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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.

- **Water Carriers must be profitable to be sustainable; otherwise they go out of business.** The profitability of an interisland water 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.
- **Factors that are within the control of the water carrier:**
  - Construction materials and vehicles are profitable cargo for YB. However, low volume perishables, the most vital for life for communities, are not. Profitability depends on how many labor hours are required 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 adds most of the cost.
  - 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 because it is a significant source of labor cost. It is difficult to reduce (per shipment) the labor hours put into processing, tracking and coordination for low volume items. It can take just as long to process paperwork for small quantity LCL as a batch of High Volume filled containers.
  - Implement a booking system and paperwork simplification effort to allow employees to get more done in less time. Convert to efficient copy and pasting for filling out forms.
- **Factors that are not within the control of the water carrier:**
  - 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 water carriers. Thus, there is a critical role that the water carriers play 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 a 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

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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 access capital to replace equipment and to improve its services may be limited.
- **What are the significant (negative) ramifications of us not addressing this issue?**
- On a macro level, if the water carrier is unable to achieve 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 subsidize unprofitable low volume services, with profits from high-volume cargo, they will not have the funds necessary to pay their workers, debts, 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).
  - If container customers are subsidizing low volume cargo by paying more, they will shift to cheaper transport services.

### 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.

- Return to the AFRA rate adjustment process to catch up with its bill payments and keep up with rising costs: from labor, supplies, overhead,
- Create a short-term rate increase to offset the decrease in intra-state shipping, down 20% since beginning of Covid-19
- Make LCL profitable.
- **What is the desired outcome you are trying to achieve?**

Solutions that balance the need to enable an intrastate water carrier to be profitable without adversely affecting customers and the economies of the neighbor islands and the entire state.

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### **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 versus lower labor costs required for High-Volume cargo services.
- Reducing labor related costs and labor hours through managerial decisions that make more efficient use of labor force.
- YB should be given the ability to charge a flexible at-cost-for-processing rate for low volume cargo, instead of a rate structure that is structured around high-volume cargo.
- The group probably generated additional strategies during your discussion.

### **Subsidy for the less profitable activities**

- Create a subsidy for all inter-island goods that aren't profitable, but vital for survival, such as eggs and milk.
- Increase State or federal money or allow YB to change the rates specifically targeting less profitable but critical 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, such as Oahu direct to Molokai and Oahu direct to Lanai, however there are negative outcomes: This would add more labor touches and complicate 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
- Increase 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.

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- Further discussion is needed to determine how new pricing for LCL shipping could be set and adjusted as the economics of shipping 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.
- Need to balance customer needs when making any changes to the rates and services.
- Limited space to make significant operational changes that might require more space.
- Availability of affordable capital to make investments to improve efficiency
- Contacts and CB agreements that limit the changes that a water carrier can make to operations.
- YB is taking on debt due to under-utilized labor and overhead expenses during Covid, until cargo volume returns with the return of the tourist population.
- 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 what items are the biggest losers, then find an alternate way to get them to where they need to go, whether by smaller ships, freight forwarder, or air cargo.
- 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 improve water carrier profitability 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.