



Marketing Memorable Experiences and High-Quality Products

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The Kona Le'a Plantation is perched on the slopes of Mount Hualalai, overlooking Kailua Bay on the Island of Hawaii. It is the home of Holualoa Kona Coffee Company, a family business owned by Desmond and Lisen Twigg-Smith. Tourists venture forth from their seaside resorts in Kailua-Kona for a 10-minute journey up a narrow, winding country road into lush, tropical forests and Kona Coffee country to visit this place.

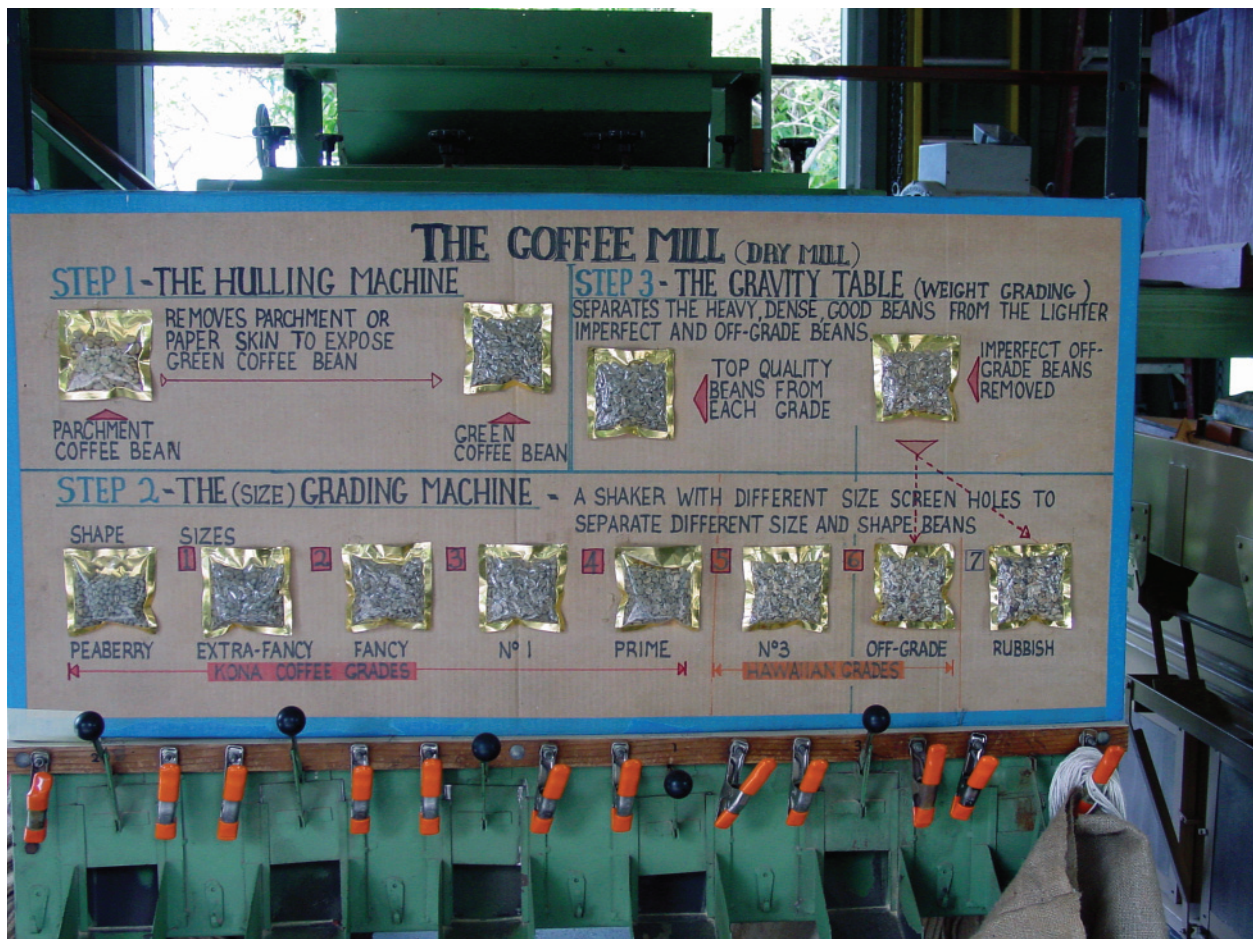
The operation consists of a number of buildings set amidst 16 acres of coffee trees. The property is a narrow, pie-shaped parcel running *mauka* (toward the mountain) of historic Mamalahoa Highway. As explained to farm visitors, this unusual layout stems from the *ahupua'a*, or ancient Hawaiian system of land division, where chiefs would control parcels running from the mountaintop to the sea.

The buildings include a wet mill, parchment drying and storage shed, dry mill, warehouses, roasting room, and packing room/retail outlet. Some antique equipment is displayed in an open garage where a bunch of ripening bananas hangs from the rafters. The owners' former residence is also on the property. It is surrounded by gardens with exotic plants such as taro, pineapple, hibiscus, gardenia, flowering ginger and heliconia, 50-foot tall mango, avocado, and jacaranda trees, cacao, and bananas.

Visitors are often met by one of the Twigg-Smiths or one of the employees. Wesley Summer, who also doubles as a master roaster/resident caretaker, was our guide when a group of us recently visited the operation. The informal tour follows the journey of the coffee bean starting from the tree and ending at the cup. Coffee is an attractive tree growing 10 to 15 feet tall, with glossy, dark green leaves. "In the spring, it looks like it snowed when all the coffee blossoms are blooming," said Wes. The green fruits develop to about the size of a fingernail and usually start to ripen in August. The ripe coffee fruit is called a "cherry" and is as red as its namesake, but it's the seed or bean that interests coffee drinkers.

Cherries are harvested by hand and transported to the wet mill. In the old days, they used the “Kona Nightingale” donkeys, but today, these have been replaced by tractors and trucks to do the hauling. A pulper extracts the beans which then go into a fermenting and rinsing tank to clean off the remaining flesh. Once cleaned, beans are transferred to the drying shed, spread out on a second-story wooden floor, and periodically turned to dry under solar power. Wes explained, “I prefer the old style to check dryness, which is to test the texture by biting the bean. Or nowadays we also have scientific instruments to tell us the moisture content.”

“Do you see this bean?” he continued, showing us an oval, round seed instead of the normal half-moon shape. “This is called ‘peaberry’ and occurs when the developing coffee berry fails to



split into two parts. The flavor from two beans is captured in one peaberry, so people look for it. Only about 5 percent of the crop is peaberry, so between the stronger demand and smaller supply, peaberry always commands a good price.”

The dried bean is called “parchment coffee” because of its tan-colored, parchment-like covering. Bags of parchment are stored on the first floor until ready for further processing. The next processing step, over at the dry mill, is to remove first the parchment husk, then a thin “silver

skin” that lies beneath. The result has a color that is aptly described by the term “green coffee,” the product form of international trade. Green coffee is sorted and graded by size, weight, and processing defects according to standards defined by Hawaii state law. At Holualoa Kona Coffee Company, the beans are further roasted and packaged on-site.

Although roasting was done for the day, the delicious aroma still lingered in the air. That aroma is one of the characteristics that exemplifies Kona Coffee. While going over the steps of his art, Wes showed us the two roasters used by the firm. He explained how one is the more traditional machine that roasts beans with a hot steel drum, while the newer roaster uses superheated air. “The hot air blows the smoke right out and creates quite a cloud over the building when the



new roaster is working. Smoke gets trapped in the old roaster so the coffee roasted in there has a smokiness that many customers prefer. The result is two different coffees. We also roast to different degrees of darkness, and that also affects the final product’s characteristics.”

Our group then followed our noses into the packaging building where we enjoyed a complimentary cup of pure Kona Coffee while watching other employees bag freshly roasted coffee. Other visitors came in later after first exploring the gardens and perhaps tasting an apple banana.

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We also browsed through the assorted coffees and coffee paraphernalia that lined the walls and were for sale. Many left with gifts and coffee country souvenirs of their experience.

It’s interesting because before our first visit several years before, some of our group had declared that they “were not going to be ripped off for such expensive coffee.” But in the end it was the experience they were paying for, the understanding of how difficult it was to produce this coffee all by hand. They almost had a feeling of having somehow participated in the whole process.

Story of the Business

Holualoa Kona Coffee Company grows, processes, roasts, and retails its own coffee. The Twigg-Smiths describe their firm as two businesses: first, a fully integrated coffee farm (Kona Le’a Plantation) and roaster/retailer operation and second, a contract processing operation. The firm has much more

processing capacity than is needed for its coffee acreage, so they will take harvests from over 100 nearby farms and individually process them, typically to either the green bean, roasted, or roasted and packaged stages.

There are hundreds of coffee farms in the Kona Coffee belt, the geographic region defined by law, whose growers can legally call their product Kona Coffee. Many sell their cherry coffee to processors or the co-op, while many others have developed “estate coffees,” their own line of packaged Kona Coffee which is typically identified by the grower’s or farm’s name. Holualoa Kona Coffee Company provides processing services to estate coffees without their own processing facilities.

While estate coffees help growers capture more of the value added to coffee cherries by processing and roasting, very few have been able to differentiate their products beyond being “another Kona Coffee,” so prices are established by the market. An old-timer described the situation: “It doesn’t matter whether you buy the black or the silver or the brown Cadillac/Mercedes, you get identical cars and the price is all the same.” The market also seems to work well in maintaining product quality. Buyers expect and get high quality, and legal protection such as a trademarked “Kona Coffee” name and state certification of origin help to assure consumers that they get what they are paying for.

In this competitive environment, it is very difficult to compete solely on the basis of price, and buyers can be overwhelmed by the variety that is available in retail outlets throughout Kona. Yet customer loyalty—not only the initial sale, but repeat sales—are a major strength of Holualoa Kona Coffee Company. Around 80 percent of its sales are repeat business via mail order or the Internet (www.konalea.com or email hkc@aloha.net), and much of the remainder is sold through the gift shop. Their competitive edge is to provide visitors with a unique experience, and to have the facilities, personnel, and wherewithal to make it happen. For many, the opportunity to see, touch, and smell the products as they walk through the processing steps while listening to a knowledgeable guide is a memorable experience. Perhaps visitors develop “a



sense of ownership” in the farm. It’s “their coffee farm,” the way others may feel about a winery or brewery. Out of this evolves the sense of loyalty.

In our case, this was a repeat trip for many in our group! We had originally not planned it, but then some members begged to do the tour, not just to any coffee farm but to exactly the same place they had already visited: “their coffee farm.” So we all went back to Holualoa Kona Coffee Company and did the same thing all over again, walking around the farm, soaking up the ambiance, and then buying packages of coffee.

And, perhaps similar to how the aroma of fresh-baked cookies might trigger pleasant childhood memories of Mom’s kitchen, or how couples might relive their honeymoons by sharing a special dish or hearing “their song,” Holualoa Kona Coffee is associated with a memorable tour. So besides the physical characteristics of a gourmet coffee, enjoying this particular brand of Kona Coffee is a way to remember a special trip to Hawaii.

The Twigg-Smiths explained that the entire experience allows the visitor to understand and fully appreciate “one of the world’s finest coffees from the tree to the cup as they tour the operation in a small, personalized setting.” It is important for the business to establish its customer base. “That’s why we don’t charge for our tours, why they are free. We earn our living when customers buy our coffee, and keep buying our coffee.”



Holualoa Kona Coffee Company/Kona Le'a Plantation is still growing; many coffee trees in the orchard are still young and have not reached their full production potential, so it is important for the business to continue building its clientele. It seems to be well on its way. According to company literature, it was rated "one of the best Kona Coffees" in *Hawaii: The Big Island Revealed*, it is a recommended visit in *Frommer's 2000-Hawaii*, and it was featured in *Watch It Made In the U.S.A.*, a visitor's guide to America's favorite homegrown products.

What are prominent threats? Every crop has its problems, and this one is no different as far as issues relating to weather, land, labor, chemicals, etc. A particularly serious problem affecting the entire Kona Coffee industry is the root-knot nematode, a pest that eventually kills affected plants. Fortunately, a solution exists but it is a costly one since nematode-resistant replacements are expensive, and a number of years are required for replanted orchards to mature. An infestation was discovered on Kona Le'a Plantation, just downslope of the coffee roasting building. Rather than replacing the trees with more coffee, the Twigg-Smiths chose to plant cacao. An immediate benefit was the additional diversity these plants added to the garden. For the longer term, it will be interesting to revisit the farm once the cacao trees mature and start producing cocoa pods.

The company targets visitors from the U.S. mainland and Canada as their main customer group, so the weakness of the U.S. and state economies and especially September 11th caused even more significant problems. Besides the overall drop in tourism, Holualoa especially felt the impact of reductions made by cruise lines that previously had scheduled Kailua as a regular port of call. Just one ship unloads hundreds of passengers, each of whom is a potential visitor to the farm, so bypassing Kona or canceling a cruise has a major, serious impact. Businesses everywhere are trying their best to cope with these problems and plan for the future. One possibility for Holualoa Kona Coffee Company is to pursue the Japanese visitor market. However, that involves a substantial investment in translation and market research, as well as the need to hire Japanese-speaking personnel. Japan's economic recession has also severely affected that market segment.

Is the business replicable? The capital requirements to create a similar operation would probably be prohibitive and would likely result in industry overcapacity in terms of wet and dry processing mills. Modifying one of the existing processors would entail substantial costs just to meet safety and liability issues; then a mail order and/or Internet operation would need to be developed. For Holualoa Kona Coffee Company, one bright side of the economic downturn is it makes such investments even more prohibitive. A more provocative opportunity exists in other crops where high quality is recognized and where processing or other activities would be of interest to visitors. Two crops/products gaining interest in Hawaii are chocolate and vanilla.

Key Points/Guiding Principles

Here are some inter-related principles that guide this business:

- Producing a high-quality product is a prerequisite when dealing with a high-end, high-priced product. Kona Coffee is one of the world's finest coffees, and Holualoa Kona Coffee strives to be among the best of the best.
- Build on the maxim: "It is easier to keep an existing customer than to create a new one." To it add: "Make it easy to be a new customer."
- With so many competing estate coffees, farm tours have proven to be a successful method for Holualoa Kona Coffee Company to differentiate its product and make it stand out from the competition's. The tours serve two purposes: they enhance customers' memories of a Hawaiian vacation, and they help equate Holualoa Kona Coffee Company's product with "Kona Coffee."
- Take a longer-run perspective. Holualoa Kona Coffee Company uses the farm tour not as an end in itself, but as a way to build their customer base and consumer loyalty.
- While it is true that Holualoa Kona Coffee Company is producing and selling a high-quality product, they are also re-selling the experience of being on the farm and observing the creation of this high-quality product.

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