selecting an outsourcer and costs

When you hire an outsourcing company, you are choosing a partner for your business. Consider the following when determining whether or not to outsource and when evaluating an outsourcing company:

- Interview and evaluate the company just as you would a new employee.
- Determine whether outsourcing with the company will save you money. If not, decide whether the additional cost is worth the added benefits and time you will save.
- Determine whether the company has long-term relationships with businesses by asking how many clients the outsourcer serves and the average length of time each business has been its client.
- Obtain samples of the reports you would receive and be sure they meet your needs.
- Make sure to read the contract and understand the requirements before signing. Know the term of the contract and whether you can terminate the contract if you are not happy with the service.
- Make sure you understand the cost structure.
- Make sure that you agree with the performance deliverables of the company (for example, will reports be delivered in a time frame that is acceptable to you).
- Ensure that the company has adequate resources to handle your business.
- Ensure that the company will be responsible for keeping up with and implementing new regulatory

requirements (human resources) and industry best practices (financial).

- Determine the type of technology and equipment you will need and consider the costs.
- Make sure that the service is providing adequate security and confidentiality.
- Have the company demonstrate the product before you make a commitment.
- Ask for referrals and talk to others who have used the service.

Outsourcing costs vary depending on the volume and complexity of work and can either be charged as a flat monthly fee or billed at an hourly rate.

Leasing companies charge a fee in addition to the employees' wages. This fee is often less than the cost of hiring human resource and payroll staff.

Next steps and resources

Determine whether you can benefit from outsourcing services by comparing cost and benefits of Professional Employer Organization (PEO) services. The following represent a few companies with a local presence:

- ALTRES HR – provides payroll and human resource services.
808-951-4900
www.altreshr.com

- Ceridian – provides payroll and human resource services.
1-800-643-5999
www.ceridian.com
- Kama'aina Bookkeeping Services – provides payroll and financial services.
808-638-5938
www.kamaainabookkeeping.com
- KilaKila Employer Services – provides payroll and human resource services.
808-597-8535
www.kilakila.com
- Montpac Outsourcing – provides accounting and financial management services.
808-923-3300
www.montpac.com
- Proservice Hawaii – provides payroll and human resource services.
1-877-592-4900
www.proservicepeo.com

You may find other companies by searching in the phone book or online for the type of service(s) you are looking for.

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i

Basic Management via Financial Statements

Standard reports and ratios used to manage your business

Overview

Financial Statements provide an overview of a business' financial condition in both the near- and long-term. The first step is to collect the information needed to prepare your Balance Sheet, Income Statement, and Cash Flow Budget. Financial analyses are performed on these statements to provide you a more detailed analysis of your operations.

Why is this important?

Financial Statements provide information about the financial position, performance and changes in the financial position of your company to help you make important business decisions. Using ratio analysis, these Financial Statements can help you determine the financial health of your business.

Balance sheet

A Balance Sheet shows your financial position at a specific point in time and reflects the following basic relationship:

Assets = Liabilities + 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 that normally do not wear out or are not intended for sale within the next ten years.

Liabilities – Debts owned by a business. Liabilities are listed on the Balance Sheet in the order in which they 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

Income Statement summarizes the revenues and expenses of your business during a specific 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 of the cash coming into and going out of your business over the year. To make these forecasts, you must anticipate all of the following cash flows every month.

Cash In:

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

Cash out:

- operating expenses
- interest and tax payments
- loan payments
- owner's withdrawal
- asset purchases

After the cash flow budget is completed, the budget can be used to project your Balance Sheet and Income Statement in the future. You might want to anticipate what you will do if sales are not as strong as expected or if an un-planned expense occurs, so that you are prepared for cash flow problems that might arise.

Financial analysis

There are two types of Financial Analysis 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 company must sell, or the minimum selling price that the company must receive, in order to pay all of its expenses. To calculate the minimum selling price or minimum number of units, see the lesson on cost of production in this Guidebook. 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 that you can shoot for. Other financial goals are also 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.

Four financial goals 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. Because the Cash Flow Budget is prepared a year in advance, it can help you anticipate any cash shortage that you need to be prepared to address.

Current Ratio = Current Assets/Current Liabilities

A low Current Ratio, say 1:1, means that 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, say 3:1, means that your business is very liquid. This may limit your business' 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:

Leverage Ratio = Total Liabilities/Net Worth

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, a small Leverage Ratio, ~1:5, means that your risk of bankruptcy is much smaller, but your opportunities to grow and make profits are reduced.

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 ROA and 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.

$$\text{Return on Assets} = \frac{\text{Net income} + \text{Interest paid} - \text{Total unpaid labor}}{\text{Total Assets}}$$

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.

$$\text{Return on Equity} = \frac{\text{Net income} - \text{Total unpaid labor}}{\text{Total net worth}}$$

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 whether your ROE is acceptable.

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

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

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 operating less efficiently.

Things to remember when using ratio analysis

- Examine the ratios computed from data contained in your company's Financial Statements to determine whether 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 that your current ratio is not high.
- Compare your business with similar businesses in the industry. Get information at the library, from trade magazines or associations, or 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 lead away from high liquidity.

Next steps and resources

- Analyze your ratios over time and make decisions based on trends rather than on one year's performance. Make a chart to 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.
- Additional information can be found on the CTAHR publications website at <http://www.ctahr.hawaii.edu/ctahr2001/PIO/FreePubs/FreePubs02.asp>.

- The information in this lesson was taken largely from the book, “This Hawaii Product Went to Market” in the “Managing Your Finances” section authored by Linda J. Cox.

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i



Target Markets

Increase your sales by knowing who you're selling to

Overview

A Target Market is a defined group of potential customers that is the focus (target) of your sales/marketing efforts. The more you know about this group, the better you are able to reach them and address their needs, thus increasing your sales.

In this lesson we will discuss a simple way of defining and getting to know your target market(s). This is a fundamental step in developing your Marketing Plan.

Why is this important?

Many small agribusiness owners don't want to limit their opportunities by focusing their sales and marketing efforts on a particular category of customers. However, experience has shown that trying to please (market to) everyone leaves you to compete on price, which, often, is not what leads to success.

By focusing your efforts on a target market (niche marketing), you can become a leader in your niche and benefit from greater loyalty and higher pricing. You can reach a target market much more efficiently and effectively than the market of "everyone."

Incidentally, if you sell to wholesalers, while they might be your direct customers, they are NOT your target market. You should consider them in a marketing plan, of course, but for now, focus on the consumer or business that makes the buying decision.

What is MY target market?

The easiest way to select your target market(s) is to think about your ideal customer.

Imagine the person (or business) that would most prefer your products and services versus the competitors' offerings.

They would appreciate the value of what you offer and be willing to pay more for it.

Give this person a descriptive name that identifies them as narrowly as possible.

Bad Example: Tomato eater.

Better Example: Mother of school aged children who really wants her family to eat local, fresh, healthy vegetables, and for which tomatoes is a prime example.

Defining the target market and research

Think about the characteristics that differentiate this person/business from the general population. Imagine their stereotypical characteristics in as much detail as possible. You can use the research sources at the end of this lesson to substantiate or complement your assumptions. Surveying people in your target market can also provide valuable insight.

Describe your target market using as many of (although not limited to) the following characteristics:

Consumers

- Age (range)
- Geography (where are they concentrated? In Kahala? Waianae?)
- Sex (male/female)
- Family size (single, married, kids?)
- Household income (range)
- Education level
- Ethnicity
- Related values (do they value convenience, aesthetics, taste, etc.?)
- Buying style (buy small quantities at a time? Buy during the holidays?)
- Self concept (I'm a mother, I'm a rebel, I'm sophisticated, etc.)

Businesses (if a business is the end user of your product)

- Geography
- Industry/SIC or NAICS code
- Annual revenue (range)
- Number of employees (range)
- Buying style and decision making

Example: Female homeowners age 30-55 with children, living on the North Shore of O‘ahu, with household incomes of >\$50k, who place a premium on freshness and health aspects of food they purchase.

You can then research the population fitting some of these characteristics to determine how many people/businesses (potential customers) there are in your target market.

Also estimate how much of your product/service a customer from this target market might purchase in a month or year.

To validate that this is a suitable target market for your business, ask yourself the following questions:

- Does my target market have a need or a problem that I can satisfy, and are others not satisfying their needs sufficiently? *If their needs are already being satisfied then this is not a niche market for me — I will have direct competition for this target market for my products/services.*
- Can I easily identify my target market (so that I can reach them in trying to communicate/sell to them)?
- Are they able to afford what I’m selling?
- Is the size of the target market big enough to support my desired sales?

Once you have identified, described/researched, and validated your target market, then you have the foundation upon which to start developing the rest of your marketing plan. Can you already see how knowing your target customer might impact such decisions as where to sell, what to say to them, and how you might modify your product or packaging to appeal more to them?

Next steps and resources

- Continue to the Positioning and Branding course offered through: Oahu Resource Conservation and Development
99-193 Aiea Heights Dr. #111
Aiea, HI 96701
(808) 483-8600 x113
<http://www.oahurcd.org/>
- Apply for personalized assistance from: Agribusiness Incubator Program
3050 Maile Way, Gilmore 115
Honolulu, HI 96822
(808) 956-3530
<http://aip.hawaii.edu/>

Additional information on target markets:

- www.entrepreneur-web.com/articles/targetmarket
- www.morebusiness.com/running_your_business/marketing/Target-Market.brc
- www.soho.org/Marketing_Articles/target_marketing_strategy.htm

Some free internet sources of research:

- General information: www.Google.com
- Various Hawaii statistics
hawaii.gov/dbedt/info/economic/databook/
- Hawaii tourist information:
www.hvcb.org/trends/index.htm
- Population information:
[factfinder.census.gov/home/saff/main.html? lang=en](http://factfinder.census.gov/home/saff/main.html?lang=en)
and quickfacts.census.gov/qfd/

- Geographic information:
www.zipskinny.com
- Industry classifications: www.naics.com
- Consumer spending:
www.bls.gov/bls/demographics.htm
- Business spending:
www.census.gov/epcd/www/bes2002.htm

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Positioning and Branding

Differentiate yourself and get more control of pricing and demand

Overview

This lesson attempts to simplify a complex topic so that it can be put into action, and thereby benefit the small agribusiness.

Positioning relates to a strategic decision on how you want your products or services to be perceived by customers, *relative to competitive companies/products/services*. In Positioning you typically want to differentiate yourself from your competition.

Branding, for the purposes of this lesson, refers to the tactics used to influence your brand – your brand being how customers perceive your company/products/services.

We can only influence, not control, the customers' perceptions. However, by determining our desired Positioning and then taking appropriate actions to develop our Brand, we have a much better chance of fostering the identity that leads to increased profitability.

As we assume that you have not done much yet in this area, we will focus on Positioning and Branding your company instead of your products/services.

Why is this important?

Many small agribusinesses in Hawaii not only sell undifferentiated products (your lettuce might be indistinguishable from another farmer's lettuce), but also make little or no effort to identify their company on their products. A brand is more than a name and a nice logo. Without giving customers a way to identify where your lettuce came from, how can they buy it again even if they wanted to?

If you know how you want customers (and potential customers) to think about

your company, then you can communicate and perform in ways that will foster that perception. This is how your target market develops preference and loyalty for your brand and will be willing to pay a premium for what you offer. *By having a brand desired by a target/niche market, you will have greater control over demand and pricing, instead of being totally reliant on what the wholesaler is willing to buy and pay.*

Creating your positioning statement

Develop a concise statement that describes the one or two things you want your potential customers to associate with your company. Remember that you want to be attractive to your target market and different from your competition. An example of this process is shown on the following page.

1. Research your competition. What are they known for? List the competitor and the positioning.
2. List the defining characteristics of your company, focusing on things that you think are unique, special, and attractive to your target market.
3. Highlight the characteristics/reasons why your target market might choose you over your competition. If you already have preferred customers, be sure to ask them why they do business with you instead of the competition.
4. Write a concise Positioning Statement with your competition and the target market in mind.

Example of Positioning Statement Development

COMPETITOR	POSITIONING/WHAT THEY ARE KNOWN FOR
Green Acres Nursery	Variety, having lots of plants
Green Thumb Nursery	Low prices
Aloha Plants	Friendly and flexible, helpful

- Healthy plants
- Clean plants
- Grow to order, accommodating
- Always have something new
- Have lots of native plants

My positioning statement: **The premier source of native Hawaiian plants that will thrive once you plant them.**

Now review:

- Does it fit your personality? Not everyone can pull-off being the “Avant-garde plant nursery for the discriminating landscape artiste.”
- Does it violate customers’ perception of reality? If you claim to produce the world’s favorite caviar right here in Hawaii, might that be hard to accept? You can shift perceptions by “walking the talk” but it’s harder work.
- Does it make you unique from your competition or the best? Keep in mind that you don’t actually have to be unique, just unique in the mind of the customer. Therefore, if no one else is known for being the nursery with the healthiest plants, feel free to make that your positioning (assuming you actually have healthy plants).
Tip: Quality, flexibility, and personal service are very common claims for small businesses.

Remember that “sacrifice is the essence of positioning.” *Ries, Al and Trout, Jack. 1981. Positioning: The Battle for Your Mind. New York: McGraw-Hill.* You aren’t trying to appeal to everyone. This is the essence of niche marketing. Once you own/dominate the niche, you can expand into other markets.

Branding elements

Now that you’ve determined your positioning, reinforce this every chance you get with your branding elements. Make sure your packaging, letterhead, business cards, etc. convey your branding consistently and pervasively. If you sell products that don’t lend themselves to labels (like taro), consider branded twist ties, rubber bands, cellophane packaging, and hang tags.

1. Write down what you will do with the following branding elements to support your positioning:
 - Brand Name/Company Name (e.g., Healthy Hawaiian Plants)
 - Tagline/Slogan (often simply a rephrasing of you positioning statement, e.g., Native Hawaiian plants that thrive in your garden)
 - Logo (e.g., a stylized iconic Hawaiian quilt plant silhouette)
 - Color Scheme (e.g., green and purple)
 - Spokesperson/Character/Voice (often optional, but defining a Voice is useful even in written advertising, e.g., the Voice will be one of an older, experienced landscaper who is passionate about using plants that

will thrive once planted and knows that natives are perfect but healthy plant material isn't a given)

- Font/Typeface (e.g., a Hawaiian-looking font)
 - Packaging/Labeling (e.g., Use brand name, slogan, website, logo, color scheme, and font. Use Hawaiian and common plant name. Where space allows, describe native climate and environment where it thrives and give example Hawaiian place name, and add "Lovingly grown by" with employees name after that.
2. Create these elements and use them consistently and pervasively.
 3. Convey your positioning in your advertising, how you deal with customers, in your product line, etc. See also the *Marketing Mix* lesson.

Next steps and resources

- Continue to the *Marketing Mix* lesson.
- Apply for personalized assistance from:
Agribusiness Incubator Program
3050 Maile Way, Gilmore 115
Honolulu, HI 96822
(808) 956-3530
<http://aip.hawaii.edu>

Small Business Development Center
1833 Kalakaua, Suite 400
Honolulu, HI 96815
(808) 523-6118
<http://www.hawaii-sbdc.org>

Additional information on positioning and creating a Positioning Statement can be found at:

- www.entrepreneur.com/advertising/howtouguides/article171496.html
- www.bizboom.com/tools/files/positioning_statement.rtf
- www.marketingprofs.com/Faqs/showfaq.asp?ID=160&CatID=9
- marketing.about.com/cs/advertising/ht/writeposition.htm
- biznik.com/forums/community-wide-general-discussion/topics/whats-your-positioning-statement

Create a logo:

- www.logoworks.com
- <http://www.logomojo.com>

Design a product label and/or packaging:

- Dana Labels
1920 Colburn St.
Honolulu, HI 96819
(808) 845-3262
<http://www.danalabels.com>
<http://www.iprint.com>
<http://www.xocreate.com>

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The Marketing Mix

Attracting your target market through an integrated effort

Overview

This lesson assumes that you have completed of the Target Market and Positioning/Branding topics. In this lesson, we look at using the findings from the aforementioned lessons to consider changes to your products/services, your place of business/distribution, your pricing, and your promotions/advertising in order to convey your Positioning/Branding to your Target Market.

We adjust our Marketing Mix (Product, Pricing, Place, Promotion) to appeal to our target market in ways that are consistent with our positioning and branding.

Many people think of marketing as being synonymous with advertising. It is not. Marketing is everything you do to purposefully encourage people to conduct business with you, as will become clear when you do the exercises in this lesson.

Why is this important?

Once you know your target market and have defined how you want them to think of your company/products/services, you can encourage them to prefer your company/products/services over the competition, thus increasing your sales and giving you more control over demand and pricing.

By aligning your Marketing Mix, you better ensure that your marketing is integrated, cohesive, and effective.

Objective

Although not part of the Marketing Mix, it is very useful to define an objective of your near-term marketing efforts. Is it to establish awareness of your brand? Launch a new product? Sell your product in a new area or to a different type of customer? Simply increase sales?

By knowing what the objective is, you can better focus your efforts on achieving them. For example, if you want to launch a new and unique product, you might decide to emphasize demonstrations and sampling (promotion) and offer introductory pricing or offer it to stores on consignment (pricing).

Think about what you want your marketing efforts to achieve over the next year and write down your

marketing objective.

The marketing mix

Given what you know about your target market and positioning and branding, what might you change in each of the following areas (products, price, place, promotion) to better appeal to them and reinforce/convey your positioning/branding?

An example: Your target market is health-conscious, Honolulu-based young adults without or with young children, and your desired positioning is “The most nutritious vegetables, grown right here in Hawaii.” A few appropriate things you might do with your Marketing Mix are:



Product

- Bag your product in clear bags to accommodate a label, which includes your company name, logo, and website, emphasize Hawaii-grown, and show a comparative analysis of the nutrient content of your product versus a mainland competitor.
- Label space permitting, explain the environmental benefit of being grown here (significant portion of your target market is also concerned about the environment).
- Package each bag to include around two single servings.

Price

- Premium versus imports. On a per pound basis, slight premium pricing over imports (target is typically not a “value” buyer, small quantity bag should make premium pricing less of an issue, and can enhance perception of a premium product).

Place

- Sell and deliver to specialty grocers (and supermarkets if volume permits) in Honolulu, focusing on areas of high concentrations of your target market.
- Sell over the Internet for on-farm pickup.

Promotion

- Shelf tag with your brand, slogan, logo and expanded descriptions of nutritional (and possibly environmental) benefits of your products.
- Web site with a blog about what you’re doing to maximize the nutrient content of your products.

- Get food providers at events in Honolulu that attract healthy young adults to use your products (perhaps donated) with mention of your company and slogan somewhere (menu, program, table cards where food is served).

From the above example, can you see how knowing the target market and positioning led to these decisions about Marketing Mix?

Here is a simple process to create and benefit from a Marketing Mix of your own:

1. Brainstorm and write down all the changes you could make for each element of the Marketing Mix that would appeal to your target market and/or promote your positioning. Examples are listed, but don’t feel limited to the examples. Getting ideas from people in your target market is especially useful.
2. Select the ideas/changes that you are willing to implement now, considering cost, effort, impact (appeal to your target market), and consistency with your positioning.
3. Schedule when you will implement or start implementing each idea and determine a budget.
4. Implement the ideas! Remember, you don’t have to be a creative marketing genius! There is incredible value in thinking through what you can do to appeal to your target market and what you can do to foster customer perception about your company and brand (positioning). You will probably find that having gone through this exercise, you will become more aware of marketing impacts and opportunities.



The greatest value, of course, comes in taking action to implement these ideas. Treat Marketing as a business function instead of merely an occasional thought and effort. Doing so will give you a great competitive advantage!

Product (or Service)

What can you do with what you offer that is appealing to your target market and supports your positioning? Some examples to consider are:

- Product size (*snack size, party size, Costco size, single serving*)
- Bundling (*small packet of chili sauce and a recipe with the long beans*)
- Packaging material (*extra protection from bruising, biodegradable, glass instead of plastic jar*)
- Label (*company name on the twist-tie, recipe attached to rubber band; see especially your Branding Elements from the Positioning lesson*)
- Warranty (*money back guarantee, 30 minute delivery guarantee*)
- Quality (*vine ripened, stricter quality control, more cleaning*)
- Features/Varieties (*stem attached, hot/medium/mild versions*)

Price

Hopefully, you are not pricing simply based on what your competition charges, or worse, what the wholesaler wants to pay.

Differentiate yourself through focus on target markets, positioning/branding, and effective use of the Marketing Mix.

You should know what it really costs you to offer your goods or services. See the *Cost of Production* lesson in this Guidebook.

Pricing can be a marketing tool. What can you do with what you charge that is appropriate for your target market, positioning, and marketing objectives? Some examples to consider are:

- Premium (*used to support perception of a premium product*)
- Penetration (*temporarily lower to gain market share/shelf space*)
- Economy (*lower pricing to appeal to price-conscious target market*)
- Volume (*discounts for purchasing larger quantities*)
- Bundle discounts (*discounts for buying additional different items from your product line; good for encouraging sales volume and encouraging trial of new/less popular item when bundled with more popular item*)
- Psychological (*\$1.95 can “feel” significantly less than \$2.00*)
- Product line (*multiple versions at different price points; e.g., small/med/large*)
- Options (*base product/service at a palatable price, add-on options offered*)

Place (Distribution)

The way in which you get your product to market and where the product is offered (including your own retail location) can be a marketing tool. The different options will differ in their cost, transportation time, geographic reach, quality and presentation of your delivered product, and services provided. As always, your target market, marketing objective, and positioning should guide your decisions — where they shop, how they like to buy, etc.

Keep in mind that, while wide distribution tends to increase sales volume, it often can mean higher costs and effort, and lower margins. Some examples of choices to consider are:

- Intensive (*offer the product in as many locations as possible for geographic reach and customer convenience*)
- Exclusive (*sell in one or very few locations to support a perception of “specialness” and a higher price*)

- Selective (*sell in specific types of stores and/or locations for geographic reach with a manageable number of locations*)
- Indirect (*leverage the geographic reach, infrastructure, experience, and services of wholesalers and retailers*)
- Direct (*typically gain higher margins and more customer contact versus Indirect, but requires more effort and cost; Direct includes mail order, on-farm, Internet, mail order, farmers' market, CSAs*)
- Shipping (*flat rate or reflective of the individual order shipping cost?*)
- Services (*who will handle: warehousing, order processing, inventory management, packaging, materials handling, receiving, transportation and shipping, returns/warranty, sales/promotions?*)

Promotion

Promotion consists of activities you may have typically considered “marketing,” including the following examples. Determine which promotional activities will reach your target market, encourage them to buy, and be cost-effective.

- Advertising (*yellow pages, newspaper, magazines, radio, television, Email, web banners/links/etc.*)
- Trade shows (*food manufacturing, restaurant industry, consumer shows; useful for networking also*)
- Sponsorships (*sports teams, events*)
- Direct mail (*allows for good targeting*)
- Personal selling (*salesperson calling on stores*)

- Sales promotions (*coupons, retailer discount for first purchase, in store demos, point of purchase displays, rebates, contests*)
- Public relations (*press releases and public events*)
- Guerrilla/Other (*blogs, gifts, giveaways, contests, frequent/new buyer programs, exclusive offerings, events, cross promotions, referrals and word of mouth*)

Next steps and resources

- Other marketing topics mentioned in this lesson are available from:
Oahu Resource Conservation and Development
99-193 Aiea Heights Dr. #111
Aiea, HI 96701
(808) 483-8600 x113
<http://www.oahurcd.org/>
 - Apply for personalized assistance from:
Agribusiness Incubator Program
3050 Maile Way, Gilmore 115
Honolulu, HI 96822
(808) 956-3530
<http://aip.hawaii.edu>
- Small Business Development Corp.
www.hawaii-sbdc.org

Additional information:

- Marketing mix
www.learnmarketing.net/marketingmix.htm
www.marketingteacher.com/Lessons/lesson_marketing_mix.htm
- Trade shows www.tsnn.com
- Direct marketing www.the-dma.org
- Choosing an appropriate location for business
www.nolo.com/article.cfm/objectID/3AFBBD6F-1BDF-403A-A78ABD2109684A46/111/228/142/ART
- Statistics-Production, Marketings, and Wholesale Prices
<http://www.hawaiiag.org/prices.htm>
www.hawaiiag.org/prices.htm
- USDA State Marketing Profiles
www.ams.usda.gov/statesummaries
- Small Business Development Corp tutorials www.sbdnet.org

Prepared by:
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University of Hawai'i



Permitting, Licensing, Certifications and Zoning Requirements

Avoid penalties and business disruptions through proper compliance and make your company more marketable through optional certifications

Overview

Whether you're involved in the excitement of starting a new business or busy with the day-to-day demands of running your existing operations, it's easy to ignore the need for licenses and permits. While obtaining the appropriate licenses and permits and ensuring that you are operating in accordance with zoning laws and regulations may seem like a grueling task, failing to do so is one of the most common mistakes business owners make and it could expose you to unnecessary business risk. This lesson provides high level information on Hawaii's zoning laws and on some of the common licenses and permits you need to be aware of. In addition, it will direct you to places where you can find additional information and to resources that can help you meet these legal requirements.

Who is this for and why is this important?

Everyone starting or running a business should take the time to ensure they have the proper licenses and permits to operate their business and that their property is appropriately zoned for the type of business they are in. These regulations are enforced and monitored by state and local (city and county) governments. Verifying this information early can help you avoid fines, penalties, or interruptions in business that could occur as you try to clear-up issues that may arise later. Additionally, some licenses and certifications can give you a marketing advantage by distinguishing your goods or services from your competitors'.

Zoning laws

All land in Hawaii is classified into one of four categories: Conservation, Agricultural, Rural, or Urban. These designations were initially established by the State Land Use Commission (LUC). Changes to the designations can be made by ordinance of the County Council for areas of 15 acres or less; otherwise, the LUC must approve changes. Only the LUC can take land out of the conservation district. Typically, amendments to land designations are initiated by landowner applications and reviewed on a case-by-case basis.

Zoning is the primary means for controlling land use. All areas on the island, except for federal lands like the national parks, and some areas in the conservation district, are zoned. The Zoning Code lists the permitted uses within each zone, and also the required setbacks, height limits, parking areas for commercial developments, and other controls.

Zoning changes are reviewed by the Planning Commission, but must be finally approved by the County Council through ordinance.

It is important that you verify that your property is in the appropriate zone for your particular type of business and that any structures, parking areas, etc. are allowed under the zoning code, as violations to zoning laws can be severe and costly. The City and County of Honolulu's Department of Planning and Permitting offers advice on how to verify that a specific kind of structure, activity or use of land is allowed on the website:

<http://www.honolulu.dpp.org/PermitInfo/>
<http://honolulu.dpp.org/downloadpdf/zoning/lupdfaq.pdf>

Actions that require permits/licenses

Operating a business usually requires that you register in the state that you plan to do business in and with the Federal government (this is discussed in more detail in the Business Structure and Registration lesson of this Guidebook). Once you have started your business, you may find that additional permits or licenses might be needed. A typical example is a building permit, which is required to erect, construct, alter, remove or demolish any building or structure. You are even required to obtain a sign permit if you want to install, construct, alter, relocate, or reconstruct any sign or a temporary permit if you want to set-up a tent or similar structure for commercial purposes.

In addition to the situations described above, there may be several licenses needed to obtain to operate an agricultural business. What follows are typical examples of some of the common licenses/certifications you will be expected to obtain as an agricultural grower/producer:

- Pesticide Applicator Certification – You must be certified to use certain types of pesticides on your farm. The Hawaii Department of Agriculture (HDOA), Pesticides Branch regulates the manufacture, sale, and use of pesticides in the State of Hawaii. There are two types of certified applicators: Private Applicators and Commercial Applicators. Private Applicators are those who are involved in agricultural production (farming) on land operated by themselves or their employer. Commercial Applicators make up the rest.
- Dealer’s License – This is required when selling or handling Hawaii grown agricultural products obtained or

purchased directly from a farmer or producer.

There may also be certain licenses or certifications related to your business that are not required but you may want to obtain to distinguish yourself from your competition. An example is the food safety certification, which is discussed in greater detail in the Food Safety Certification lesson of this Guidebook or the HDOA Seal of Quality (SOQ), which was launched to distinguish Hawaii grown or made products.

Considerations and processes to obtain permits/licenses

State and county agencies increasingly have turned to the Internet to provide many of their services online. If Internet access is not readily available to you, addresses and phone numbers of the appropriate agencies have been included at the end of this document.

- The City and County of Honolulu Department of Planning and Permitting has developed an online Honolulu Internet Permit System site to assist in the building permit application process: <http://dppweb.honolulu.gov/dppweb/>
- Pesticide Applicator Certification –To become certified, you must pass a written examination(s). Certifications are good for five years from date of issue. To arrange for testing, contact the HDOA’s Pesticides Branch. Application forms can be obtained online at <http://hawaii.gov/hdoa/pi/pest> . For study material for the examination and for information on preparatory classes, contact the University of Hawai‘i, Cooperative Extension Service at (808) 956-6007.
- The State of Hawaii Department of Agriculture Commodities Branch is designed to assist in the development of agricultural industries through quality

assurance of agricultural commodities and licensing of dealers in agricultural products. Application forms for many of the certifications/licenses discussed above (e.g., Dealer's License, Food Safety Certification information) and additional information on issues that have not discussed here (e.g., seed certification and grading standards), can be found online on their website.

- HDOA Seal of Quality Program – To meet program standards, all fresh agricultural products must be produced entirely in Hawaii and meet the highest quality standard. Value-added processed agricultural and food products, for which the primary agricultural product has been produced entirely in Hawaii, must also meet the 51% wholesale value-added requirement and be in compliance with all state laws. Applications and regulations can be found online at: <http://hawaii.gov/hdoa/add/soq/SOQPgrmHist>

Next steps and resources

- State of Hawaii Department of Agriculture forms can be located at: <http://www.hawaiiag.org/hdoa/forms.htm>
- City and County of Honolulu Department of Planning and Permitting: <http://www.honoluluodpp.org/>

Frank F. Fasi Municipal Building
Department of Planning and Permitting
650 So. King St
Honolulu, HI 96813
Ph: (808) 768-8127 (Customer Service)
Fax: (808) 527-6743
E-mail: info@honoluluodpp.org

Honolulu Internet Permit System
<http://dppweb.honolulu.gov/dppweb/>

Honolulu Land Information System:
<http://honoluluodpp.org/gis/>

Building Permit Informational Brochure:
<http://honoluluodpp.org/downloadpdf/CONSTRUCTION/bpinfo.pdf>

- HDOA Seal of Quality Program:
<http://hawaii.gov/hdoa/add/soq>

Hawaii Department of Agriculture
Agricultural Development Division
Market Development Branch
1428 South King Street
Honolulu, HI, 96814-2512
Ph: (808) 973-9595
Fax: (808) 973-9590
<http://hawaii.gov/hdoa/add/md>
E-mail: hdoa.md@hawaii.gov

- The State of Hawaii Dept. of Agriculture Commodities Branch:
<http://hawaii.gov/hdoa/qad/comm>

Commodities Branch
Hawaii Department of Agriculture
Quality Assurance Division
1851 Auiki Street
Honolulu, HI 96819-3100
Ph: (808) 832-0700
Fax: (808) 832-0683
<http://hawaii.gov/hdoa/qad>

- State of Hawaii Land Use Commission:
<http://luc.state.hi.us/>

- Online access to Land Use Maps:
http://luc.state.hi.us/luc_maps.htm

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i

Conservation Planning

Protect your farm while protecting the environment

Overview

Conservation Planning refers to the management of the natural resources on your land. A Conservation Plan (CP) is a formal document that outlines your conservation practices such as crop rotation, nutrient management, soil erosion mitigation, etc. A CP also documents details about your farm and typically includes land-use maps, soil information, inventory of resources, etc. Developing a CP is voluntary, but proper conservation planning can result in more workable and productive land, which should allow you to increase your production and lead to greater income. Choosing to develop a CP may sound overwhelming at first, but resources are available to assist you in this effort.

Why is this important?

It's up to you to decide on the best ways to improve the productivity, sustainability, and profitability of your operation. Conservation planning is an important starting point for maintaining and improving the natural resources that support productive and profitable agricultural operations.

Every farm has its own unique resource assets, problems or concerns. At your request, certified conservation planners in the Natural Resources Conservation Service (NRCS) and local conservation districts can provide planning assistance to help producers identify options that provide the greatest conservation benefit while meeting production goals.

Working with a conservation planner, you can develop a conservation plan that can be used to:

- Identify immediate or potential resource problems that could hurt your production.
- Comply with environmental regulations.
- Prepare for agricultural or market certifications.
- Address regulatory requirements.
- Qualify for various USDA conservation programs.
- Develop alternatives and identify strategies for implementing on-farm solutions.
- Establish a reasonable schedule to apply needed conservation practices.
- Save time, labor and energy.

Considerations/Areas of impact

How will conservation planning help you achieve your production goals and improve your bottom line? Have you ever considered any of the following issues?

- Would you like the opportunity to enhance the natural resources on your land?
- Do you have muddy runoff, carrying precious nutrients and water away?
- Is sediment accumulating in the lower part of your land or field?
- Are your fields less productive now than they once were?
- Is your property providing wildlife habitat?
- Do you need more and more fertilizer and water to sustain yields?
- Are there invasive species where once native species and productive pastureland thrived?
- Do you need to comply with certain regulations?

If any of these questions or others like them have come up, it may be time for you to consider developing a CP for your farm.

Obtaining a conservation plan

When you are ready to start your CP, a NRCS planner can meet with you to discuss your goals, plans, resource problems, soils, and NRCS's conservation programs. The planner will ask which crops you want to grow, the livestock you want to keep, the wildlife or recreation uses you want to plan, and any other interests you have that will affect the land. The planner will help you consider the effects a planned practice might have on a neighboring farm or parcel of land. When developing your plan it is important to think on-site as well as off-site. Technically trained NRCS planners will help you reach informed decisions about soil, water, air, plants, and animal resources while considering human, social and economic concerns.

Potential remedies

There are several common conservation practices that you may implement depending on what issues you are facing. Following are a few brief descriptions of conservation practices. They explain how the practices work and how they help improve a farm. Additional details such as things to think about when considering the practice and basic maintenance needs can be found in the resources listed at the end of this lesson.

Crop Rotation – Changing the crops grown in a field, usually in a planned sequence can help reduce soil erosion and provide savings in fertilizer costs and pest control.

Contour Buffer Strips – Using strips of grass or other permanent vegetation can help trap sediment or nutrients, control runoff flow and even provide a habitat for birds or animals.

Nutrient Management – The development of a nutrient management plan helps reduce fertilizer costs by ensuring that nutrients are applied at the proper time and protects water quality. The plan might also identify areas of concern such as flood plains and steep slopes.

Pest Management – Using a pest management strategy that identifies specific treatments for specific pests saves money by ensuring that the treatment is applied only when needed, which prevents over treatment and protects water quality.

Wind Break – Utilizing rows of trees and shrubs that protect areas from wind reduces wind erosion or wind damage to crops, serves as a sound barrier and protects your crops from potential chemical drift from neighboring farms.

The preceding is merely a snapshot of some of the many conservation practices you can implement on your farm. You should keep in mind that some of the most profitable practices, like nutrient or pest management, require little or no financial investment, can reduce expenses and may go the farthest toward protecting water quality. Other practices might not immediately increase farm income, but can pay off in other ways through cleaner water, more wildlife, long-term soil conservation, and an improved quality of life.

Next steps and resources

- Contact the Hawaii Natural Resources Conservation Services offices nearest to your area of concern:

- Hilo (Hawaii)
Harry Toki
154 Waianuenue Avenue, Room 322
Hilo, Hawaii 96720-2452
(808) 933-8381
Harry.Toki@hi.usda.gov
- Kona (Hawaii)
Jeff Knowles
Central Kona Center (Building 9)
81-948 Waena'Oihana Loop, Suite
101
Kealahou, Hawaii 96750
(808) 322-2484
Jeffrey.Knowles@hi.usda.gov
- Waimea (Hawaii)
Matthew Wung
Kamuela Business Center Building
64-1032 Mamalahoa Highway, Ste
201
Kamuela, Hawaii 96743
(808) 885-6602
Matthew.Wung@hi.usda.gov
- Kauai
Lex Riggle
4334 Rice Street, Room 104
Lihue, Hawaii 96766-1801
(808) 245-9014
Lex.Riggle@hi.usda.gov
- Oahu
Chad Kacir
99-193 Aiea Heights Drive, Suite
109
Aiea, Hawaii 96701
(808) 483-8600
Richard.Kacir@hi.usda.gov
- Maui
Ranae Ganske-Cerizo
77 Hookele Street, Ste. 202
Kahului, Hawaii 96732
(808) 871-5500
Ranae.Ganske@hi.usda.gov
- Molokai
Wallace Jennings
4101 Maunaloa Highway
P.O. Box 396
Hoolehua, Hawaii 96729-0396
(808) 567-6868
Wallace.Jennings@hi.usda.gov
- An additional source of assistance is the Hawaii Association of Conservation Districts (HACD). The HACD encompasses 16 Soil and Water Conservation Districts (SWCD) throughout the State of Hawaii. Since its inception in 1954, HACD has worked to coordinate and facilitate local partners and governmental agencies in identifying and implementing projects and practices with cultural sensitivity to ensure the protection of Hawaii's environment.
- HACD
99-193 Aiea Heights Drive, Ste 110
Aiea, HI 96701
Phone: (808) 483-8600 ext. 120
Fax: (808) 483-8619
<http://www.hacdhawaii.org/index.html>
Michelle Watson (Exec. Director)
- Windward, West & South Oahu
SWCD
99-193 Aiea Heights Drive, Ste 109
Aiea, HI 96701
Phone: (808) 483-8600 ext. 354
Fax: (808) 483-8619
Bobette Parsons (Cons. Planner 2)
(808) 483-8600 ext. 121
Lisa Schofield (Cons. Planner 1)
(808) 483-8600 ext. 119
- Hāmākua, Ka'u, Puna & Waiākea
SWCDs

NRCS Hilo Service Center - Federal Building

154 Wai'ānuenue Avenue, Ste 322
Hilo, HI 96720

Phone: (808) 933-8350

Fax: (808) 833-8362

Jennifer Lopez-Riavis (District Administrative Assistant - Ka'u, Puna & Waiākea)
(808) 933-8350

- Kona SWCD
NRCS Kealakekua Service Center
81-948 Waena Oihana Loop, Ste 101
Kealakekua, HI 96750
Phone: (808) 322-2484
Fax: (808) 808-322-3735
Mary Robbelee (District Administrative Assistant)
(808) 322-2484 ext. 100
- Mauna Kea SWCD
PO Box 2975
Kamuela, HI 96743
Phone: (808) 885-6602
Fax: (808) 885-4420
Margaret Becka (District Administrative Assistant)
(808) 885-6602 ext. 100
John Pipan (HACD Conservation Specialist)
(808) 885-6602 ext. 101
- East & West Kaua'i SWCDs
NRCS Līhu'e Service Center - Watamull Building
4334 Rice Street, Suite 104
Līhu'e, HI 96766
Phone: (808) 245-6513 ext. 107
Fax: (808) 246-4639

Marjorie Stanphill (District Administrative Assistant)

(808) 245-6513 ext. 107

Sara Bowen (E & W Kaua'i SWCDs Conservation Specialist)
(808) 245-6513 ext. 117

- West Maui, Central Maui, Olinda-Kula & Hāna SWCDs
NRCS Kahului Service Center
77 Ho'okele Street, Suite 202
Kahului, HI 93732
Phone: (808) 871-5500
Fax: (808) 873-6184
Maggie Kramp (District Administrative Assistant)
(808) 871-5500 ext. 101
John Astilla (HACD Conservation Specialist)
(808) 871-5500 ext. 111
- Moloka'i-Lāna'i SWCD
PO Box 396
Ho'olehua, HI 96729
Phone: (808) 567-6869
Fax: (808) 867-9062
Debbie Kelly (District Manager)
(808) 567-6869 ext. 102

- For additional assistance, contact or consult the following:

Oahu Resource Conservation and Development

99-193 Aiea Heights Dr. #111

Aiea, HI 96701

(808) 483-8600 x113

www.oahurcd.org

Pacific Island Area NRCS website

- <http://www.pia.nrcs.usda.gov/>
- Overview of conservation planning
 - <http://www.ri.nrcs.usda.gov/conservation.html>
 - <http://www.or.nrcs.usda.gov/technical/conservation-planning-and-conservation-records/index.html#plan>

- Information for farmers and ranchers
 - http://www.nrcs.usda.gov/partners/for_farmers.html
- Examples of common conservation practices
 - <http://www.wi.nrcs.usda.gov/programs/solutions/>

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i

On-Farm Food Safety

Like an insurance plan for your business and customers

Overview

As a professional grower, it is in your best interest to grow the safest food possible – no pathogens (germs) and no residual chemicals. Knowing that you are doing everything in your power to keep contaminants off your food will give you a level of comfort when you sell to wholesalers, restaurants, and consumers. They, too, have an obligation to make sure they keep your safe produce, safe. Your focus, however, will be on delivering a safe product to your buyers. The best way to look at your farm is to ask yourself, “would I treat food in my kitchen like I am treating it on my farm?”

In this unit you will find out why it is important to manage your food safety risk, how to do that, and how to get help.

Why is this important?

Over 5,000 people die each year from food-borne illnesses in the U.S. Food-borne illness typically puts consumers in bed (or the bathroom) or hospital for hours or days. Has this ever happened to you before?

For growers, wholesalers, restaurants and retailers, getting people sick can cost millions of dollars in a lawsuit and perhaps the business, and the business owner’s reputation, will be destroyed. This is especially critical since many food related stories are posted on the internet, and thus could be part of your farm history forever. For a commodity, country or state to be known as the source of a food-borne illness, it can cost millions of dollars in lost revenues. The September 4, 2006 spinach *E. coli* outbreak which sickened more than 200 people and killed three, cost spinach growers over \$77 million. No agricultural

industry or state/country can afford these types of losses and consumers deserve to be sold the safest food possible.

For your farm, you need to be diligent and keep your farm clean and free of pathogens, including animals in the production and packing areas. You need to keep records of your chemical and fertilizer applications, bathroom sanitation, refrigerator temperatures, and the like. By keeping good records you will demonstrate that you are serious about the safety of the food you provide to customers.

On the positive side, there are a number of reasons to make your produce as safe as possible:

- A growing numbers of buyers are requiring audits and you can be one of their select suppliers with an annual audit.
- You can sleep better at night knowing that you are doing your best to keep the people eating your produce safe.
- You can reduce your liability in case of a lawsuit stemming from a food-borne illness issue.

The bottom line is that it is simply good business practice to produce the highest quality food. It might even open new markets for you!

Critical food safety issues on farms

The types of food-related risks found on Hawaii farms are similar to issues found on the Mainland and worldwide. They fall into these categories:

Human hygiene

- Do you have a clean toilet for workers?
- Do workers wash their hands with soap and water after arriving to work, using the bathroom, smoking, eating, etc.?

Animals and their feces

- Are pets and wild animals found in your fields and packing shed? (hint: they should not be there at all).
- Are you using fully-composted compost or manures? (hint: all composts need to pass EPA regulations on production quality and have a lab test certifying the lack of pathogens).
- Are there animals in fields uphill from your operation where their feces could come onto your property during a rainstorm?

Water

- What type of water is “touching the edible portion of the crop” during irrigation (hint: it should be potable – drinkable, if possible).
- How is your produce wash water? It needs to be potable too – just like in your home kitchen!

Chemicals

- Are you using the correct chemicals for the crop you are growing?
- Are you using the correct safety equipment when applying chemicals?
- Do you keep records of all your chemical applications?
- Do you post signs in the field to inform workers when it is safe to re-enter a field after spraying?
- Do you follow the pre-harvest interval?

Harvest

- Are all your harvest baskets sanitized every day and kept off the soil during harvest?

- Are your harvesting tools sanitized before each use?

While there are a number of other issues, these issues, in one form or another, are showing up on Hawaii farms. Fortunately, they can be easily, and inexpensively, addressed in a timely manner.

Examples of bad and good practices

Here are a few visual examples of what is good and not so good on Hawaii farms.

Animals do not belong in production or packing areas because of pathogens in their feces can be transferred to humans



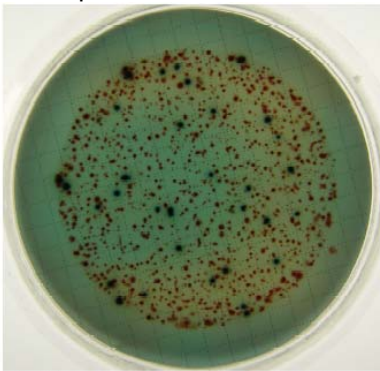
Dirty harvest containers do not protect consumers



Chemicals are not handled safely on this farm



A lab sample of water on a Hawaii farm



Coliforms: >250 cfu/100ml
E.coli: 33 cfu/100 ml

A good farm sink!



A good farm toilet!



A good employee, washing his hands well for a minimum of 20 seconds



Coaching and auditing process

You might be asking, “how do I get help?” First, you need to get some guidance or coaching on how to best overcome your farm risk factors. The University of Hawai‘i’s College of Tropical Agriculture and Human Resources (CTAHR) can help

provide trained coaches who can come to your farm and coach you through the entire farm transformation process. The CTAHR faculty first starts with 1-1.5 hour walk-through of your farm with their blue checklist. That checklist is your “to-do” list and they will advise you on where to buy specific items for your audit.

There are audits for the farm (called a Ranch), harvest crew, packing shed, processing facility, organic operation, and others. Generally, CTAHR focuses on the Ranch audit, but coaches you to safety on your complete operation.

Once you are ready to call for a third-party audit, the Hawaii Department of Agriculture or private companies will come to your farm to give you an unbiased review or audit of your operation. The auditor will look for exactly the same items you prepared for in your audit.

This entire process should take you about 2-3 weeks and not cost you too much money. It is well worth the investment!

Next steps and resources

To get started with a coaching session, call the following CTAHR offices to get connected with a coach:

- Hawaii: (808)981-5199
- Maui: (808)244-3242
- Molokai: (808)567-6929
- Kauai: (808)274-3471
- Oahu: (808)956-7138, (808)956-9539

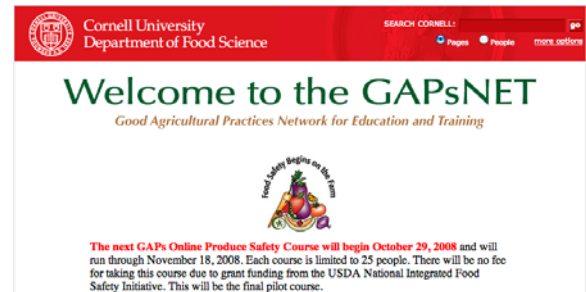
The CTAHR food safety website can be accessed at:

www2.ctahr.hawaii.edu/adap2/FoodSafety/index.htm



The national food safety program’s website is managed by Cornell University and contains a number of documents in various languages:

<http://www.gaps.cornell.edu/>



Next, when ready, call the Hawaii Department of Agriculture at this Oahu number, (808)832-0714, for your actual third-party audit.

Prepared by:
James R. Hollyer
On-farm Food Safety Coach
CTAHR, ADAP Project
University of Hawai'i

Business Structure and Registration

Determine the form of ownership that best suits your business venture

Overview

Many factors should be considered when choosing the best form of business ownership or structure. The choice you make can impact multiple aspects of your business, including taxes, liability, ownership succession, and others.

This lesson provides an overview of the various forms of business ownership including sole proprietorship, partnership, corporations, and limited liability companies. It includes excerpts from the Small Business Administration (SBA) Program Office guide on business structure.

Why is this important?

One of the first decisions that you will have to make as a business owner is how the company should be structured. This decision will have long-term implications, so consult with an accountant and attorney to help you select the form of ownership that is right for you. In making a choice, you will want to take into account the following:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of “structure” you are willing to deal with.
- The business’s vulnerability to lawsuits.
- Tax implications of the different ownership structures.
- Expected profit (or loss) of the business.
- Whether or not you need to re-invest earnings into the business.
- Your need for access to cash-out of the business for yourself.

Sole proprietorships

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibilities for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of the liabilities or debts. In the eyes of the law and the public, the sole proprietor is one in the same with the business. Advantages of a Sole Proprietorship:

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow directly to the owner’s personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship:

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees or those who are

motivated by the opportunity to own a part of the business.

- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

Partnerships

In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, future partners will be admitted into the partnership, partners can be bought out, and what steps will be taken to dissolve the partnership. Yes, it's hard to think about a breakup when the business is just getting started, but many partnerships dissolve at crisis times, and unless there is a defined process, there will be even greater problems. They also must decide up-front how much time and capital each will contribute, etc.

Advantages of a Partnership:

- Relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- Profits from the business flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership:

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Because decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Types of Partnerships that should be considered:

- *General Partnership*
Partners divide responsibility for management and liability as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.
- *Limited Partnership and Partnership with limited liability*
Limited means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions. The limited partners invest capital in the company and share in the profits, but take no part in the daily operation of the business. Their liability, should the company be sued, is limited in proportion to the amount of capital that they invest. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.
- *Joint Venture*
Resembles a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership

and will have to file as such and distribute accumulated partnership assets upon dissolution of the entity.

Corporations

A corporation chartered by the state in which it is headquartered is considered by law to be a unique entity, separate and apart from those who own it. A corporation can be taxed, it can be sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Advantages of a Corporation:

- Shareholders have limited liability for the corporation's debts or judgments against the corporation.
- Generally, shareholders can only be held accountable for their investment in stock in the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect S corporation status if certain requirements are met. This election enables the company to be taxed similarly as a partnership.

Disadvantages of a Corporation:

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may face more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to

shareholders are not deductible from business income; thus the corporation and the shareholder is taxed (this is commonly known as "double taxation").

Subchapter S corporations

A Subchapter S Corporation refers to a tax election only; this election enables shareholders to treat the earnings and profits as distributions and have them pass through directly to their personal tax return. The catch here is that the shareholder, if working for a company that makes a profit, must pay him/herself wages that must meet standards of "reasonable compensation." This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for the payroll taxes on the total amount.

Limited liability company (LLC)

The LLC is a relatively new type of hybrid business structure that is now recognized in most states. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Formation is more complex and formal than that of a general partnership.

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be extended, if desired, by a vote of the members at the time of expiration. LLCs must not have more than two of the four characteristics that define corporations: Limited liability to the extent of assets, continuity of life, centralization of management, and free transferability of ownership interests.

Special structures

The following business structures are available in some states, but not all.

- *Limited Liability Partnerships (LLP)* are organized to protect individual partners from personal liability for the negligent acts of other partners or employees not under their direct control. Although LLPs are not recognized by every state, it is recognized in Hawaii. Partners report their share of profits and losses on their personal tax returns.
- *Limited Partnership (LP)* have complex formation requirements, and require at least one general partner who is fully responsible for partnership obligations and normal business operations. The LP also requires at least one limited partner, often an investor, who is not involved in everyday operations and is shielded from liability for partnership obligations beyond the amount of their investment. LPs do not pay tax, but must file a return for informational purposes; partners report their share of profits and losses on their personal returns.
- *Non-Profit Corporations* are formed for civic, educational, charitable, and religious purposes and enjoy tax-exempt status and limited personal liability. Non-profit corporations are managed by a board of directors or trustees. Assets must be transferred to another non-profit group if the corporation is dissolved.

Next steps and resources

Deciding the form of ownership that best suits your business venture should be given careful consideration. Use your key advisors to assist you in the process.

The following resources provide information and forms for starting a business in the State of Hawaii. Many services are available online.

Department of Commerce and Consumer Affairs Business Registration Division
<http://hawaii.gov/dcca/areas/breg>
Mailing Address
P. O. Box 40
Honolulu, Hawaii 96810

Office Location
King Kalakaua Building
335 Merchant Street, Rm. 201
Honolulu, Hawaii 96813
Open: 7:45 am - 4:30 pm
Monday thru Friday

Phone:
(808) 586-2744 (administration)
(808) 586-2727 (documents registration)

Hawaii Business Express
Online registration service provided by the state that covers all the forms required for business registration with all the state agencies and partners. It provides easy to read instructions and context sensitive help.
<http://hbe.ehawaii.gov/BizEx/home.eb>

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i

Business and Crop Insurance

Find the type of insurance that best fits your business

Buying business insurance is among the best ways to prepare for the unexpected. Insurance is available for nearly any business risk. Considering the multitude of available options, business owners must carefully weigh whether the cost of insurance premiums justify protection against certain risks.

This section provides an overview of several forms of business and crop insurance. It includes excerpts from the Small Business Administration (SBA) Program Office guide on insurance and the United States Department of Agriculture (USDA) Risk Management Agency's (RMA) crop insurance policy guide.

Why is this important?

Without proper protection, misfortunes such as the death of a partner or key employee, embezzlement, lawsuits, or natural disasters, could spell the end of a thriving operation.

Business Insurance

Insurance coverage is available for the many risks your business might face. The following describes common types of insurance that you might consider. To find an insurance agent or broker, ask other business owners for referrals. Your agent or broker who handles your other types of insurance (life, homeowners, disability, etc.) might be a candidate. You can also obtain a list of licensed insurance companies and agents at the Hawaii Insurance Division site: <http://insurance.ehawaii.gov/ils/app>.

General Liability Insurance - Many business owners buy general liability or umbrella liability insurance to cover legal problems due to claims of negligence. These help

protect against payments as the result of bodily injury or property damage, medical expenses, the cost of defending lawsuits, and settlement bonds or judgments required during an appeal procedure.

Product Liability Insurance - Every product has the potential to cause personal injury or property damage. Companies that manufacture, wholesale, distribute, and retail a product may be liable for its safety. Product liability insurance protects a food supplier against claims stemming from injuries or illnesses from a food product. Additionally, every service rendered has the potential to cause personal injury or property damage. Businesses are considered liable for negligence, breach of an express or implied warranty, defective products, and defective warnings or instructions.

Workers' Compensation Insurance - Workers' Compensation (WC) provides employees with medical care and partial wage loss replacement for work-related injuries/illnesses. Any employer having one or more workers, full-time or part-time, permanent or temporary, is required to provide WC coverage.

WC coverage can be purchased from an insurance carrier authorized to provide WC insurance in Hawaii. The employer must pay the full cost of the premium. Employees cannot be assessed for any portion of an employer's WC insurance premium.

The employer must post signage in the workplace and file specific forms when an injury is reported. See the Hawaii State Department of Labor and Industrial

Relations Labor Law Requirements for New Employers guide for additional information.

Criminal Insurance - No matter how tight security is in your workplace, theft and malicious damage are always possibilities. While the dangers associated with hacking, vandalism, and general theft are well recognized, employee embezzlement is more common than most business owners realize. Criminal insurance and employee bonds can provide protection against losses in most criminal areas.

Business Interruption Insurance - Some businesses may wish to acquire insurance that covers losses during natural disasters, fires, and other catastrophes that could cause the operation to shut down for a significant period of time.

Key Person Insurance - In addition to a business continuation plan that outlines how the company will maintain operations if a key person dies, falls ill, or leaves, some companies may wish to buy key person insurance. This type of coverage is usually life insurance that names the corporation as a beneficiary if an essential person dies or is disabled.

Crop Insurance

Buying crop insurance is a risk management measure. Producers should always carefully consider how a policy will work in conjunction with their other risk management strategies. Crop insurance agents and other agribusiness specialists can assist farmers in developing a sound management plan.

Crop insurance provides two important benefits: It ensures a reliable level of cash flow and allows more flexibility in the marketing plan. With some level of production insured, the crop could be forward-priced with greater certainty,

creating a more predictable stream of revenue.

The federal government subsidizes the premiums for most crop insurance policies. Subsidies tend to benefit, most, those producers who invest in higher levels of coverage. Crop insurance is available only through private crop insurance agents. Coverage for a crop must be arranged before its sales closing date.

Features of crop insurance include the following:

- Crop insurance covers the value/yield of damaged crop
- Each crop is insured separately
- Coverage must be purchased before damage occurs
- Higher coverage costs typically correlate with higher premiums
- You must file claim to collect an indemnity

Insurable crops in Hawaii include the following:

- Macadamia Trees
- Macadamia Nuts
- Nursery

These include plants in-ground and in containers.

(Source: State of Hawaii Department of Agriculture website <http://hawaii.gov/hdoa/add/risk-management#18>)

Amount of Insurance:

The amount of insurance is (Number of insurable trees x tree reference price) x Coverage Level

The tree reference price is set to take into account planting and maintenance costs to return the tree to production.

The amount of insurance can also be expressed as:

(Number of insurable trees x tree reference price) – Deductible

(Source: State of Hawaii Department of Agriculture website

<http://hawaii.gov/hdoa/add/risk-management#21>)

Covered Losses:

- Adverse Weather
- Diseases
- Insects
- Wildfire
- Earthquake
- Volcano

Additionally, coverage for nurseries can include:

- Value reduction due to delay in marketability
- Failure of irrigation water supply

Loss that results from neglect or failure to follow good farming practices are not covered.

To receive a claim, the tree must be dead (100% damaged or destroyed) due to the following:

- Insurable cause of loss, or
- Authorized destruction to contain the spread of plant disease

When the damage for the unit exceeds 80%, the unit is considered a 100% loss.

(Source: State of Hawaii Department of Agriculture website

<http://hawaii.gov/hdoa/add/risk-management#22>)

Federal disaster assistance programs for agriculture

The USDA Farm Service Agency (FSA) assists farmers and ranchers that are affected by drought and other natural disasters.

Assistance is provided after an affected area is declared a disaster zone. The Noninsured Crop Disaster Assistance Program provides financial help to producers of non-insurable crops affected by natural disasters.

Noninsured Crop Disaster Assistance Program Eligible Crops include crops that are grown for food or fiber that cannot be insured, and other crops, determined by statute, including:

- Forage and grazing
- Aquaculture
- Floriculture
- Ornamental nursery
- Christmas trees
- Honey/Maple sap
- Sod

Eligible losses must be due to damaging weather or natural disaster, including the following:

- Drought
- Hail
- Excessive heat
- Excessive moisture
- Freeze
- Tornado
- Hurricane
- Excessive wind
- Volcano
- Flood
- Earthquake
- Insect damage
- Disease

Coverage:

- Losses in excess of 50% or prevented planting losses
- 55% payment rate

Cost:

- Service Fee: \$250 per crop per county
- Not to exceed \$750 per county
- Not to exceed \$1875 per producer

Cost Waiver:

- May be waived for a limited resource producer
- Limited Resource Producer - Direct or indirect gross farm sales not more than \$100,000 in each of the previous two

years (increasing, starting in fiscal year 2004, to adjust for inflation using Prices Paid by Farmer Index as compiled by National Agricultural Statistical Service (NASS)); and a total household income at or below the national poverty level for a family of four, or less than 50 percent of county median household income in each of the previous two years (to be determined annually using Commerce Department data).

Application:

- Must apply by the application closing dates
- Producers must annually report:
 - Loss within 15 days
 - Acreage
 - Production
- Grazed Forage Loss based on:
 - County determined loss percentage for each pasture/range
 - Acreage report
- Payment:
 - No quality provisions
 - Payments limited to \$100,000
 - Producers are subject to Average Gross Income (AGI) limitations(Source: Farm Service Agency)

There are five additional FSA administered disaster assistance programs collectively referred to as Supplemental Disaster Assistance Programs:

- Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)
- Livestock Forage Disaster Program (LFP)
- Livestock Indemnity Program (LIP)
- Supplemental Revenue Assistance Payments (SURE) Program
- Tree Assistance Program (TAP)

Information on these programs can be found at:

http://www.fsa.usda.gov/FSA/newsReleases?area=newsroom&subject=landing&topic=pf&newstype=prfactsheet&type=detail&item=pf_20080716_distr_en_buyin.html

Also, the USDA Risk Management Agency provides an Adjusted Gross Revenue product that provides protection against revenue loss due to unavoidable natural disasters and market fluctuations that occur during the insurance year. Additional information can be found at:

<http://www.rma.usda.gov/pubs/2003/PAN-1667-06rev2.pdf>

Next Steps and Resources

Deciding on the form of insurance that best suits your business should be given careful thought. Use your key advisors to assist you in the process.

The following links provide additional information related to insurance for your business.

- Hawaii State Department of Labor and Industrial Relations Labor Law Requirements for New Employers guide: <http://hawaii.gov/labor/library/guidelines/New-Employer-Packet-11-20-08.pdf>
- State of Hawaii Department of Agriculture: <http://hawaii.gov/hdoa/add/risk-management>
- Crop Insurance Update: <http://www.Rainhail.com>
- Contact the USDA Farm Service Agency for more information on FSA Crop Insurance Programs:
- U.S. Department of Agriculture, Honolulu County Farm Service Agency 99-193 Aiea Heights Drive, Suite #114 Aiea, Hawaii, 96701 (808) 483-8600 <http://www.fsa.usda.gov>

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i

Labor Law Requirements

Understand applicable laws when hiring employees

Overview

There are a number of federal and state laws that employers must follow when hiring employees. The laws ensure that both the employer and employee pay required government taxes. In addition, certain laws provide protections to employees by (1) establishing minimum wages and benefits, (2) preventing discrimination, and (3) creating safe workplaces.

This lesson presents an overview of the various labor law requirements. It includes excerpts from the Hawaii State Department of Labor and Industrial Relations Labor Law Requirements for New Employers guide. The reader is encouraged to read the longer discussions on the various labor laws at: <http://hawaii.gov/labor/library/guidelines/New-Employer-Packet-11-20-08.pdf>

Why is this important?

Following the various laws will protect you and your business from possible legal action and fines and ensure eligibility in programs that are compliance dependent.

Citizenship requirements

When you consider hiring an employee, you must ensure that the individual is authorized to work in the U.S. Authorized workers include the following groups:

- Citizens or nationals of the U.S.
- Lawful permanent residents
- Aliens authorized to work during the period of hire

To document authorization, each employee must complete an Employment Eligibility Verification Form I-9

(<http://www.uscis.gov/files/form/I-9.pdf>).

The employer (you) must retain the form

and make it available for inspection, upon request, by U.S. government officials.

If the employee is not a citizen or a lawful permanent resident, the individual may need to apply for an Employment Authorization Document (EAD) to prove eligibility to work in the U.S. See the following for more information on citizenship and employment:

(<http://www.uscis.gov/portal/site/uscis/menu.item.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=1847c9ee2f82b010VgnVCM1000045f3d6a1RCRD&vgnnextchannel=1847c9ee2f82b010VgnVCM10000045f3d6a1RCRD>).

Farmers may apply for the H-2A temporary agricultural program which establishes a means for agricultural employers who anticipate a shortage of domestic workers to bring nonimmigrant foreign workers to the U.S. to perform farm labor or services of a temporary or seasonal nature. The program requires approval from the U.S. Citizenship and Immigration Services (USCIS). You will need to file an application with the Department stating that there are not sufficient workers who are able, willing, qualified, and available, and that the employment of aliens will not adversely affect the wages and working conditions of similarly employed U.S. workers. See the following for additional information:

<http://www.foreignlaborcert.doleta.gov/h-2a.cfm>.

Child labor laws

Specific rules and documentation apply if you are employing an individual under the age of 18. For additional information, see:

http://hawaii.gov/labor/wsd/pdf/forms/eHCL L-1_4-07.pdf.

Wages

Effective January 1, 2007, the Hawaii minimum wage is \$7.25 per hour. Employees must be paid at least twice monthly and within seven days after the end of each pay period and pay statements must include specific information.

Employees must be paid overtime for time worked over 40 hours per week. Overtime is equal to one and one-half times the regular pay rate. Exceptions to this can be found at:

http://hawaii.gov/labor/wsd/wsd/pdf/wage_and_hour_faq.pdf.

Reporting new hires

You must report every newly hired or rehired employee to the Hawaii Child Support Enforcement Agency (CSEA) within 20 days after the date that the employee starts work. You can either mail or fax a copy of the employer's IRS Tax Withholding (Form W-4) to the CSEA at: Child Support Enforcement Agency
New Hire Reporting Directory
601 Kamokila Blvd., Suite 251
Kapolei, HI 96707
FAX - (808) 692-7001

Federal and State taxes

As an employer, you must withhold certain taxes from your employees' wages. These include the following:

- Federal income tax
- State income tax
- Social Security
- Medicare

You must withhold federal and state income tax from your employees' wages. To determine how much to withhold from each wage payment, each employee must complete Form W-4 for federal taxes

(<http://www.irs.gov/pub/irs-pdf/fw4.pdf>) and Form HW-4 for state taxes (<http://www.state.hi.us/tax/2007/hw4.pdf>). Use the Agricultural Employer's Tax Guide (<http://www.irs.gov/pub/irs-pdf/p51.pdf>) and the Hawaii State Department of Taxation Employer's Tax Guide (<http://www.state.hi.us/tax/pubs/06bklta.pdf>) for tax rate and submission information.

For wages paid in 2009 the social security tax rate is 6.2%, for both the employee and employer, on the first \$106,800 paid to each employee. You must withhold this rate from each employee and pay a matching amount.

The Medicare tax rate on all wages is 1.45% each for the employer and the employee. You must withhold this rate from each employee and pay a matching amount.

The most efficient way to make Federal tax payments is to use the Electronic Federal Tax Payment System (see: <https://www.eftps.gov/eftps/home.do>).

For State tax payments, see the State Tax Electronic Filing system (http://hawaii.gov/tax/b3_elf.htm).

Unemployment Insurance

The objective of the Unemployment Insurance (UI) program is to provide temporary financial assistance to workers who are involuntarily unemployed. Employers are required to pay UI contributions on the wages of each employee up to the annual taxable wage base. The contributions are deposited into a trust fund, and withdrawn for purposes of paying benefits to eligible individuals. There can be no deduction from the employee's wages for repayment.

Every individual or organization that becomes an employer must file a status report on Form BB-1, "Basic Business Application," with the State Tax Office within 20 days after hiring an employee. A determination of liability will be made, the

subject employer will be assigned an identification number, and tax forms will be furnished. Because new employers do not have any reserves when they first register as they have not made any contributions, they are assessed a flat UI contribution rate for approximately two years.

New employers will be issued an “Unemployment Insurance for Workers” poster that should be posted at each work place. The poster furnishes information to workers on their benefit rights and how to file a claim for unemployment benefits.

Employers must file a Quarterly Wage, Contribution and Employment and Training Assessment Report, “Form UC-B6” (<http://hawaii.gov/labor/ui>). The most efficient way to file the report and make your payment is through the Hawaii Unemployment Insurance (HUI) Express website (see: <https://hui.ehawaii.gov>).

Agriculture labor, independent contractor, and family member exclusions exist. See the Handbook for Employers on Unemployment Insurance to determine whether you qualify for an exclusion: <http://hawaii.gov/labor/ui/pdf/HANDBOOK-FOR-EMPLOYERS-2007-FINAL.pdf>.

Temporary Disability Insurance

The Hawaii Temporary Disability Insurance (TDI) law requires employers to provide partial “wage replacement” insurance coverage to their eligible employees for non-work-related sickness or injury (including pregnancy). This means that if an employee is unable to work because of an off-the-job sickness or injury and that employee meets the qualifying conditions of the law, the disabled employee will be paid disability or sick leave benefits to partially replace the wages lost. For additional information and a list of exclusions, see the Hawaii State Department of Labor and Industrial Relations Labor Law Requirements for New Employers guide.

TDI coverage can be purchased from an authorized TDI insurance carrier (see the state’s published list at: <http://hawaii.gov/labor/dcd/PDF/tdi/Approved%20TDI%20Carriers%20%28Rev%2009-05%29.pdf>). You can pay either the entire premium or charge 50% of the premium (not to exceed 0.5% of weekly wages) to eligible employees.

Prepaid Health Care (Medical)

The Hawaii Prepaid Health Care (PHC) Act sets minimum standards of health care benefits for workers. Employers are required to provide Hawaii employees who suffer disabilities due to non-work related illnesses or injuries adequate medical coverage for these types of illnesses or injuries, thereby protecting them from the high cost of medical and hospital care.

Employers must provide health care coverage to employees who work at least twenty (20) hours per week and earn 86.67 times the current Hawaii minimum wage a month ($\$7.25 \times 86.67 = \628). Coverage commences after four (4) consecutive weeks of employment or the earliest time thereafter.

PHC coverage can be purchased from an approved health plan through an authorized health care contractor (see the state’s published list at: <http://hawaii.gov/labor/dcd/PDF/PHC/Approved%20HC%20Plans%20-Rev%2009-08.pdf>). You can pay either the entire premium or share the cost of the premium with eligible employees. The employee’s share of the premium (for single coverage) is limited to 1.5% of the individual’s monthly gross wages, not to exceed 50% of the monthly premium.

Family and Medical Leave Act

The federal Family and Medical Leave Act allows an employee to take a period of unpaid leave due to a serious health condition that makes the employee unable to perform his/her job, to care for a sick family member, or to care for a new son or daughter (including by birth, adoption or foster care).

Besides the federal Family and Medical Leave Act, which generally applies to companies having more than 50 employees, Hawaii has its own law. The Hawaii law applies only to companies with 100 or more employees. For details on the federal and state plan, see <http://www.dol.gov/esa/whd/fmla/> and http://hawaii.gov/labor/wsd/pdf/forms/act44_hawaii_family_leave_law_faqs.pdf.

Workers' Compensation

Workers' Compensation (WC) provides employees with medical care and partial wage loss replacement for a work-related injury/illness. Any employer having one or more workers, full-time or part-time, permanent or temporary, is required to provide WC coverage.

WC coverage can be purchased from an insurance carrier authorized to provide WC insurance in Hawaii. The employer must pay the full cost of the premium. Employees cannot be assessed for any portion of an employer's WC insurance premium.

The employer must post signage in the workplace and file specific forms when an injury is reported. See the Hawaii State Department of Labor and Industrial Relations Labor Law Requirements for New Employers guide for additional information.

Providing a safe workplace

The Hawaii Occupational Safety and Health (HIOSH) laws and regulations are intended to assure safe and healthful working

conditions for Hawaii's workers. Employers are responsible for:

- Furnishing employees with workplaces that are safe and free from recognized hazards
- Creating specific reports
- Maintaining required records on employee injuries and illness reports, employee exposure, and medical surveillance
- Posting specific information including any HIOSH citations that are issued to the company

Occupational safety and health laws and regulations are enforced through workplace inspections conducted by HIOSH compliance officers. Inspections are conducted without advance notice. Where violations are found, citations and fines may be issued. Visit the HIOSH website for additional information:

<http://hawaii.gov/labor/hiosh/>.

Employee rights

Hawaii law prohibits discrimination (unequal treatment) in employment practices and policies. The laws cover pre- and post-hiring practices. Discrimination is prohibited on the basis of:

- Sex
- Race
- Ancestry/national origin
- Religion*
- Color
- Disability
- Age
- Marital status
- Assignment of income for child support
- Arrest and court record*
- National Guard participation
- Sexual orientation
- Breast feeding

*See the Hawaii State Department of Labor and Industrial Relations Labor

Law Requirements for New Employers guide for exemptions/exceptions.

Specific rules apply in relation to:

- Sexual harassment
- Pregnancy discrimination
- Accommodations for employees with disabilities
- Religious accommodations

See the Hawaii State Department of Labor and Industrial Relations Labor Law Requirements for New Employers guide for details.

Notice to employees

You must publicly display certain information for employees, which explains what their rights and benefits are. The Department of Labor and Industrial Relations (DLIR) has a free, all-in-one poster that includes required information on: Wage and Hour, Disability Compensation, Occupational Safety and Health, employment discrimination and whistleblower protection laws, Unemployment Insurance, business/plant closings, and military leave.

You can download the required information from the DLIR website, <http://hawaii.gov/labor/official-labor-law-poster>, or obtain a copy of an all-in-one poster by calling the Oahu office at 586-8842.

Smoke-Free Law

The Smoke Free Hawaii law creates fair and consistent statewide protection for the health of people who do not want to be subjected to secondhand smoke. Under the law, smoking is prohibited in certain areas. See the Overview of the Smoke Free Workplaces Law for prohibited areas and exceptions at <http://hawaii.gov/health/healthy-lifestyles/tobacco/resources/documents/Hawaii%20Smoke%20Free%20Law%20Overview.pdf>.

Many states have enacted “right-to-work” laws that prohibit agreements requiring union membership or dues as a condition of employment.

Hawaii does not have such a right-to-work law and allows union contracts between an employer and a union.

Next steps and resources

Before hiring an employee, be prepared to follow the various labor laws.

- Review the Hawaii State Department of Labor and Industrial Relations Labor Law Requirements for New Employers guide at: <http://hawaii.gov/labor/library/guidelines/New-Employer-Packet-11-20-08.pdf>
- Visit the Department of Labor and Industrial Relations website at: <http://hawaii.gov/labor/>

Prepared by:
The Agribusiness Incubator Program
University of Hawai'i



Borrowing Money for Your Business

Taking out a loan can help expand your business, but you need to be prepared

Overview

As a businessperson who wants to be successful, you are probably looking for opportunities to improve and/or expand your business. That's great! It means you are always thinking about moving forward! Often times, however, you do not have enough of your own money to pay for new equipment, buy (more) land, or hire the new marketing manager that you desire. At times like these, you might want to find organizations that will lend you the money that you need. Commercial banks, semi-private lending institutions, Hawaii Department of Agriculture, and federal agencies are ready to lend agricultural entrepreneurs money, but they require you to be prepared with current and sufficient information on your operation, be a somewhat experienced agriculturist, be ready to fill out forms, and be a reliable business risk. Common reasons for loan application failure include: insufficient documentation, unstable cash flow, poor credit rating, not enough years in agriculture, and too short land leases.

In this lesson you will be provided an overview of what is required for each type of loan or contact. Don't be intimidated by the paperwork if you really believe that you have a good business idea and that you can repay the loan on time. There are people in different agencies who are eager to help you. You might also find that although you might not have sufficient business records to acquire a loan at present, with a new focus on record keeping, you might be eligible to apply for a loan within a year or so.

Why is this important?

If you are ready to improve your business and just need additional money, commercial (non-family) loans can be a good way to achieve your business dreams.

What is my credit rating and why is it important?

Before we discuss types of loans and where you might apply, it is important to understand the foundation of lending – your “credit rating.” Many lenders will review your personal credit rating in addition to any business credit history. Your credit rating is like a batting average in baseball or pass completion in football -- it is a history of accomplishments. In the case of your credit rating, it is your history in making money, spending money, borrowing money (via credit cards and loans), and paying money back.

Most creditors report their experience with borrowers to three major US companies: Experian, Equifax, and TransUnion. Each of these companies maintains information about your credit history and can provide the information to potential creditors as part of the loan application process. In addition, the companies have a process to calculate a “credit score” (also known as a FICO score). The score is based on the information about your past credit experience. Lenders may use the score to determine loan eligibility, rate, and other terms.

You might be asking, “how do I get a good credit history or improve one?” Borrowing small amounts of money and paying back on time is the easiest way to

establish a credit rating. Then over time you can borrow more as you show lenders that you can handle that responsibility. Visit <http://www.myfico.com/CreditEducation/ImproveYourScore.aspx> for tips on improving your credit score.

A good credit score helps people get loans faster and get better rates and terms. It is important that you take good care of your credit history all your life because you never know when you will need to ask for a loan to expand your business.

Getting prepared to apply for a loan

Loans are a common business practice. A loan is an agreement between two parties. An organization, such as a bank, gives a borrower a certain amount of money with the expectation of total repayment (including interest) by a certain time. This is a very straightforward business relationship. In many cases, keeping business records up-to-date is more difficult for growers because they are working in their fields, orchards, and shade-houses most of the day. Important records that should be maintained include:

- Amount of crop(s) planted
- Cost of planting
- Amount of crop(s) sold
- Price of crop(s) sold, and corresponding business revenues
- Business expenses
- State tax, excise tax, and federal tax payment records
- Business plans, cash flow and profit and loss statements, and marketing plans

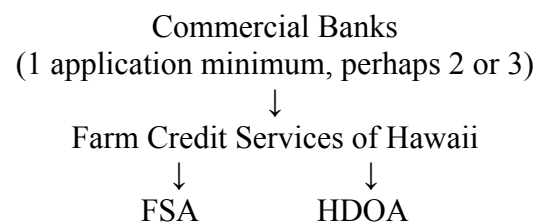
Written, (somewhat) organized records are part of the proof you will *need* to show a lending institution that you are a good business risk. This should make sense... *would you lend someone \$10,000 if you met the person for the first time this morning?* Probably not, and that is the way banks and government agencies feel too. They need to

feel that they can trust you with their money by seeing your business history on paper.

Fulfilling basic lending requirements

The four groups listed below are the main lenders to agricultural businesses. To be considered for a loan, these are the types of requirements that might be asked of you (there might be more). It is important to assemble the documentation they require, before you request a loan. To ensure that you are prepared, put checks in the boxes where you have the information prepared and circle the boxes where you need to do more work. The circled items should now be on your “to-do” list in the next week or two if you are serious about applying for a loan.

It should be noted that the USDA Farm Service Agency (FSA) and the Hawaii Department of Agriculture (HDOA) are “lenders of *last* resort.” This means that they do not want to compete with private sector banks. As such, they can only provide you loan opportunities after you have a written notice from banks saying that the bank will not lend to you. Thus, the order of your loan search should be as follows:



Commercial Banks

- Evidence of business success via financial statements and tax returns (typically a minimum of three (3) years);
- Well developed business and marketing plan (realistic projections);
- On-site visit by your prospective lender;
- Other bank-specific requirements (just ask them what they are)

In addition, many local banks work with agencies/companies like the Small Business Administration to offer more flexible review and terms to smaller businesses. Call your bank to find out what they offer and the requirements to apply for these loans.

Farm Credit Services of Hawaii / Federal Land Bank Association

This organization specializes in loans to farmers, ranchers, fishermen and nursery owners. The following should be prepared when requesting a loan:

- Past three (3) years of financial statements, if available. (Include schedule for real estate, loans, deposits, etc.) If the loan request exceeds \$400,000, submit four (4) years of year-end financial statements including the most recent completed year plus interim financial statement.
- Past three (3) years of Federal Income Tax Returns including the most recent completed year and a copy of your earning statement for the current year within thirty (30) days of the loan application if the loan request is less than \$400,000. Submit past four (4) years of Federal Income Tax Returns, if the loan request exceeds \$400,000. (Source: <http://www.hawaiifarmcredit.com/>)

USDA Farm Service Agency

The Farm Service Agency (FSA) provides temporary credit to loan borrowers. Borrowers are required to refinance their loans with a commercial lender when they are financially able to do so. In addition, to improve production and financial management ability, the FSA requires all borrowers to complete farm and financial training courses.

The following should be met/prepared when requesting a loan:

- Have a satisfactory history of meeting credit obligations;

- For direct operating loans, have sufficient education; training, or at least one-year's experience in managing or operating a farm or ranch within the last five years. For direct Farm Ownership (FO) loans, applicants must have participated in the business operations of a farm or ranch for three years;
- Be a citizen of the United States, including Puerto Rico, the U. S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories, a U.S. non-citizen national, or a qualified alien under federal immigration law;
- Be *unable* to obtain credit elsewhere at reasonable rates and terms to meet actual needs (provide letters of declination from commercial lenders);
- Possess legal capacity to incur loan obligations;
- Not be delinquent on a federal debt;
- Not have caused FSA a loss by receiving debt forgiveness (certain exceptions apply); and
- Be within the time restrictions as to the number of years they can receive FSA assistance.

(Source: Form FSA 2001, www.fsa.usda.gov/)

Hawaii Department of Agriculture

The loan programs available at the Hawaii Department of Agriculture (HDOA) are similar to those at the FSA. The HDOA has a \$25,000 or less, micro-loan program for smaller requests. In all cases, you must be rejected by at least two lenders.

The following should be met/prepared when requesting a loan:

- Be a citizen of the United States who has resided in Hawaii for the preceding three years, or any permanent resident alien who has resided in Hawaii for the preceding three years;
- Have experience in agriculture (requirements are different for different programs);

- Have a current Balance Sheet and Income/Expense Statements (past two years);
- Have three year cash flow projection of income and expenses (including income assumptions);
- Have aging schedules for Accounts Payable and Accounts Receivable;
- Have Personal Financial Statements (for sole proprietors, partners and guarantors);
- Provide Income Tax Returns (last three years);
- Have letters of decline
- For Agricultural Loans - two declinations from private lenders, Farm Credit Bank(s) and/or USDA –FSA;
- For Aquaculture Loans - three declinations from two private lenders, and the appropriate Farm Credit Bank;
- Have copy(s) of Deed or Lease for farm; Marketing/Purchasing contracts (if applicable);
- Have Hawaii State Tax Clearance;
- Provide a narrative describing your business (i.e., location, size, employees, crops, markets, etc.)
(Source: <http://hawaii.gov/hdoa/agl>)

The FSA and HDOA provide excellent guidance on how to fill out forms and prepare your loan package.

Wow, lots of options, now what?

This is just a short list of lending options focused on agriculturally-related businesses. While not detailed here, if you have a 100% Hawaiian-owned (need to show proof of ancestry by a birth certificate) business, you might be able to get financial assistance from the Office of Hawaiian Affairs (see below). Even more loan opportunities are available if you are manufacturing. The list at the end of this lesson gives you contact information for many programs and the types of loans they provide.

So, now that you know the requirements for each lender, what do you do next? As mentioned above, make a list of the missing documents you need to find, construct, or complete and be prepared to apply.

If you need hands-on help with documents such as business and marketing plans, cash flow and profit and loss statements, you might be able to get some help from the following organizations:

ALU LIKE, Inc.
(808)524-1225
<http://www.alulike.org>

UHM – Agribusinesses Incubator Program
(808)956-3530
<http://aip.hawaii.edu/>

UHM – Pacific Business Center Program
(808)956-6286
<http://pbcphawaii.com/>

Resource contacts

Much of this lesson is shortened and updated from Stanley Fujiyama’s article, *Acquiring Business Funding*, from the book, *This Hawaii Product Went to Market* (published in 1996).

Farm Credit Services of Hawaii / Federal Land Bank Association of Hawaii
<http://www.hawaiifarmcredit.com/>

Main Branch
2850 Pa’a Street, Suite 100
Honolulu, HI 96819
Phone: (808)836-8009

Hilo Branch
988 Kinoole Street
Hilo, HI 96720
Phone: (808)961-3708

Loan types:

- Land purchases
- Production and operating expenses

USDA Farm Service Agency (FSA)
<http://www.fsa.usda.gov/>

300 Ala Moana Blvd., Room 5-122
PO Box 50008
Honolulu, HI 96850
Phone: (808)541-2600

Loan types:

- Farm loans
- Farm ownership loans
- Farm operating loans
- Loans for socially disadvantaged and beginning farmers
- Down payment loans
- Rural youth loans
- Emergency loans

Small Business Administration
<http://www.sba.gov/localresources/district/hi/>

Hawaii District Office
300 Ala Moana Blvd Room 2-235
Box 50207
Honolulu, Hawaii 96850
Phone: (808)541-2990

Loan types:

- Working capital
- Machinery and equipment
- Land, building, and improvements
- Debt refinancing

Native Hawaiian Revolving Fund Loan (NHRLF)
<http://www.oha.org>

Office of Hawaiian Affairs
711 Kapi'olani Blvd., Suite 500
Honolulu, HI 96813
Phone: (808)594-1835

Loan types:

- Business development

Native Hawaiian Revolving Fund Loan (NHRLF)
<http://www.oha.org>

Office of Hawaiian Affairs
711 Kapi'olani Blvd., Suite 500
Honolulu, HI 96813
Phone: (808)594-1835

Loan types:

- Business development

Get a Free Credit Report to Verify Your Credit History
<http://www.annualcreditreport.com/>

Learn About Your Credit Score
<http://www.myfico.com/>

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Acquiring Grant Support

Getting organizations to give you money is nice, but requires work

Overview

A “grant” is a gift of resources, typically money. The idea that there are government, for-profit, and non-profit groups that will actually *give* you money for your business is an amazing concept. Federal, state, county, businesses, and non-profit entities often have resources to grant to businesses (or non-profits) that can illustrate that they can use grant funds wisely and create impact. But, these grants require work to locate, apply for, and report on, so they do not come without cost.

Typical reasons for grant application failure include missing deadlines, submitting poorly written or incomplete applications, having a poor business track record (bad reputation in the community) and insufficient talent to implement the proposal.

In this lesson you will be provided a basic overview of the grant process. Like filling-out a loan application, it can seem difficult at first, but if you break the process down into smaller parts, and start early, you can be successful.

Why is this important?

Getting money that you do not have to pay back is better than getting a loan. So, if you have an idea that others are willing to support, invest some time and know-how to apply for a grant.

About grants

As mentioned above, you can apply for money that you don’t have to pay back. The trick with grants, however, is that you need to have an idea, product or business that the grant reviewer feels is a worthwhile “investment.” The word investment is used here just like it is with a loan because even

grant givers have to show their organizations that good and impactful things will result if they give you financial support. More and more today we have another aspect to consider in a tight economy, which is that granters are getting more “precise” with the types of activities they are willing to fund. In the past, grant requests typically were a little broader. Thus, like a good marriage, you need to have compatible interests with the grant givers or you won’t even reach the proposal review stage. For example, if an organization is willing to support water saving devices for growers, and you want a new tractor to be more efficient in the field, it is clearly a mismatch of intentions. Here is a list of steps that you can follow to increase your chances of “winning” a grant.

1. Keep searching for good grant matches. The Hawaii Community Foundation is a great resource for local grants (<http://www.hawaiicommunityfoundation.org/>). That organization also has a webpage for grant writers and grant managers (<http://www.hawaiicommunityfoundation.org/index.php?id=77>)
2. Acquire the most recent grant application and guidelines and with a highlighter pen, highlight the critical features, such as:
 - a. What types of projects they are funding.
 - b. What types of costs they are covering.
 - c. What, if any, are the “matching” requirements and do you need to put your money out first and request reimbursement? (This could be a big deal as some grants will only give you 25% of what you need, and you

- need to come up with the other 75%; though, 25% is better than nothing!)
- d. Application deadline.
 - e. Application format (font size, number of pages, number of appendices, support letters).
 - f. What reporting and final documentation will be required of you?
 - g. Number of copies of the application required.
3. Think and speak positively about your project.
 4. Set-up a clean place in your business where you can write your grant.
 5. If you plan to seek partners or professional writers for your grant, be clear with them about your expectations and what you can offer in return, and ask them what they specifically expect from you in exchange for their time and talent. Never assume people will help for free, ask them.
 6. Know how long it will take for the grant application to physically arrive at its destination so that you can meet application deadlines.
 7. If the grant application form does not come with a checklist for completing the grant, make one and use it.

There are other things to consider, but the above are the major ones. Still interested in getting someone else's "free" money? *Yes?! Good, here's what to do next.*

1. Take out a calendar and mark-off enough days and hours for you to write your grant proposal. This has to be distraction-free time.
2. Start writing your grant response. Just start writing down your ideas as fast as you can get them out of your head and onto the paper or your keyboard.
3. Go back to your "brainstorming" and begin to craft a readable, engaging, and methodical story about what you want to

- achieve and how that meets the desires of the funders. Be sure to put the final version in the requested format or outline and answer each question in the application form. If no format is provided, divide your application into the following generally accepted categories: (1) What you want to do and Why it is important? (2) How you will do it (including when and where)? (3) Any additional information on why you are the right person for the job.
4. Use as much data as you have to support your claims of the magnitude of the issues to be addressed, the potential impact of the successful implementation of your project, and your ability to carry out the project.
 5. Now, get a trusted friend to give you some constructive feedback. Hearing feedback can be hard especially if you don't write often, so prepare yourself to hear the truth (or a version of the truth). One way of managing the feedback is to ask, "Can you please give me three things you like about my proposal and then give me details of where and how I can make it even better?" This simple request can help the person giving you feedback stay focused on what kind of feedback you want.
 6. While that review is taking place, get all the other required documents in order. These could include cash flow statements, profit and loss statements, business and marketing plans, copies of federal, state and excise tax forms, by-laws of your organization, etc.
 7. Get the review back and make those changes that seem reasonable, even if your ego is fighting it. Thank your reviewers for their time.
 8. If you have time, have someone else read your revised grant proposal to get one final set of comments. Revise your proposal accordingly.

9. Use your checklist to make sure you have all the pieces in place. Leaving even one little item out can cause the person screening the applications to reject it or return it to you un-reviewed. Grant writing is a serious business and one mistake can take you out of the competition.
10. Make copies, sign the forms, and get that application in the mail or sent via the web!
11. When you've completed the above, think positive thoughts and go celebrate your hard work.

The review process typically works like this:

1. Applications are opened if they arrive by the due date and time. If not received on time, they may be disqualified and returned.
2. Documents are checked for completeness, and if not complete, might be rejected.
3. Applications are reviewed by a committee that has been given guidelines for scoring the quality and impact of proposals, often relative to their cost.
4. Proposals are ranked on points and then offers are made to the highest-ranked grant proposals. Those not selected are often provided helpful feedback on what was wrong with the proposal. This is of great value to you even if you were not selected. Take that feedback and make your proposal even better next time.
5. If you are selected, more forms need to be signed by you or your organization, and performance contracts are developed and signed.

Now, finally, you start your work. This is one of the most dangerous times in the process to keep and build your reputation as often months have passed and you now have the responsibility of implementing what you

asked for money to do. (*Be careful what you wish for!*)

1. Again, take out your calendar and put in some reporting dates.
2. Keep track of all your expenses – save all receipts and put them in a safe place.
3. Report progress as required.

Well, that is about it for writing, winning and performing under a grant program. It should now be obvious that grant money is not really “free.” But, if you received a \$10,000 grant to install a new greenhouse sprinkler system and it took you only 30 hours to craft and deliver your grant proposal, you just made more than \$300 per hour. Now, that is sweet!

Look here for grants

Here are some sources of grants that are open to growers and don't require that you be connected to an educational or research institution. Note, these grant programs are subject to change at any time.

Hawaii Department of Agriculture
http://hawaii.gov/hdoa/add/add_md

Hawaii Department of Agriculture
Agricultural Development Division
Market Development Branch ☐
1428 South King Street
Honolulu, HI, 96814-2512
Phone: (808)973-9595 ☐
E-mail: hdoa.md@hawaii.gov

Grant types:

- Marketing support

Oahu Resource Conservation and
Development Council
99-193 Aiea Heights Drive
HARC Bldg, Suite 111
Aiea, HI 96701
Phone: (808)483-8600 X112
<http://www.oahurcd.org/>

Grant types:

- Business development

Office of Hawaiian Affairs
<http://www.oha.org/>

Office of Hawaiian Affairs
711 Kapi'olani Blvd., Suite 500 □
Honolulu, HI 96813
Phone: (808)594-1835 □

Grant types:

- Up to \$100,000 to support programs which address OHA Strategic Plan goals in the areas of Education, Health, Human Services, Housing, Economic Development, Native Rights, Culture, Land Management, and Governance.

USDA Natural Resources Conservation Service (NRCS)
<http://www.pia.nrcs.usda.gov/>

Aiea Service Center
RL Cushing Building
99-193 Aiea Heights Drive
Aiea, HI 96701
Phone: (808)483-8600 ext 354

Grant types:

- Support best conservation practices:
 - Agricultural Management Assistance (AMA)
 - Conservation Innovation Grants (CIG)
 - Conservation Security Program (CSP)
 - Cooperative Conservation Partnership Initiative (CCPI)
 - Environmental Quality Incentives Program (EQIP)
 - Farm and Ranch Land Protection Program (FRPP)
 - Grassland Reserve Program (GRP)
 - Value-added Producer Grant (VAPG)
 - Wildlife Habitat Incentives Program (WHIP)
 - Wetlands Reserve Program (WRP)

USDA Rural Development
<http://www.rurdev.usda.gov/hi/index.htm>

Room 311, Federal Building
154 Waiianuenue Avenue
Hilo, Hawaii 96720
Tel: (808)933-8380

Grant types:

- Community Facilities Programs
- Faith-Based and Community Initiatives Programs
- Rural Business - Cooperative Programs
- Rural Housing Programs
- Rural Utilities Programs

Western Sustainable Agriculture Research
and Education (WSARE)
<http://wsare.usu.edu/>

Utah State University
Ag Science 305
Logan, UT 84322-4865
Phone: (435)797-2257

Grant types:

- Farmer/Rancher (FRG) grants
- Graduate Fellow Grants in Sustainable Agriculture
- Professional + Producer grant
- Professional Development Program (PDP) grants
- Research and Education (R&E) grants.

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Distributing Your Product within Hawaii

Taking your product to market, do you have to do all the work?

Overview

There are many ways to get people to buy your wonderful Hawaii-grown or -made product. Customers can come to your business and buy it directly from you, you can take it to a farmers' market and sell it to them, you can take it to a restaurant, a wholesaler can send a truck to your farm, or it can be a combination of distribution options. Each one of these options has its positive and negative sides.

In this lesson the costs of distribution will be discussed, along with the pros and cons of different distribution models. Some local resources also will be given.

Why is this important?

Unless you sell all of your product from your farm or business, you are limited in your number of customers because only a limited number are willing and able to go to your place of business (in addition, you may have insufficient parking or be located far from your customers). It is in your best interest to get your product in front of as many potential buyers as possible, national or global is often best, but statewide is a great start.

What does it cost to distribute products?

It is far easier to reach out to more buyers if someone helps you do some of the distribution work. You probably produce a very nice crop or processed food product, but if you also want to deliver that product to market, you might be diluting your focus. It might help to focus on the things that you do best and outsource things that might be better done by someone else.

For example, let's assume that you want to deliver your product to a number of restaurants. One question is, does it make more financial sense to personally make the delivery or would it be better to have an employee do the delivery? Or, instead of an employee, would it make more sense to pay a distributor (it could be another grower or a distribution company) to deliver your product as well as other peoples' products to your customer? Or, perhaps you want to make the deliveries for yourself and for others in your area, and start a dedicated distribution arm of your own.

To start making these types of decisions you need to know how much your time is worth. If you are making \$20/hour working on the farm (wage plus some amount of the profit), but you can hire someone for \$12/hour to deliver products – it may make more financial sense to hire someone to make deliveries. Driving in traffic and delivering your product may not be wise use of your time; however, making the delivery might help you build relationships and get useful feedback from customers. Determine whether your business is making more money, overall, by your staying on the farm. If so, stay on the farm and pay someone else to deliver your products.

The amount of money you will be paying for distribution is:

You	wage and fringe plus some part of the profit, truck cost, insurance, gas.
Your employee	wage and fringe, truck cost, insurance, gas.

Distributor flat fee per pound or unit or mile, and/or percentage of the (farm gate / wholesale) value of the product.

Pros and cons of distribution options

Each distribution option has good things and not-so-good things about it.

Delivery option	Pros	Cons
You deliver	You get to meet customers and get feedback.	You are away from the farm. It may cost you more in lost productivity than you would pay someone to do the job.
Employee delivers	You can focus on high quality production.	It will cost you labor wages. Your employee is now the “face” of your company with your customer.
Commercial distributor	You can focus on high quality production. Distributor might have a better (refrigerated, covered) truck than you. Distributor might help you get into even more markets.	Cost you some amount of money. Will not be the “face” of your company with client as they represent many product lines.

As you can see, each option has trade-offs. It is important to think through your options carefully so that you are efficient with your use of resources (time and money).

Using your own truck to deliver

Your truck provides your products with protection from the weather and dust. Many growers deliver in uncovered and un-

refrigerated trucks, and that is not a good practice as shelf-life will be reduced. When shelf-life is reduced your product goes bad faster and shoppers might not want to buy it again.

Your truck is also a rolling advertisement for your company. What does your truck say when it is dirty outside and inside and someone else’s name is on it? Here is a great example of a moving advertisement.



Negotiating with distributors

As mentioned earlier, using food distributors has a number of advantages which you will need to pay for. Discuss the following with potential distributors:

- *Cost.* How can you get the lowest cost and maintain the same quality service?
- *Shipping service quality.* Are the trucks cleaned daily and are all produce kept on pallets? Is there a refrigerator unit in the truck and is it well-maintained?
- *Insurance coverage.* How will your product be covered by insurance and what is the process for filing a claim?
- *Expanding markets.* Where else might your product be sold within your shipper’s present route?

Where to find distributors

There are a number of food distributors on Oahu. The yellow pages lists them under “food brokers” and “food products –

wholesale and manufacturers.” You can also talk with friends about the service providers they are using. Many wholesalers make farm visits to pick-up crops as well.

Shipping inter-island

Boat or air shipping is available to the neighbor islands (see the lesson on Exporting for information about shipping to the mainland and overseas). Like working with a distributor, working with a shipper requires that you know how your product is going to be handled under all circumstances (bad weather, power outage, employee strike). Ask your prospective shipper:

- Cost: How can you get the lowest cost and maintain the same quality service?
- Shipping service quality: Are the containers cleaned daily, and all produce kept on pallets? Is there a well-maintained refrigerator unit?

- Insurance coverage. How will your product be covered by their insurance and what is the process for filing a claim?
- Staging: Where will your product sit in transit? Will it be in a covered area or out in the sun? Will it be cooled or kept frozen?

Getting your product to market

The more you can get your product out to more people, the better chance you have at selling it. You can distribute your product or hire someone else to do it for you. In any case, spend some time evaluating the pros and cons of your options and pick the one that suits you best. From time to time, evaluate your decision, and make necessary changes.

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Exporting Off Oahu

There are business opportunities beyond the reef, but developing them requires care

Overview

Serving your market on Oahu might be enough work and income for you, and if so, good for you! But, if it is not and you want to expand your market beyond the shores of Oahu, you need to be prepared for additional requirements. These requirements include additional business paperwork and better understanding of banking systems. In addition, for fresh agricultural products, you will typically need a phytosanitary certificate (ensuring that you have checked for diseases and pests on agricultural materials). Exporting to a neighbor island is relatively simple, but the process gets more complex when you ship to the US Mainland and more complex still when shipping to a foreign country. Fear not, it has been done countless times by American agricultural entrepreneurs and is typically just a matter of knowing the rules and following them methodically.

In this lesson, we will provide you the basics of exporting. Because every product and business relationship is unique, take this advice and add it to the knowledge you acquire as you create an opening in a new market.

This lesson provides only an overview on exporting -- the reader is encouraged to read the longer discussions on the many aspects of exporting in the CTAHR book, *This Hawaii Product Went to Market* (<http://www.ctahr.hawaii.edu/ctahr2001/PIO/ForSalePubs.asp>)

Why is this important?

Exporting is a great way to expose your product to a larger market. In a one-island market you might reach a level where your customers will not buy any more of your

product because their customers won't buy any more. The only way to sell more of your product is to find additional customers – exporting does that for you.

Where to start

The first thing to do when you want to expand is to take care of the customers you already have. Your present customers provide you with a solid, albeit smaller, market, and if your export ventures do not turn out well, you still need these loyal business partners.

The next step is to think carefully about whether you have the production capacity, skills and time it takes to develop and maintain even more business relationships.

Let's assume that you have the ability to produce and sell 5, 10, 20% more product if you just had the market.

Find new customers

Business is a match of supply and demand. You are the supplier and someone else is the “demander” or customer. To export, you need to identify new customers in new markets. If you have an exotic product, such as an herb or spice, your first step in finding new markets might be to identify what else is being imported into the U.S. (for other countries the import data may not be easily accessible). The U.S. Department of Agriculture has a wealth of data on imports to the U.S.:

<http://www.marketnews.usda.gov/portal/fv>

For Hawaii import data, go to:

<http://hawaii.gov/hdoa/add/man/mktnews/market-news-reports>

To identify specific customers (including wholesalers, retailers, and/or restaurateurs)

in a given marketplace, try the following to make initial contacts:

- Attend trade shows such as the annual Produce Marketing Association's trade show, or your industry's particular trade show.
- Look for customers on the internet or in the yellow pages.
- Talk to other friends in the business and see if they would be willing to share their contacts with you.

Promise only what you can deliver

It is important to know what it will cost you to get your product to a new market and how much of a high quality product you can produce. Once you have a good idea of those numbers, then you need to determine what it will cost you to get your product to market. You will need to add that cost to the cost of production for your product to arrive at a price you can offer to a buyer. UHM-CTAHR has a poster that could help you with your cost of production calculations (see Easy Profit Estimator): <http://www.ctahr.hawaii.edu/ctahr2001/PIO/>

While the U.S. Postal System may be a shipping option in some cases, you will typically need to get your perishable agricultural product to market faster than the USPS can deliver. Global air shipping companies such as FedEx, DHL, and UPS handle many Hawaii products. Products may also be shipped using airlines either directly or through local freight-forwarders. Similarly, when shipping on the ocean, there are large and small companies. Get on the phone and/or visit these service providers with a sample of your product before you make contact with your prospective buyers. Make sure you understand the shipper's ability to keep your product cool, protected from the sun, protected from theft, and their insurance policies just in case your product is damaged in transit. Determine your

shipping cost and add that to your cost of production.

Once you have your total cost (cost of production plus all costs of shipping and handling) and have determined how much you will charge, it is time to make first contact with potential buyers. Call wholesalers in your desired target market and talk to them about the possibility of carrying your Hawaii product. Sell them on your product by explaining its qualities. Sending them a product sample (plus a nice box of Hawaii Macadamia nut chocolates!), brochure, a business card, and a price list can help them understand if there is potential in your product. In your initial discussions with your potential new buyer, ask how much they think they can sell in a week/month/season/year and if they can meet your price (with all the shipping costs included). Be prepared to negotiate a bit on price, thus you should have a little "padding" in your price so that even if you accepted a few cents less per pound or unit, your total revenues would still be more than your costs and you would make a profit.

Getting your product ready for market

Dressing up your product in a nice package (attractive and stable enough to arrive at its destination in good shape) is important to catching the eye of your customers (refer to the lesson on Positioning and Branding). Not only is it important to impress the final customer, but your wholesaler as well. The wholesaler typically handles hundreds of products so make it easy for the wholesaler to handle your product. Be sure product boxes can stack so that they can store and sell more of your products to their customers. There are many designers in Hawaii who can help you with your package design.

One of the things you need to be aware of is product labeling requirements. There are a number of U.S. and Hawaii (and other

state and international) labeling requirements. For example, since September 2008, U.S. agricultural products must be labeled according to Country of Origin Labeling (COOL) regulations. For a listing of current labeling guidelines, contact both the Hawaii Department of Agriculture's Commodities Branch (<http://hawaii.gov/hdoa/qad/comm/comm/> (808)832-0700) for raw agricultural products, and the Hawaii Department of Health's Food and Drug Branch (http://hawaii.gov/health/environmental/food_drug/about.html/ (808)586-4725) for processed products.

Some states might also have unique labeling laws to which you must comply (for example when there is a bottle deposit), talk to your buyer about this before you start shipping any product. For international exporting, it is important to work with the U.S. embassies through the USDA Foreign Agriculture Service (http://www.fas.usda.gov/agx/exporter_assistance.asp). Each country might have laws on labeling, package size, types of materials and the like, so it is best to do your homework before sending your products overseas. The Hawaii Department of Agriculture's Market Development division can also help get you ready to sell beyond the reef with advice, access to tradeshow, and other valuable services (<http://hawaii.gov/hdoa/add/md/> (808)973-9595).

One of the best things in working with the Foreign Agricultural Service is that they have offices in most U.S. embassies in the world and they have local employees as well as U.S. citizens working for them. Thus, you can have easy access to people who know about local customs and language, business practices, and money exchange.

Don't pack a pest

The reputation of your product and company is one of the most valuable aspects of your business. One area where producers often make a critical mistake is when they ship products that have not been sufficiently screened or treated for pests. Whole shipments of products have been destroyed in distant markets because they have ants or other pests on or in their product. Destruction of your shipment can cost you a lot of money, a loss of a client, and can damage your reputation.

To determine phytosanitary and general export requirements for your product, get some advice from the Hawaii Department of Agriculture's Plant Industry Division (<http://hawaii.gov/hdoa/pi/> (808)832-0566) and the USDA's Animal Plant Health Inspection Service (http://www.aphis.usda.gov/import_export/index.shtml/ (808)861-8494).

Decide how much of the work you want to do

Now that you have lined-up a buyer and agree on a price and volume, you know about the product labeling and phytosanitary requirements, you have to decide how much of the exporting paperwork and legwork you want to do to get your agricultural product on a boat or airplane and safely to your buyer.

Clearly, with enough time you can do all the tasks required to get your product to a distant market. But, is it worth doing everything? Most producers are faced with the question: *Do I want to do everything, or do I want to focus on what I do best and what brings me the most satisfaction and let others keep some of my revenue in exchange for a service they provide me?* What is the answer for you?

If you don't want to do it all, look for a distributor and/or a freight forwarder. Both have years of experience getting other

peoples' products to market so they can bring that knowledge very quickly.

Prepare for take off

Just like running a good farming operation where you sell locally, when you add exporting to your daily routine there is a lot to think about and do well. CTAHR prepared a “pre-flight” checklist for exporting that can give you a solid understanding of all the details that go into exporting. Download it at this link: (<http://www.ctahr.hawaii.edu/oc/freepubs/pdf/ET-1.pdf>)

Prepared by:
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CTAHR, ADAP Project
University of Hawai'i

You Are Not Alone!

You work hard in your business... here are some agencies that can support you

Overview

To be a successful grower *and* successful business person requires that you have different skills in numerous places throughout your farm and business. If you don't have a certain skill, you can buy it, trade for it, or perhaps someone will loan you their expertise. Sometimes we need a little help, and sometimes we need a lot. Fortunately, there are a number of organizations on Oahu that are willing and able to provide a range of services. There is no need to struggle, just ask if your need can be addressed, and you will know right away. If one organization cannot help, try another. Ask upfront if there is a cost and a limit to the services, and what is expected from you to get that service.

Why is this important?

It is important to do many things well on your farm. If you are good at growing, but not so good at bookkeeping, you put your business in danger of failing financially. It makes a great deal of sense to ask for help when you need it. Certainly, no one can do the labor on your farm for you, but many organizations can provide coaching until you have a new level of competency with a particular skill.

Helpful organizations

There are many public organizations that you can go to on Oahu that provide services to agricultural entrepreneurs. For a list of non-commercial lending institutions see the lesson on Loans, and for grant organizations see the lesson on Grants. The following list covers many of the other needs of the typical agribusiness person.

Agricultural product processing

Pacific Gateway Center
720 North King Street
Honolulu, Hawaii, 96817
(808)845-3918
info@pacificgateway.org
<http://www.pacificgatewaycenter.org/>

Agriculture parks

Agriculture Resource Management
Hawaii Dept of Agriculture
1428 South King Street
Honolulu, HI, 96814
(808)973-9478
hdoa.arm@hawaii.gov
http://hawaii.gov/hdoa/arm/arm_agparks

Aquaculture development

Hawaii Department of Agriculture
Aquaculture Development Program
1177 Alakea Street #400
Honolulu, Hawaii 96813
(808)587-0030
info@hawaiiaquaculture.org
<http://hawaii.gov/hdoa/adp>

Agriculture loan

Agricultural Loan Division
Hawaii Dept of Agriculture
1428 South King Street
Honolulu, HI, 96814
(808)973-9460
<http://hawaii.gov/hdoa/agl/agl>

Business Development

Honolulu Small Business Development Center

1833 Kalakaua Avenue - Suite 400

Honolulu, HI 96815

(808)945-1430

[http://www.hawaii-](http://www.hawaii-sbdc.org/honolulucenter.htm)

[sbdc.org/honolulucenter.htm](http://www.hawaii-sbdc.org/honolulucenter.htm)

Agribusiness Incubator Program

University of Hawai'i

3050 Maile Way, Gilmore 115A

Honolulu, Hawaii, 96822

(808)956-3530

agincubator@ctahr.hawaii.edu

<http://aip.hawaii.edu/>

Oahu Resource Conservation and Development

99-193 Aiea Heights Drive, Suite 111

Aiea, Hawaii, 96701

(808)483-8600, #113

<http://www.oahurcd.org/>

Score Hawaii, Inc.

300 Ala Moana Blvd. Rm. 2-235

Honolulu, Hawaii 96850

(808)547-2700

hawaiiscore@hawaiiscore.org

<http://www.hawaiiscore.org/>

Commodity standards

Commodities Branch

Hawaii Department of Agriculture

1851 Auiki Street

Honolulu, HI 96819-3100

(808)832-0700

<http://hawaii.gov/hdoa/qad/comm/comm>

Disaster

- Noninsured Crop Disaster Assistance Program
- Emergency Conservation Program
- Emergency Loans
- Disaster Set Aside
- Supplemental Agriculture Disaster Assistance

USDA, Farm Service Agency

99-193 Aiea Heights Drive, Suite 114

Aiea, Hawaii, 96701

(808)483-8600, #353

<http://www.fsa.usda.gov/>

Disease / pest identification

UHM-CTAHR, Agricultural Diagnostics Service Center

1910 East-West Rd., Sherman 134

Honolulu, HI 96822

(808)956-6706

<http://www2.ctahr.hawaii.edu/adsc/>

Enforcement (import)

USDA, Smuggling Interdiction and Trade

3375 Koapaka St, #G-330

Honolulu, Hawaii, 96819

(808)861-8445

http://www.aphis.usda.gov/international_safeguarding/sitc/index.shtml

Extension offices (University of Hawai'i CTAHR)

<http://www.ctahr.hawaii.edu/site/Extprograms.aspx>

UHM-CTAHR, Mānoa Campus Office

1955 East-West Rd, Ag Sci 217

Honolulu, HI 96822

(808)956-7138

UHM-CTAHR, Kaneohe Extension Office

45-260 Waikalua Road, Suite 101

Kaneohe, HI, 96744

(808)247-0421

UHM-CTAHR, Pearl City Urban Garden
955 Kamehameha Hwy.
Pearl City, HI 96782-3344
(808)453-6050

UHM-CTAHR, Wahiawa Extension Office
910 California Ave.
Wahiawa, HI 96786-2124
(808)622-4185

Feed testing

UHM-CTAHR, Agricultural Diagnostics
Service Center
1910 East-West Rd., Sherman 134
Honolulu, HI 96822
(808)956-6706
<http://www2.ctahr.hawaii.edu/adsc/>

Food imports

For International Shipment – USDA
For Domestic US Shipment – Animals,
Plants, microorganisms
Hawaii Department of Agriculture
Plant Quarantine Branch
1849 Auiki St.
Honolulu, HI 96819
(808)832-0566

Animal Quarantine Branch
(808)483-7151
http://hawaii.gov/hdoa/Info/doa_importing

Food safety coaching

Farm

UHM-CTAHR, Agriculture Development in
the American Pacific
3050 Maile Way, Gilmore 112
Honolulu, HI 96822
(808)956-9539
<http://www.ctahr.hawaii.edu/adap/FoodSafety/>

Food processing

UHM-CTAHR, Tropical Plant and Soil
Science Department
3190 Maile Way, St. John 102
Honolulu, HI 96822
(808)956-6564
<http://www.ctahr.hawaii.edu/aurora/foodsafety.asp>

**Gardening questions and Master
Gardeners**

UHM-CTAHR, Pearl City Urban Garden
955 Kamehameha Hwy.
Pearl City, HI 96782-3344
(808)453-6050
<http://www.ctahr.hawaii.edu/ougc/>

Land conservation practices

USDA, Natural Resource Conservation
Service
99-193 Aiea Heights Drive, Suite 109
Aiea, Hawaii, 96701
(808)483-8600, #101
<http://www.pia.nrcs.usda.gov/>

Labeling, weights and measurements

Measurement Standards Branch
Hawaii Department of Agriculture
1851 Auiki Street
Honolulu, HI 96819-3100
(808)832-0700
<http://hawaii.gov/hdoa/qad/ms/ms>

Loans

Federal

USDA, Farm Service Agency
99-193 Aiea Heights Drive, Suite 114
Aiea, Hawaii, 96701
(808)483-8600, #353
<http://www.fsa.usda.gov/>

State

State of Hawaii Department of Agriculture
Agricultural Loan Division
1428 South King Street
Honolulu, Hawaii, 96814
(808)973-9460
<http://hawaii.gov/hdoa/agl/agl>

Milk

Milk Control Section
Hawaii Department of Agriculture
1851 Auiki Street
Honolulu, HI 96819-3100
(808)832-0700
<http://hawaii.gov/hdoa/qad/comm/milk-control/?searchterm=milk%20control>

Markets (farmers)

City & County Department of Parks and Recreation People's Open Market
1527 Keeaumoku Street
Honolulu, HI 96822
(808)522-7088
<http://www.co.honolulu.hi.us/parks/programs/pom/>

Hawaii Farm Bureau Federation
2343 Rose Street
Honolulu, HI, 96819
(808)848-2074
<http://www.hfbf.org/>

Market development

Market Development Branch
State of Hawaii Department of Agriculture
1428 South King Street
Honolulu, HI, 96814
(808)973-9591
<http://hawaii.gov/hdoa/add/?searchterm=market%20development>

Other

- Value Added Producer Grant Program
- Rural Energy for American Program

USDA, Rural Development
99-193 Aiea Heights Drive, Suite 111
Aiea, Hawaii, 96701
(808)483-8600, #355
<http://www.rurdev.usda.gov/>

Pest / disease identification

UHM-CTAHR, Agricultural Diagnostics Service Center
1910 East-West Rd., Sherman 134
Honolulu, HI 96822
(808)956-6706
<http://www2.ctahr.hawaii.edu/adsc/>

Pesticides

Education

UHM-CTAHR, Hawaii Pesticide Risk Reduction Education
3190 Maile Way, St. John 307
Honolulu, HI 96822-2271
(808)956-6007
<http://pesticides.hawaii.edu/>

Enforcement

Pesticides Specialist
Hawaii Dept. of Agriculture - Pesticides
1428 South King Street
Honolulu, Hawaii, 96814
(808)973-9401
<http://hawaii.gov/hdoa/pi/pest>

Professional organizations

Hawaii Farm Bureau Federation
2343 Rose Street
Honolulu, HI, 96819
(808)848-2074
<http://www.hfbf.org/>

Hawaii Department of Agriculture's list on organizations:

<http://hawaii.gov/hdoa/add/products-database>

Rainwater catchment

UHM-CTAHR, Rainwater catchment program

Cooperative Extension Service □

875 Komohana Street

Hilo, HI 96720

(808)981-5199

<http://www.HawaiiRain.org/>

Seeds

UHM-CTAHR, Seed Program

1910 East-West Rd Sherman Lab 108

Honolulu, HI 96822

(808)956-7890

<http://www.ctahr.hawaii.edu/seed/>

Sustainable agriculture

UHM-CTAHR, Natural Resources and Environmental Management

1910 East-West Rd., Sherman Lab 101

Honolulu, HI 96822

(808)956-7530

<http://www.ctahr.hawaii.edu/sustainag/>

Soil testing

UHM-CTAHR, Agricultural Diagnostics Service Center

1910 East-West Rd., Sherman Lab 134

Honolulu, HI 96822

(808)956-6706

<http://www2.ctahr.hawaii.edu/adsc/>

Statistics

Annual, monthly data

National Agricultural Statistics Service

1428 South King Street

Honolulu, Hawaii, 96814

(808)973-9588

http://www.nass.usda.gov/hi/stats/t_of_c.htm

Weekly wholesale prices and barge arrivals

Hawaii Market News Service

1428 South King Street

Honolulu, Hawaii, 96814

(808)973-9745

<http://hawaii.gov/hdoa/add/man>

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