

Draft Template for PUC WCWG Small Group Status Reports
For Meeting on March 18, 2021

Small Group Topic/Issue: Sustainability and Profitability

Create a compelling case to convince other WCWG members that your topic/issue needs to be addressed by our group.

- The sustainability and profitability of an interisland carrier is affected by a number of factors, which include but are not limited to factors that are: 1) within the control of the water carrier; 2) can be affected by other stakeholders; and 3) those that are unlikely to be controlled or affected by Hawaii stakeholders.
- Unlike the contiguous 48 states, Hawaii does not have robust multi-modal options to transport goods between islands and, due to limited harbor space, Hawaii's small market, and the high start-up costs, there is a natural monopoly for a water carrier. Thus, there is a critical role that the water carrier plays in ensuring the affordable and timely delivery of goods between the islands to support the individual economies of each island and for the entire state.
 - If the water carrier is not able to sustain its operations, the lack of alternative transportation options and the importance of the affordable and timely transport of goods will have a significant and adverse impact on the state's and neighbor island economies.
 - Without adequate profitability, the ability for a water carrier to attract capital to replace equipment and to improve its services may be limited.
- Factors that are within the control of the water carrier:
 - Construction materials and vehicles are generally deemed profitable cargo for YB. However, low volume perishables the most vital for life for communities are not. Profitability hinges on how many man hours it takes for a specific order to be processed. It is not the route or the costs of travel but rather the time it takes to prepare the goods that are traveling to these destinations that makes the heaviest impact to wallets.
 - Possible solutions that need to be discussed: reducing labor related costs; example labor hours, managerial decisions which may be counter productive to efficient use of labor force.
 - Regular shipments (two per week) are vital for the communities on Molokai and Lanai, for items that are low volume and perishable, such as milk. However, this type of cargo service is very costly for YB to continue to provide. A significant source of labor cost is that it is difficult to take advantage (per shipment) of the labor hours put into processing, tracking and coordination for low volume items. It could take just as long to process paperwork for small quantity LCL as a batch of High Volume filled containers.
 - Take advantage of efficient copy and pasting for filling out forms.

- Further discussions are needed to implement a booking system and paperwork simplification effort to allow employees to get more done in less time.
- What are the significant (negative) ramifications of us not addressing this issue?
- On a macro level, if the water carrier is unable to achieve sustainability and demonstrate profitability, as mentioned earlier, there may be a significant and adverse impact on Hawaii's state economy as well as on each of the neighbor island economies.
- On a micro level, if the water carrier is unable to achieve sustainability and demonstrate profitability, it could:
 - Encounter issues with timely payroll and employing its work force.
 - Encounter issues with timely payments to local vendors (and out of state vendors)
 - Encounter issues accessing affordable capital
 - Encounter issues with meeting sailing schedules and providing services.

If the water carrier continues to bridge unprofitable low volume services, with only profits from high-volume cargo, they will lose the funds necessary to pay their workers, and operations. If they charge higher across the board rates, they may end up sacrificing their high-volume cargo (e.g., container forwarding from mainland ships).

- They should be given the ability to charge a flexible at cost for processing rate for low volume cargo. Instead of it being structured around high-volume cargo only.

Articulate Small Group Goal or Objective:

- This goal or objective was probably generated as you talked about what the group was trying to accomplish.

Explore the means to ensure that the water carrier is provided a reasonable opportunity to be profitable to support the sustainability of the water carrier.

- There are things that YB can be looking into to increase profits like a rate increase.
- Also need to consider the customer in the process.
- What would YB need to catch up with its bill payments?
- Increasing rates to keep up with rising costs: from labor, supplies, overhead,
- Looking at intra-state shipping down 20% since beginning of COvid-19
- Specific islands being supported by other routes
- How to make LCL profitable?

- Container customers are subsidizing by paying more and it will drive other customers somewhere else
- **What is the desired outcome you are trying to achieve?**
- Explore possible solutions that balance the need to enable a monopolistic water carrier to be profitable and sustainable without adversely affecting customers and the economies of the neighbor islands and the entire state.

Prioritized List of Actions or Strategies to Address Goal or Objective:

- **This discussion might have started with a discussion of relevant supporting forces from the Force Field Analysis that will help you achieve your goal or objective.**
- Create/find subsidies for the less profitable activities
- Make the unprofitable activities more efficient and improve cost control.
- Create an additional cost of labor rate for LCL cargo. This would capture uncompensated labor costs necessary for LCL cargo verses labor costs associated High-Volume cargo services.
- **The group probably generated additional strategies during your discussion.**

Subsidy for the less profitable activities

Create a subsidy for less profitable activities. And tenably a subsidy for all inter-island goods that aren't profitable but vital for survival such as eggs and milk.

- Pump in more State or federal money or allow YB to change the rates specifically targeting these goods.
- Charge more for the profitable cargo (e.g. high-volume cargo forwarding) to make up unrecovered costs for less profitable cargo.
 - Key deterrent is customers may choose to take their business elsewhere because of expensive prices.

Make the unprofitable activities more efficient (decrease the cost to the water carrier)

- Use alternate hub to serve least profitable routes Oahu direct Molokai and Oahu direct Lanai
 - What is more expensive (cost of labor or cost of fuel+ ship wear and tear)?
 - This would add more touches and complicates logistics because destination Cargo would have to be split between perishable and non-perishable. Refrigerated and non-refrigerated containers, LCL, livestock etc. all benefit from spending less time at sea and in Young Brothers hands.

- Ships in the past would make multiple stops around Maui County, also at two ports on the Big Island
- Reduce the amount of offloading and movements required to get a container from point of origin to destination
- Increased efficiency for processing paperwork and customer service.

Create an additional cost of labor rate for LCL Cargo

- This solution was derived from discussions revolving around the sources for the high cost of LCL cargo but was not directly discussed.
 - Further discussion is needed to determine how the new pricing for LCL shipping could be set and naturally adjusted as the economics shift.
- **Actions or strategies also have to take into consideration restraining forces that may prevent you from achieving your goal or objective. You may have identified relevant restraining forces from the FFA or generated new ones that have to be addressed.**
 - Possible restraining force is the need to balance customer/economy needs when making any changes to the rates and services.
 - Possible restraining force is the limited space to make significant operational changes that might require more space
 - Possible restraining force is the availability of readily accessible and affordable capital to make investments to improve efficiency
 - Possible restraining forces are contacts and agreements that may limit the changes that a water carrier can make to operations.
 - **The group needs to think about prioritizing actions or strategies i.e., important ones need to be addressed first to create momentum for your plan.**
 - Identify exactly what items are the biggest losers, find an alternate way to get them to where they need to go be it by smaller ships, freight forwarder, or air cargo.
 - Overall costs are forcing YB to expend funds through wasted labor and overhead, until the return of cargo volume returns with the return of the tourist population.
 - **Actions or strategies might also have a time relationship i.e., some have to be accomplished first before others are considered.**
 - Actions by other stakeholders may be required before significant changes to the water carrier operations can be made. For instance:
 - Before modifying rates, subsidies should be sought and made available to high-cost cargo to serve customers.
 - Before modifying sailing schedules or stops, there may need to be other infrastructure improvements and other financing requirements to

facilitate any sailing schedule change (e.g., building more warehouse space (both with and without refrigeration), making available capital to vendors who may need to switch to larger, less frequent sailings, etc.)

- Buying or leasing a smaller ship may be time consuming and costly for YB to procure. Its smallest vessel AMS 250 <https://htbyb.com/wp-content/uploads/AMS-250.pdf> which is also capable of roll on and roll off cargo is mostly being used for Lanai and Molokai but sails from Oahu currently with a lot of empty capacity, and since it's occupied with those sailings the larger barges are reserved for the Big Island, Maui and Kauai.
- One path forward to consider would be for Young Brothers to develop a method to increase efficiency for low-volume cargo organization, receiving, and handling.
- Possible Topics for future discussion: Incorporating an online booking system for LCL cargo and low-volume customers.