HAWAII'S ECONOMY

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A Report from the Department of Business, Economic Development & Tourism

In This Issue

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BENJAMIN J. CAYETANO
Governor

SEIJI F. NAYA
Director

BRADLEY J. MOSSMAN
Deputy Director

PEARL IMADA IBOSHI
Division Head

ROBERT SHORE
Editor

Direct Inquiries to:
Hawaii's Economy
DBEDT
P.O. Box 2359
Honolulu, Hawaii 96804
Fax: (808) 586-8449

Retailing and Hawaii's Economy

This issue of Hawaii's Economy focuses on the retailing sector and its important relationship to Hawaii's economy. Retailing has been in the news frequently over the last couple of years, often in regards to stores going out of business or poor sales volume in the industry.

On the other hand, there have also been stories about impressive new retail development plans and renovations. For instance, the Ala Moana Center recently announced a new round of expansion for the State's largest shopping center including a new hotel, entertainment facilities and additional retail space. The announcement of this new 12-acre addition comes as work is continuing on the most recent expansion of the Center which will add new stores, an additional floor of shops and expanded parking. Other shopping facilities around the state are upgrading and expanding, including the Windward Mall and Ward Warehouse. Numerous other projects are in the planning stages particularly for the Waikiki and nearby areas.

It would seem a contradiction that the industry could be renovating and expanding while many stores are struggling with weak sales and sometimes going out of business. The answer to this paradox lies in the current dynamics of the retailing industry. Hawaii retailing is currently in the process of revolutionary change in which new forms of retailing are replacing old ones, with most players working hard to stay competitive in a tough retail environment. The way successful stores stay competitive in such an environment is to continually change and update themselves and their product lines to keep and expand their particular markets. The effort the industry is putting into renovations and expansions is actually a vote of confidence in the future of retailing in Hawaii. It suggests that retailers expect things to get better and want to be prepared to earn their share of an expanding market.

Hawaii retailing is currently in the process of revolutionary change in which new forms of retailing are replacing old ones.

The Retailing Revolution

It is difficult to miss the changes that have been taking place in Hawaii's stores and shopping centers in recent years. For most residents, retailing is the most visible industry in Hawaii's economy. Moreover, the industry provides 20 percent of all jobs in the state (about 112,000 in the first half of 1998) and is instrumental in funneling $16 billion worth of goods per year to Hawaii consumers. During the last ten years, the makeup of the retailing industry in Hawaii has been transformed by what many observers have called a "retailing revolution."

Hawaii has actually experienced two parallel retailing revolutions—one in the local consumer market and another in retailing geared toward serving the visitor market. In the local consumer market, the revolution appears to have begun with the opening of Costco in 1988, the first membership store in the islands and a vigorous price discounter. Since then, many more discount retailers have entered the Hawaii market, while a number of long-time Hawaii retailers like Gem Department Stores and Arakawa's General Store have closed. A greater amount of island retailing is now focused on the large mainland chain retailers such as Wal-Mart and K-Mart, and giant category retailers like Toys R Us, Sports Authority, Eagle Hardware and Borders Books.

The retailing revolution in the visitor market also began in the late 1980s as Japanese visitor arrivals and spending surged thanks to the strengthening yen. This new affluence generated strong demand for high-quality, designer fashions and attracted a host of upscale merchants to Waikiki and the Ala Moana Center.

Other factors besides the influx of new retailers have helped shape the retailing revolution in Hawaii. One factor has been the flat economy the state has experienced over the last several years. This has forced retailers to compete head-to-head for a nearly fixed level of total consumer dollars after inflation is accounted for. Another factor has been the growing sophistication of consumers who are more aware of the many shopping choices that are available to them today. Still another factor has been competition from the new world of "virtual shopping." This includes the expanding opportunities for consumers to make direct purchases from their homes through the internet, TV shopping channels, and a huge number of specialty catalogs.

In tourism-oriented retailing, the most significant factor recently has been the contraction in the number of Asian visitors to Hawaii and reduced spending by those who do come. This is forcing adjustment by both the specialty retailers in upscale goods and even the more diversified stores that have become heavily dependent on the Asian market.

Retailing and the Economy

As these changes are taking place in retailing, there is developing an increased appreciation for the industry's role and value to the economy. Retailing has historically had the image of a secondary, "housekeeping" type of industry. It has been viewed as an activity that moves goods along from producers to consumers but not one that helps "drive" the economy like visitor attractions, export products or even locally produced goods.

> Hawaii has actually experienced two parallel retailing revolutions - one in the local consumer market and another in the tourism sector.

This view of retailing as a beneficiary of economic development rather than as a contributor is, however, beginning to change for a couple of reasons. First, even though it does not export a product, local retailing has a major impact on how long dollars stay in Hawaii to create jobs and income. The more stages of retailing that are conducted in the state, the greater will be the number of jobs created and the economic impact of the retailing activity.

We are beginning to realize, however, that the 112,000 jobs and $1.8 billion payroll in Hawaii's retail sector are not necessarily guaranteed to Hawaii, and cannot be taken for granted in the future. This is because new, more direct ways of selling to the consumer require few if any employees on site and little or no investment in physical facilities. These new shopping alternatives include specialty catalogs, TV shopping channels and increasingly the internet, which absorb sales that would have otherwise gone to a local retailer.

Even among retailers with local facilities, the need for labor may not be as high as previously. The influx of large, mainland-based retailers into Hawaii over the past decade has probably reduced the need for local wholesaling services. In fact, wholesaling wage and salary jobs have declined by about 8 percent since 1991. Thus, even though increased retail competition has been good for consumers, some retail and wholesale jobs that would have been created in Hawaii were probably filled elsewhere instead.

Retailing and Tourism

Another reason that retailing is earning more respect is the growing realization that the industry may be an important factor in the growth of tourism. About 40 percent of all visitor expenditures are made in the retail sector. Moreover, factory outlet centers such as Dole Cannery Square and Waikele Outlet Mall in leeward Oahu have become particularly popular among Japanese visitors. The Waikele Mall is even the focal point of some Hawaii tour packages sold in Japan. Even merchandise chain stores such as K-Mart, Sports Authority and Eagle Hardware may find themselves as tourist attractions for foreign visitors who are unfamiliar with such facilities.

Rethinking Retailing's Role

Thus, as retailing enters a new phase of expansion, renovation, and competition, it is an appropriate time to review and possibly rethink the way we view retailing in the economy and its contribution to jobs and economic development. In particular, we need to better understand the relationship between retailing and our number one industry, tourism. Hopefully, this report will provide the basis for accelerated cooperation between retailing, the visitor industry and the public sector to bring about the full potential of this sector's contribution to economic development.

Unfortunately, in order to focus on the major issues involved in the transformation of retailing, some areas of retailing, such as the restaurant segment, could not be addressed in detail at this time. Also, details of the Neighbor Island retailing environments could not be fully addressed in this report. DBEDT intends to develop a follow-up report focusing specifically on Neighbor Island retailing.

Selected Statistics of Hawaii Retailing

Table 1. Labor Indicators, Sales and Contribution to GSP

Year	Jobs: number	Jobs: Percent of all Jobs[1]	Ave. work week (hrs.)	Ave. weekly earnings (dollars)	Taxable sales ($mil)[2]	Retailing Gross State Product GSP[3]: ($mil)	Retailing GSP: Percent of total GSP
1980	86,700	20.9	31.7	162.30	6,109.6	1,392	10.4
1981	86,750	20.8	31.4	174.27	6,700.8	1,544	10.6
1982	86,300	21.0	31.8	189.85	6,875.0	1,646	10.6
1983	88,450	21.2	31.9	199.69	7,438.2	1,805	10.6
1984	91,900	21.7	31.3	198.13	8,111.9	1,992	10.7
1985	96,100	22.0	31.3	200.95	8,499.3	2,135	10.7
1986	98,400	21.9	31.0	200.26	9,239.4	2,253	10.2
1987	103,400	22.0	30.7	206.30	9,449.7	2,529	10.9
1988	106,750	21.9	30.6	216.04	10,386.0	2,860	11.1
1989	110,700	21.5	30.4	228.30	11,607.8	3,247	11.3
1990	113,450	21.1	30.9	251.84	12,827.9	3,570	11.0
1991	113,700	20.7	31.0	269.70	13,398.4	3,630	10.7
1992	113,250	20.5	28.1	229.86	13,846.3	3,804	10.8
1993	111,100	20.3	28.5	245.10	13,976.0	3,926	11.2
1994	111,750	20.5	28.6	252.54	14,569.8	4,096	11.6
1995	114,250	21.2	28.9	257.50	15,050.1	4,131	11.5
1996	113,850	21.2	28.9	267.33	16,091.4	4,192	11.5
1997	113,600	21.1	29.1	273.83	15,713.6	NA	NA

[1] Includes agricultural and nonagricultural wage and salary jobs. [2] Sales subject to the General Excise Tax. Excludes Duty Free and Military PX/BX system.

[3] A measure of the value added to products by retailing activity. NA: Not Available

Sources: Labor data; Hawaii Dept. of Labor & Industrial Relations. Taxable sales; Hawaii Dept. of Taxation. GSP; U.S. Dept. of Commerce, Gross State Product series.

Table 2. Retail Jobs by Activity and County, 1990 & 1996

Sector or activity	Number: 1990	Number: 1996	Percent of all Jobs: 1990	Percent of all Jobs: 1996	1996 Percent of sector or activity by County: State	Honolulu	Hawaii	Maui	Kauai
All wage & salary jobs	532,927	533,310	100.0	100.0	100.0	75.6	9.4	10.5	4.6
Retail	113,537	113,882	21.3	21.4	100.0	73.3	9.6	11.8	5.3
Building & garden	2,042	2,101	0.4	0.4	100.0	65.4	12.2	13.4	8.9
General merch.	12,079	12,664	2.3	2.4	100.0	71.4	11.9	10.7	6.0
Food stores	14,415	14,234	2.7	2.7	100.0	65.6	14.9	13.4	6.1
Automotive	9,341	9,067	1.8	1.7	100.0	70.6	13.3	11.6	4.5
Apparel	9,737	9,247	1.8	1.7	100.0	79.0	6.0	11.1	3.9
Home furnishings	3,658	3,352	0.7	0.6	100.0	75.7	9.7	9.3	5.2
Eating & drinking	46,806	47,049	8.8	8.8	100.0	74.6	8.0	11.9	5.5
Misc. retail	15,459	16,169	2.9	3.0	100.0	76.8	7.3	11.6	4.4

Source: Hawaii Dept. of Labor & Industrial Relations, *Employment and Payrolls in Hawaii*, 1990 & 1996.

Table 3. Census of Retail Establishments, 1958 to 1992

Year	Number of Establishments: Total	Number of Establishments: With payroll	Sales ($millions): Total	Sales ($millions): With payroll	Employees (mid March)	Payroll ($millions)
1958	4,760	3,130	522	491	25,263	61
1963	4,578	3,353	751	726	33,845	99
1967	5,212	3,537	1,084	1,042	41,347	148
1972	6,392	4,491	1,865	1,820	59,887	270
1977	7,388	5,273	3,294	3,223	72,098	459
1982	8,917	6,139	5,193	5,102	81,979	696
1987	11,143	7,195	8,267	8,084	101,969	1,016
1992	13,185	7,807	11,510	11,250	110,411	1,481

Source : U.S. Bureau of the Census, Census of Retailing series

Note: Job counts for retailing vary somewhat among the sources due to slightly different definitions of employment and the time periods chosen for the surveys.

Retailing and Tourism

In addition to a retail revolution in Hawaii's local consumer market, Hawaii has experienced significant changes over the past decade in retailing that primarily serves the visitor market. The most visible examples of this change have been the large number of upscale retail stores that have come to Waikiki and Ala Moana Center since the late 1980s. Catering mostly to high-spending Japanese visitors, such upscale establishments as Christian Dior, Emporio Armani, Gucci, and Chanel settled into this market niche in the early 1990s with considerable fanfare. The frenzy to serve Japanese visitors' demand for shopping has extended well beyond the traditional Waikiki-Ala Moana district to encompass the factory outlet and specialty retail stores as far away as the Waikele shopping center in leeward Oahu.

Of course, retailing directed mainly towards the visitor market has slowed over the past couple of years, due in large part to the softening of the Japan market. While the Asian retailing-tourism boom was clearly lucrative, it was rather narrowly based on the Japan segment and the long climb in the value of the yen against the dollar. The yen value peaked at about 83 yen per dollar in 1995 and has since depreciated to above 140 yen per dollar, making U.S. travel and purchases much more costly. Estimates of Japanese visitor spending per day by the Hawaii Visitors and Convention Bureau (HVCB) showed a decline from $356 in 1995 to $280 in 1997.

With the softening in Japanese tourism and spending, many of the retailers who became overly dependent on this market have encountered difficulties. Both Liberty House Department stores and Duty Free Shops have been forced into unanticipated downsizing and reorganization in the wake of this market's decline.

The current situation raises the question about the future for Hawaii retailing that is focused on the visitor market and its role in tourism development and marketing. What can we expect in this sector, particularly now that the Japan market segment is in retreat? More fundamentally, what *is* the role of retailing in the growth and development of tourism? Is it strictly a beneficiary of tourism activity or does it make a positive contribution?

It turns out that beyond the depressing news of downsizing and layoffs, there is strong optimism among major retailers and developers for the long-term future of retailing-tourism. A number of developers are poised to bet hundreds of millions of dollars on major expansions of retailing, which count on visitors as a major market component. Moreover, there is reason to believe that retailing-tourism contributes to the growth of the visitor industry and may be important to Hawaii's transition into the era of 21st century tourism.

Retailing's Role in Tourism

The base of research on retailing's role in tourism is not extensive. Much of the interest in what might be called "retailing tourism" has been focused on the selling of locally made products to tourists who are visiting for reasons other than shopping. Many small towns in the U.S. and abroad survive through souvenir sales to passing tourist traffic. At the other end of the spectrum are destinations in which shopping plays a prominent role in the tourist's decision to visit. These tend to be major centers of commerce or manufacturing, where price, selection or both are an attraction for visitors. Hong Kong, New York and Paris may fall into this category, although they certainly have other assets that attract visitors.

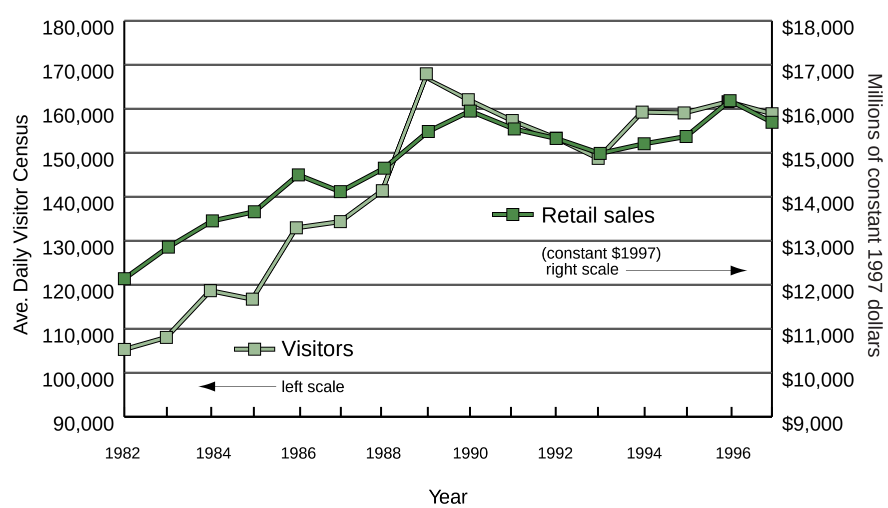
Hawaii appears to fall between these two extremes. Few visitors come to Hawaii for the sole purpose of shopping, but when they get here, shopping becomes an important activity.

The close relationship between tourism and retail activity is indicated in figure 1, which overlays the trend in average daily visitor census since the early 1980s onto the trend in retail sales adjusted for inflation.[1] The two series have followed a remarkably similar course since 1990. This is not surprising since visitors are responsible directly and indirectly for about a fourth of all economic activity in the state.

Other data show that Hawaii retailing clearly benefits from tourism. As figure 2

[1] Deflated by applying the Honolulu Consumer Price Index for All Urban Consumers (CPI-U).

Figure 1. Trends in Retail Sales and Visitors



Sources: Hawaii Visitors & Convention Bureau (HVCB);
Hawaii State Department of Taxation (DOTX).
Constant dollar calculations by DBEDT using Honolulu Consumer price index.

shows, visitors to the state account for an estimated 24 percent of the roughly $17 billion in taxable and non-taxed retail sales in 1994.[2] Tourism spending also supports, directly and indirectly, about 51 percent of all jobs in the eating and drinking sector of retailing and 29 percent of all other retail jobs.[3] As a result of the tourism 'push', jobs in retailing grew faster than in most other industries in the state between 1969 and 1996 and about 50 percent faster than total job growth. Tourism also helped Hawaii retailing to grow about 40 percent faster than retailing on the mainland during the same period.

Retailing as a Visitor Draw

But is the retail-tourism connection only a one-way street with retailing the sole beneficiary? It is certainly tempting to conclude that hotel, airlines and State spending on tourism, coupled with Hawaii's natural beauty, are the key factors in tourism growth and in bringing visitors to retailing's door.

However, if we look more closely at the situation, a case can be made that rather than being a passive beneficiary, retailing may be an increasingly important factor in bringing visitors to everyone else's door. First, the HVCB visitor spending data show that retail purchases account for a significant amount of the total expenditures visitors make in Hawaii. As shown in figure 3, about 40 percent of the $10.1 billion in personal expenditures visitors made in Hawaii during 1996 were allocated to retail purchases. By comparison, spending on lodging amounted to 32 percent of total visitor spending and transportation within Hawaii to see the sights, only 10 percent. So while beaches and scenic tours are certainly a big part of visitors' experience in Hawaii, the data suggest that visitors are also spending a lot of time in Hawaii's retail establishments.

Of course, the need for meals is one reason that visitors spend a large portion of their budget and time at food stores and eating and drinking establishments, which are classified as part of the retail industry. We would expect this sector to absorb a large share of the visitor's retail dollar, and indeed it does. In particular, U.S. mainland visitors allocated nearly 54 percent of their daily retail spending to food and beverage in 1996.

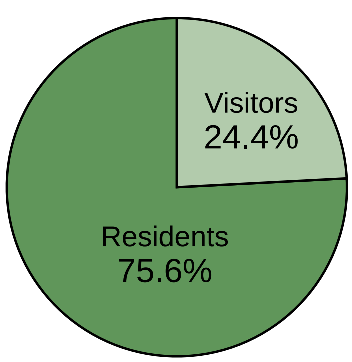
But interestingly, when all visitors are taken into account, overall spending on eating and drinking falls to about 38 percent of visitors' daily retail spending (figure 4). The reason is that the big spenders in the market—predominantly the eastbound, Japanese visitors—allocate only about 20 percent of their daily retail spending to food and drink. On the other hand, the Japanese spend more than 67 percent of their retail spending ($99 per day in 1996) on fashion items ranging from clothing to cosmetics. By comparison, U.S. visitors spent about $14 per day on fashion items in 1996, about 30 percent of their retail total spending.

These per-day spending figures add up to a tremendous market in total. For instance, Japanese visitor spending at cosmetics counters in Hawaii was an estimated $131 million in 1996. For the same year, their expenditures on clothes and accessories totaled a staggering $1.1 billion, by far the largest single type of expenditure made by this market in Hawaii. All totaled, retail spending in Hawaii by Japanese visitors amounted to $1.8 billion in 1996. U.S. visitor spending on retailing is also significant, although it is distributed somewhat differently. U.S. visitors spent $1.1 billion on food and beverage in 1996 and made total purchases of $1.7 billion, just under the total for the Japan market.

Overall, visitors from all points of origin spent $4.1 billion in Hawaii's retail establishments in 1996, amounting to about 40 percent of their total vacation budgets. While this alone does not prove that visitors came to shop, it certainly shows that there is much to be gained or lost depending on how visitors respond to the retail opportunities they find after arrival.

Figure 2. Visitors' Share of Retail Sales in Hawaii

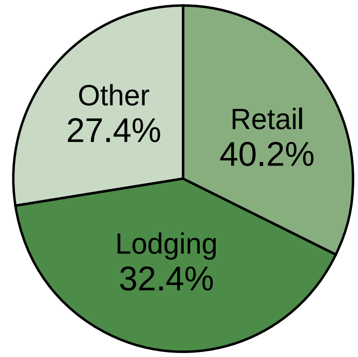
Total = $16.6 bil[1]



[1] Retail Tax Base plus estimated Duty Free sales.
Source: Hawaii Visitors & Convention Bureau, 1996 Annual Research Report.

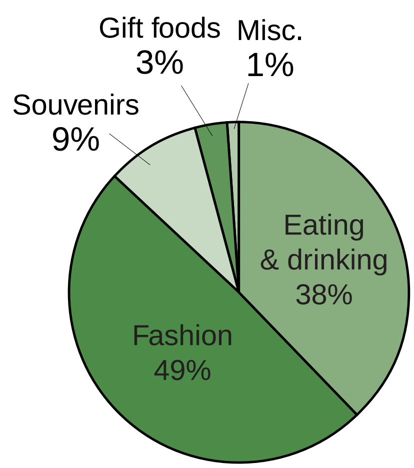
Figure 3. Allocation of Visitor Spending, 1996

Total = $10.1 billion



Source: DBEDT, based on HVCB data.

Figure 4. Distribution of Visitor Retail Spending, 1996



Source: DBEDT, based on HVCB data.

[2] Includes $16.1 billion retailing tax base plus an allowance of $0.5 billion for non-taxed sales, including goods sold duty free.

[3] Hawaii's Economy, First Quarter 1996, page 7, Table 2.

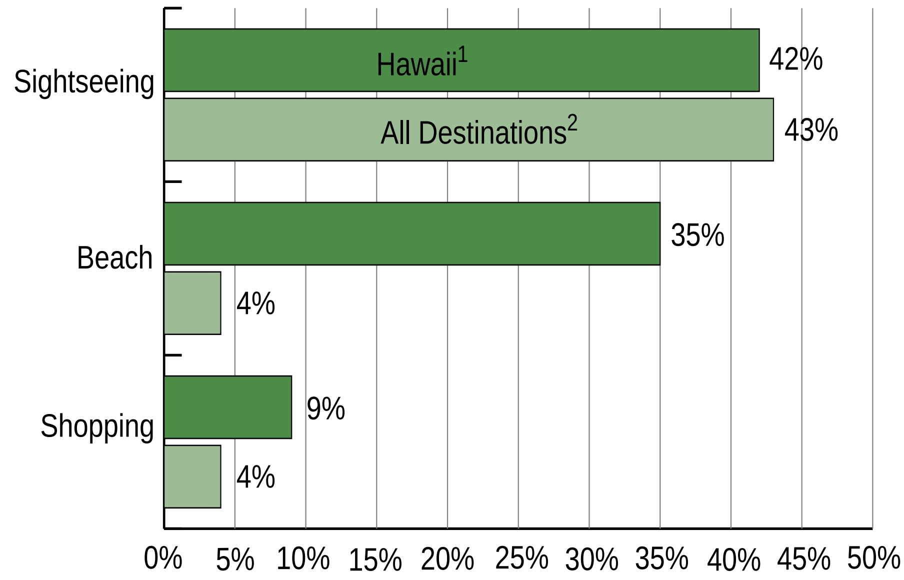
Does Shopping Motivate Tourism?

Compared with Hong Kong and some other notable shopping destinations, Hawaii would not seem to be a likely competitor in this market. Hawaii's comparative advantage would seem to be in beach and sightseeing activity rather than retail goods. However, there is some evidence that shopping has become at least a modest factor in attracting visitors to Hawaii. A 1995 study by Longwoods Travel USA found that Hawaii visitors ranked shopping as second to sightseeing in terms of popular activities.[4] This may partly reflect a more general trend for tourists to elevate the importance of shopping as an activity at whatever destination they visit. The U.S. Travel and Trade Administration reported several years ago that shopping was the favorite activity of 88 percent of international travelers. The same study found that for domestic travelers, shopping was second only to eating as a travel activity.[5]

It may be that prospective visitors find that a good value in both the recreational and shopping content of destination areas is a very attractive combination. On Oahu, the success of the Waikele Center's factory outlet stores in attracting a sizable visitor clientele may have served as a wakeup call to the potential role retailing can play in attracting tourism. Despite the fact that the center is roughly 20 miles from Waikiki, in an otherwise residential subdivision, it attracts visitors by the bus loads throughout the day. At Waikele, visitors have found designer and brand-name merchandise in large quantities, at relatively bargain prices. The center is even a featured site on tour promotions in Japan. Unfortunately, data are not available to quantify the proportion of visitor spending done at Waikele or the numbers of visitors who shop there.

Despite Waikele's success, Hawaii is far from being thought of as primarily a place to shop. Recent sampling of visitor motivations by Longwoods suggests that shopping remains a third-level motivation for Japanese expecting to visit Hawaii.[6] Figure 5 shows results of a survey of Japanese households conducted during a 1997 study by Longwoods, comparing primary reasons for recent travel overseas and expected future travel to Hawaii. For recent overseas travel in general by Japanese households, Longwoods found that shopping fell behind sightseeing and wedding/honeymoon trips as a prime motivator for travel and it tied with beach trips.

Figure 5. Main Purpose of Trip for Japanese Visitors
(Percent of households identifying the category as their primary trip motivation)



[1] For the next Hawaii trip among those planning one.
[2] Most recent overseas trip (may have included Hawaii).
Source: Longwoods International, March 12, 1998.

For planned future trips to Hawaii, shopping came in third as a primary motivator, behind sightseeing and beach trips. Relaxation was a higher priority for Hawaii vacation trips than on overseas trips in general.[7] When they did visit stores, the Japanese respondents told Longwoods they would primarily frequent the Duty Free, factory outlets and upscale brand names, in that order.

Unfortunately, since this is the first survey of its kind, it is not possible to say if the results represent a long-standing pattern or a recent change in the preferences of the market. Among those in the Longwoods study who were planning a Hawaii trip, 57 percent would be making their first trip to Hawaii. Thus, more than 40 percent of the respondents were repeat visitors, and this group may hold shopping and other non-sightseeing activity as a higher priority.

Longwoods found that most Japanese prefer Hong Kong as a shopping destination, followed by France and Italy. But Hawaii was in fourth place on this list, ahead of such destinations as New York, Singapore, the U.K., California, and Florida.

A similar survey by Longwoods of U.S. residents planning a trip to Hawaii showed that shopping is nearly insignificant as a primary motivator.[8] Mainland residents are primarily looking for beach, touring and cruise opportunities. Of course, mainland U.S. residents do shop while in Hawaii. About 85 percent of the mainland respondents indicated an interest in shopping for local products and handicrafts (low-priority purchases on the Japanese survey). However, factory outlet shopping in Hawaii was an indicated interest by only about half of the Mainland respondents to the survey. By comparison, 70 percent of these respondents indicated that factory outlet shopping was an activity of interest on their last vacation.

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[4] Longwoods Travel USA, Hawaii Strategic Research, January 1995.
[5] Honolulu Advertiser, July 15, 1996 p. C1.
[6] Longwoods International, Japan 1997 Emergency Fund Advertising Evaluation, Benchmark Report, March 12, 1998.
[7] Wedding/honeymoon trips were cited as the main purpose for the next planned Hawaii trip by only 1 percent of the households. This low result probably occurred because of trips of this nature are not planned far in advance.
[8] Longwoods International, U.S. 1997 Emergency Fund Advertising Evaluation, Benchmark Report, March 16, 1998.

These results suggest that shopping is not often a primary motivator for Japanese who travel to Hawaii and nearly never a primary factor for mainland U.S. visitors. It is thus unlikely that Hawaii can become a noted destination for those interested only in shopping.

However, it is clear from expenditure data that once they arrive in Hawaii, visitors—particularly the Japanese—spend a considerable amount of their travel budget, and presumably time, in the retail sector. This suggests that while shopping is not a primary motivator for travel, it is still an important activity that visitors pursue. Consequently, the kinds of shopping opportunities offered at a destination, how they are packaged with other travel motivators such as sightseeing, and how well they are marketed in promotional materials, can have an important influence on the final choice prospective visitors make among competing destinations, other things being equal.

The emerging trend in retailing towards a mix of shopping, entertainment and cultural experience varied to suit particular markets has added new opportunities for Hawaii and other destinations to use retailing as a tourism marketing tool. In the future, visitor destinations may find that the variety of shopping experiences they are able to present will be a deciding factor in attracting visitors where the traditional attractions, such as beach and sightseeing, have become similar or are no longer new and novel. Two examples in Hawaii of tourism enhancing retail development within resort destinations are the Nike Town store in Waikiki and the Maui Ocean Center in West Maui. As the merging of shopping, entertainment and recreation continues, the marketing of shopping experiences along with traditional attractions may become an important factor in consumers' vacation decisions.

The Tourism-Shopping Infrastructure

For many years, the shopping experience most visitors encountered in Hawaii was focused on the streets adjacent to the major hotels and restaurants of Waikiki on Oahu, Lahaina on Maui, Kailua-Kona in West Hawaii and later, Poipu on Kauai. However, a tourism retailing infrastructure has been growing outside of the traditional resorts over the years, as visitors have ventured away from the hotel neighborhoods in search of new sights and activities. On Oahu, two trends are evident. First, a major new, visitor-oriented retail corridor is developing from Waikiki through the Downtown area of Honolulu. Second, outlying shopping malls such as Waikele and a possible new regional mall in Kapolei, may draw more visitors from Waikiki.

Oahu's Tourism-Retailing Infrastructure

Until recently, tourism retailing on Oahu had three focal points: Waikiki, Ala Moana Center, and the Duty Free Shops located at the airport and Waikiki.

As the state's signature destination area, Waikiki has provided the most intensive tourism retailing infrastructure, although a very fragmented one. The establishments along Kalakaua Avenue are a mixture of small store-front sundry shops like the ABC Discount stores, stand-alone department stores such as Liberty House, and compact specialty shopping centers like the Royal Hawaiian Shopping Center, Waikiki Shopping Plaza and King's Alley.

> Shopping is not often a primary motivator of travel. However, once they arrive in Hawaii, visitors spend a considerable amount of their time in the retail sector.

Waikiki and Kapahulu are bracing for a wave of new retail space that is currently in the planning stages. Totaling about 830,000 square feet (s.f.), these proposed projects range from the 7,300 s.f. Ilikai Marina Retail Center to a 260,000 s.f. retail development planned by the Magoon Estate. Out on Kapahulu Avenue, a 125,000 s.f. development is planned on the Love's Bakery site.

Bordering Waikiki, across the Ala Wai Canal and serving both the local and visitor markets, is the Ala Moana Shopping Center, which was the largest mall of its kind in the U.S. at its opening in 1959. At about 1.5 million s.f. of gross leasable area, it is still the largest shopping center in the Islands. At nearly 40 years old, Ala Moana is now one of many general and specialty shopping centers on Oahu, but continues to be the leader in visitor retailing thanks to its proximity to Waikiki. Ala Moana has undergone a number of renovations over the past several decades to keep pace with both its local and visitor markets. In the late 1980s, the center expanded into the upscale retail domain with the addition of the 40-store Palm Boulevard project in the center of the complex. This expansion featured such retailers as Gucci, Emporio Armani and Cartier, and was designed to attract high-spending visitors and residents alike. Ala Moana Center is currently in the midst of its most ambitious renovation which will culminate in the first Neiman Marcus store in Hawaii in late 1998.

The Duty Free System, DFS-Hawaii, with outlets in Waikiki and the Honolulu Airport, is the single largest retail concern in Hawaii, with sales of about a half billion dollars per year, almost entirely to foreign visitors. However the privilege of operating the only duty free stores has meant a sizable share of the proceeds accruing to the State's Airport Division and high risk on the part of DFS because of the fixed guarantee payment involved. Owned by LVMH Hennessy Louis Vuitton SA, which also has Duty Free Shops in Guam and Saipan, DFS has recently announced restructuring plans and layoffs to address the loss of sales related to the decline in Japanese and other Asian visitor spending over the past year.

Emerging Focus of Visitor-Retailing on Oahu

Hawaii's retail revolution of the past decade has included the tourism-retailing sector with the addition of new choices which have drawn the visitor further away from the traditional Waikiki retail base. One of the most successful developments in the emerging new retail infrastructure has been the Waikele factory outlet. Located more than 20 miles on the side of Pearl Harbor farther from Waikiki, this 75-store open-air mall features the factory outlets of such stores as Anne Klein, Oshkosh B'Gosh, Saks Fifth Avenue and other national retailers. Supplemented with restaurants and such staples as K-Mart, Eagle Hardware and Computer City, it has been a major hit with the Japan market. Waikele is exceptional in that retailing to the visitor usually becomes more difficult the further one gets from Waikiki. But this exception to the rule may be signaling a trend.

Closer to Waikiki, an important, emerging development is the expansion of visitor-oriented retailing into the Honolulu waterfront corridor which stretches from the Ala Moana Center in the east, through the Downtown area, and anchored on the west end by the Dole Cannery Outlet Center in Iwilei. Along the corridor, major retailing nodes have been developed that are increasingly pitched to visitor interests in shopping and entertainment, and in new and interesting environments. Other focal points in the corridor include the Victoria Ward Center and Ward Warehouse complex across from Kewalo Basin, the Restaurant Row complex at the foot of Punchbowl Street, and the Aloha Tower complex downtown at Honolulu Harbor between Piers 8 and 12.

Given the soft visitor market and significant expansion of competition in retailing since the early 1990s, the success of these newer ventures has been mixed. Both the Aloha Tower Market Place and the Dole Cannery Outlet Center have struggled to keep stores and visitors since their development, although the Aloha Tower Market Place appears to be finding its market and product mix. The Dole Cannery facility is currently undergoing extensive renovation by its new controlling partner, Castle & Cooke Properties, in order to more carefully tune its market and avoid competing head-to-head with the Waikele factory outlets.

Potential Development Outside Waikiki

Despite the soft market, developer interest in adding more retailing on Oahu remains high. Within the next two years, Victoria Ward will begin a major $200 million reconstruction and expansion of its Ward Warehouse facility. Saks Fifth Avenue will be a major tenant along with FAO Schwarz toys and the Rainforest Cafe. The expansion will increase the leasable area of this center to 800,000 s.f., making it among the largest in the state.

Proposed Kapolei Mall

Campbell Estates is pursuing the development of a major retail complex on its lands in the Kapolei "second city" area of Oahu's Ewa district. Campbell had hoped to develop such a complex with the Mills Corporation of Arlington, Virginia, a noted developer of large and small shopping malls. The Mills Corporation is a leader in the move to integrate shopping, entertainment and other activities into a concept it calls "destination shopping." Mills initially proposed to build a two-phase, regional mall on 100 acres of Campbell Estate's Kapolei land straddling the H-1 Freeway, not far from the well-planned Ko Olina resort destination. The single-level mall would have had about the same leasable area as the Ala Moana Center, and housed 200 stores with state-of-the-art entertainment and attractions. However, that particular project has been sidetracked by poor market conditions.

> When the markets come back, the state's retailing sector needs to be ready and relevant to those markets.

Campbell will presumably continue seeking a development partner for a shopping complex in the area.

The success of the Ko Olina resort is an important element in the effort to disburse tourism on Oahu and relieve pressures on Waikiki. Positioned properly in the tourism and resident retailing markets, a cutting-edge mall in Kapolei could help boost tourism at Ko Olina. The potential for such a mall to enhance tourism development probably depends on how the mix of retail, entertainment and other attractions are structured to provide visitors with a unique experience. Such an experience might combine Hawaiiana with American, European and Asian themes to attract a cosmopolitan visitor clientele. Such a mall would also need to attract a strong local base of customers from the expanding Ewa region.

Current Status of Retailing-Tourism

The interest in expanding retailing-tourism into leeward Oahu and along the Honolulu waterfront corridor is an important indication of where retailing and visitor interest may be headed on Oahu in the decades to come.

Of course, developers need to constantly review their projects in light of the new reality of slower growth and more frugal spending in the eastbound market from Asia. The decline in spending by this market has been cited as a major factor in the recent reorganization announcements by Liberty House and Duty Free Shoppers. It is certainly a factor in nearly all retail activity serving the visitor industry. Until Asia's financial problems run their course, retailing tied to the visitor market will remain subdued.

However, from a long-term perspective, the worldwide tourism market continues to have vast potential, particularly tourism from Asia. When the market is ready to come and spend in Hawaii again, the state's retailing sector needs to be ready and be relevant to the emerging preferences of its markets. New retail developments, with their promised mix of shopping and entertainment, may be the key to attracting visitors in the future with a new and refreshing experience in Hawaii.

The Next Step: Partnerships in Retailing-Tourism

The emergence of retailing as a potential force in attracting visitors suggests that Hawaii may be in need of a new paradigm for tourism product development and marketing and promotion strategies that can embrace the potential of this powerful sector. This suggests that a strong partnership between retailing and the hospitality sectors will be increasingly important for future tourism growth and development.

In the past, the development of Hawaii's tourism infrastructure and its promotional focus were based on its most competitive assets—that is, its beaches and sights. Nearly forty years after statehood, Hawaii remains a unique and highly regarded resort destination. However, the established overseas vacation markets in the U.S. and Japan have matured and growth in Hawaii's share of the world market appears to have slowed if not declined. Worldwide competition in surf, sun and sights has accelerated. An increasing proportion of our tourists are repeat visitors who are looking for some-thing new. Unfortunately, they may be finding fewer new experiences to bring them back to Hawaii.

The State and the industry have addressed these challenges by encouraging the development of new geographical markets and by exploring new tourism niche markets such as ecotourism, edu-tourism, sports tourism and the convention market. Hawaii's developing infrastructure of retailing, integrated with entertainment and recreation, may be an important new marketing opportunity.

However more effort will be needed to highlight shopping as a visitor activity. First, shopping, and the experiences visitors can enjoy at shopping destinations, could benefit by more extensive promotional effort. It could also benefit by more coordination between the major visitor and retail associations on an ongoing basis. This would help build the potential of retailing and coordinate the activities and events of retailing with the rest of the visitor industry for maximum impact on potential visitors decision-making process. The most extensive coordination of the hospitality and retail sectors recently was the inaugural, French Festival held in October 1997. (The second French Festival will be held November 7–22, 1998.) It might also help to feature shopping more prominently in promotional materials and internet web sites developed by Hawaii's tourism promotion agencies.

The integration of shopping with significant entertainment, attractions and recreation within today's competitive retailing environment make the retail sector an important source of visitor activity well beyond the sale of goods. Moreover, a stronger partnership between retailing and tourism could inject a dynamic new source of ideas for tourism product development and marketing. Hotels and visitor attractions generally upgrade and renovate infrequently, and each player tends to focus on their own interface with visitors. Retailing outlets, on the other hand, reinvent themselves every five years or so, in order to stay current with emerging consumer tastes and product demands. Those retailers who do not stay current with the market perish. In addition, retail shopping center management pays particular attention to the total relationship between the mix of stores, products and emerging consumer demand. Such knowledge and expertise could prove a valuable input into marketing tourism, as well as updating Hawaii's inventory of visitor attractions and the development of new ones.

The notion that retailing can play an important part in future tourism growth appears to be gaining acceptance. Retail and hospitality groups are increasingly recognizing the value of cooperation. The State is encouraging such cooperation through the efforts of DBEDT's Product Trade Branch (which also assists in retail promotions of Hawaii products) and the Hawaii Tourism Office. DBEDT sponsored a forum in 1997 to explore the status and importance of retailing in Hawaii's economy including tourism.

A stronger partnership between retailing and tourism could inject a dynamic new source of ideas for tourism product development and marketing

The counties are also important partners in the development of the retail-tourism market. First, there is considerable potential gain to counties in terms of jobs and property tax revenues. Second, there are many county-level infrastructure, transportation and planning considerations that must be addressed.

The current and planned physical development of retailing-tourism needs to be better documented and analyzed so that public services and infrastructure can better serve the development of this activity. In particular, efficient, attractive transportation systems that move visitors seamlessly among the major retail focal points, attractions, beaches and sights could benefit visitors, business and tourism promotion efforts. The Honolulu waterfront corridor would be a possible target for such a system.

It would be helpful for all interested parties to begin formulating a retailing-tourism strategy that is consistent with the overall goals and development priorities of the community. In addition, a plan is needed to integrate shopping opportunities into the promotional activities supported by State tourism marketing funds.

Conclusions

Retailing-tourism has earned a higher profile in Hawaii's economy over the past decade, mainly due to the high level of spending by Japanese visitors. This spending has made retail purchases the largest single category of visitor spending in the state. While visitors' travel motivations still emphasize the beach and sightseeing, shopping is a clear, third-level motivator. With more competition in the sun-and-surf vacation markets, developing and promoting a unique, Hawaiian-international shopping experience could be key to reinvigorating the state's tourism image and offerings.

Retailing's evolutionary (perhaps even revolutionary) integration of shopping, entertainment and activities into a "destination shopping experience" seems well-suited to help Hawaii redefine and broaden its visitor appeal. In addition, retailing's ability to stay on top of consumer trends and experience in designing micro- and macro-environments to attract and entertain consumers as they shop could be an invaluable asset in the task of redefining Hawaii tourism for the 21st century. For instance, if it takes full account of both resident and visitor markets, the successful development of the proposed Kapolei Mega-Mall in leeward Oahu could help fulfill the promise of the second city and the Ko Olina resort destination.

A well-developed tourism-retailing infrastructure already exists in the islands and even more renovations and new facilities are planned, despite the current soft tourism market and downsizing of some local retailers. There is a need for a promotional strategy that more thoroughly integrates the shopping infrastructure with other visitor attractions. Moreover, through increased coordination and cooperation among retailing, the visitor industry and government, a blueprint for a well-integrated tourism-retailing infrastructure might be developed that could broaden Hawaii's appeal in a very competitive visitor market.

Hawaii's Retailing Timeline

First Retailing

1826: James Hunnewell found C. Brewer & Co. Honolulu's first retail mercantile establishment.

1849: The BF. Ehlers dry goods and apparel store opens in Honolulu. Renamed Liberty House in 1918.

❶ Ehlers store, 1915, courtesy Liberty House Hawaii.

1855: The first store specializing in groceries is established by Samuel Savidge and Henry May. Later be came known as May's Market. Closed in 1956.

❷ Arakawa's second store, west side of Depot Road, Waipahu, circa 1940, courtesy Goro Arakawa.

Plantation Era to World War II

1909: Arakawa's plantation department store is founded.

1927: Star Market opens its first grocery store in Moiliili.

1932: Kress department store opens its first Hawaii outlet in Hilo.

1939: Sears Roebuck & Co. opens its first Hawaii outlet, a catalog store, on Kapiolani Boulevard, followed later by a full-service store on Beretania Street. Currently, the firm's Ala Moana Center flagship store has the highest sales volume for any Sears outlet in the 50 states.

❸ Sears, (Beretania Street), circa 1955. Courtesy Sears Hawaii.

❹ Kahului Shopping Center, courtesy A&B Hawaii

Post-World War II to Statehood

1947: Aloha Shopping Center opens; the first planned, integrated shopping center in Hawaii.

1948: Foodland grocery chain founded.

1951: Kahului Shopping Center opens, becoming the first shopping center on a neighbor island and only the third in the state.

1954: Longs Drug Store opens its first Hawaii outlet.

1958: F.W. Woolworth opens its first Hawaii store.

1959: Ala Moana Center opens.

❺ Longs (Hotel Street), 1982

Post-Statehood Tourism Boom

1963: Safeway opens its first Hawaii store.

1970: Kahala Mall opens.

1972: Pearlridge Center opens.

1972: Kaahumanu Center opens in Kahului, Maui.

1978: The first 7-Eleven store opens in Hawaii.

1982: Windward Mall opens in Kaneohe, Oahu.

1982: Kukui Grove Center opens in Lihue, Kauai.

1988: Costco becomes the first broad-based membership retail store in Hawaii.

❻ Costco, 1998.

Retailing Milestones in the 1990s

1990: Palm Boulevard opens at the Ala Moana Shopping Center featuring 40 upscale stores.

1990: Lahaina Center Factory Stores open on Maui.

1990: Toys R Us establishes first store in Hawaii.

1992: The first K-Mart store opens in Honolulu.

1993: Payless Drugs takes over Pay N Save stores and re-enters the Hawaii market.

1993: The Waikele Center – featuring department, specialty and factory outlet stores – opens in central Oahu above Waipahu. The facility attracts a sizable client base of shopping-minded tourists.

1993: Eagle Hardware & Garden opens its first store in Hawaii, at Waikele.

❼ "Off 5th" store at Waikele Fashion Outlet, 1998.

1993: Pearl Highlands "Power Center" opens, anchored by the first Sam's Club membership outlet in Hawaii.

1993: The first Computer City opens in Hawaii at Waikele.

1993: GEM department stores close.

1994: The first Wal-Mart store opens at Mililani in Central Oahu.

1995: Arakawa's, the 86-year-old plantation store, closes.

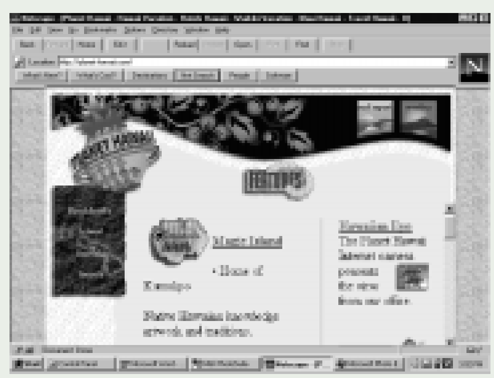
1995: Payless Drugs closes its stores after only three years back in Hawaii, citing the tough retail competition.

1997: Woolworth and Cornet stores close as part of a national liquidation.

1998: Liberty House announces layoffs. Foodland announces (early) closure of three marginal stores on Oahu.

1998: Ala Moana Center announces major expansion plans to include a six-story entertainment center, for completion by 2001.

1998: Scores of "virtual stores" on the internet offer Hawaii products for sale.



❽ Planet Hawaii Home Page on the internet, 1998.

Picture credit: (1 & 2) Unknown. (3) Danny Morse. (4) Larry Ikeda. (5-7) DBEDT.

Retail Evolution in Hawaii

As the accompanying timeline indicates, retailing established itself in Hawaii early in the 19th century but grew somewhat slowly as much of the economy centered around plantations rather than diversified businesses and occupations. By 1900 agricultural employment accounted for roughly 60 percent of all jobs, while trade activities (retailing and wholesaling) represented only 3 percent of the total (figure 1). In the early 20th century, retailing began to diversify along with the economy. Locally operated stores such as Arakawa's and Star Market emerged in this period. In the 1930s, Hawaii retailers experienced their first taste of serious mainland competition with the entrance of Kress and Sears department stores.

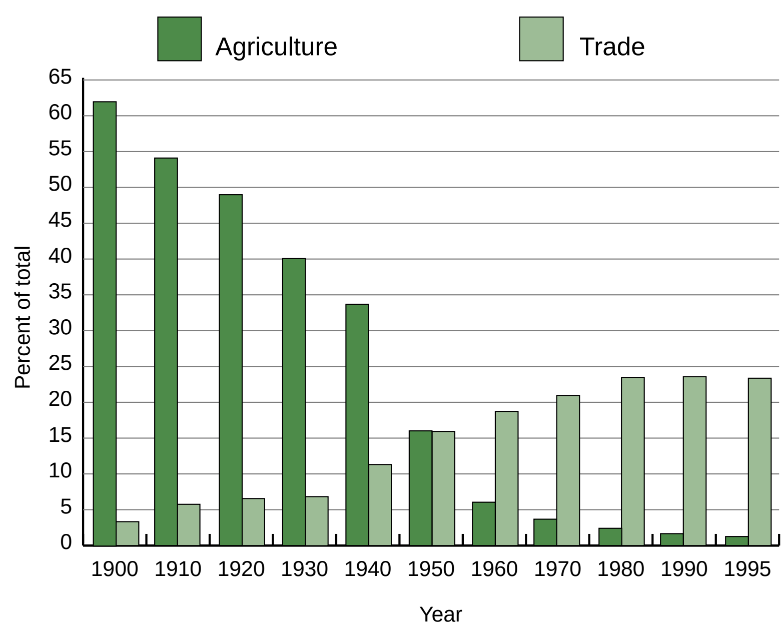
The post–World War II recovery period was marked by the emergence of the first major shopping centers in Hawaii, culminating in the opening of the giant (for its time) Ala Moana Shopping Center in 1959. By the late 1950s, retailing had overtaken agriculture's (declining) share of total jobs. More local chains, such as Foodland, also emerged in this period, and there were new entrants from the U.S. mainland including Longs Drugs and F.W. Woolworth.

Post-statehood retail growth centered on an expansion of the shopping center trend, additional mainland entrants, and a proliferation of businesses tied to the rapidly expanding tourism sector. Between 1970 and 1972, three major new shopping centers opened including Kahala Mall, Pearlridge Center, and the Kaahumanu Center in Kahului, Maui. The convenience store trend hit Hawaii in the late 1970s with the opening of the first 7-Eleven Store in 1978. The 1980s saw opening of neighborhood "strip malls" including several in Mililani and Hawaii Kai. Then, as the post-statehood boom peaked in the late 1980s, the first of the membership stores, Costco, opened.

Despite the slowing of the economy in the 1990s, this decade has been most active for retail development and restructuring. Ala Moana Center completed a major renovation in 1990 and entered the upscale fashion market with its Palm Boulevard segment featuring such upscale retailers as Christian Dior, Gucci, and Emporio Armani. For the average resident looking for low prices and variety, the first "big box" retailer to Hawaii, K-Mart in 1992, was a milestone. The first Wal-Mart followed in 1994. New concepts in shopping centers included the Pearl Highlands Power center and the Waikele Center above Waipahu, which featured a combination of locally-oriented big box retailers and visitor-oriented, factory outlet stores.

The decade of the 1990s has also been a period of shake-out in the industry for many retailers who could not weather the slow economy, coupled with the new competition. Local stores such as Arakawa's, Kuni Dry Goods, Gem Department stores and many small retailers could not reposition themselves in the market in order to survive the more competitive 1990s. Even some mainland chains such as Payless, Pay N Save, Woolworth, and Home Improvement Warehouse disappeared from the local retailing scene. Competition and business conditions in Hawaii were not the primary cause of their demise, but their inability to keep up with consumer and industry trends nationally was a factor.

Figure 1. Agriculture and Trade Activity as Percent of Total Jobs
(trade includes retailing and wholesaling)



Sources: Schmitt, Robert C., *Historical Statistics of Hawaii*, 1997.
Hawaii Department of Labor & Industrial Relations

Hawaii's Retailing Revolution

In recent years Hawaii's retailing sector has experienced a revolution in the way business is conducted and who is conducting business. Gone are retailing institutions such as Arakawa's General Store, Gem Department stores, Atlas Building and Supply, and Honsport. Mainland chains including K-Mart, Wal-Mart, Eagle Hardware, Sports Authority, and the membership stores of Costco and Sam's Club have taken their places. Local landmark stores are not the only casualties of this revolution, however. Even national chains like Woolworth, Cornet and Payless have, for one reason or another, been forced to close up shop in the competitive environment of the 1990s.

Many factors have contributed to this revolution. However, three of the most important are: the slowdown in the Hawaii economy, the higher efficiency of most large national chains versus smaller retailers, and the increasingly higher expectations that consumers have about their shopping experience. As a result, the past decade has been a challenge for retailers in Hawaii as they have sought to keep costs down while maintaining an attractive and interesting environment for shoppers. The next decade does not promise to be any easier for the industry. Retailers will not only have to contend with new competition from outside and shifting consumer tastes, but will also need to deal with the emerging phenomenon of "virtual" shopping which is made possible by television, the internet and accompanying advancements in communications and computer technology.

The winner in this new retailing era would, thus far, appear to be the consumer. There is little doubt that for most Hawaii consumers, the retailing revolution has been a dream come true. The intense competition has presented shoppers with more choices and better prices then ever before. It has also made consumers more aware of their choices and has raised their expectations about the shopping experience. Established stores that do not meet the new standard that consumers have come to expect may not be able to count on customer loyalty for long.

On the other hand, there may be a substantial segment of the population who view the retail revolution with concern. About 114,000 households in Hawaii have members that work in the retail industry. For these consumers, more competitive conditions may save them money at the cash register, but it also casts a shadow on their economic security with the possibility of fewer full-time positions in the industry, shrinking fringe benefits and a less stable employment environment.

> The past decade has been a challenge for retailers in Hawaii. The next decade does not promise to be any easier.

Hawaii's Retail Profile

Retailing is a big part of the economy, since most things we buy come to us through this distribution system. In terms of gross value of sales, retailing is the largest activity in the economy. In 1997, retailers in Hawaii rang up sales of $15.7 billion. That amounted to 34 percent of all business receipts subject to the General Excise Tax (GET) in Hawaii.

Of course, measuring retail activity by total sales can be misleading. Except for eating establishments, the retailing sector generally does not make the items it sells. Rather, most trade activity provides the service of bringing goods from the manufacturer to convenient locations for purchase by consumers. Thus, total retail sales include a considerable amount of value that is simply passing through the retail channel.

A more appropriate measure of the relative size of retailing in the economy is probably the size of its work force. By this measure, the retail industry accounted for 21 percent of the paid work force in the state in 1997, or 113,600 jobs.

Another measure of retailing is its direct contribution to Gross State Product (GSP), which is measured by the value of all inputs that help produce retailing services minus the cost of goods sold. The U.S. Bureau of Economic Analysis estimates that the 1996 contribution of retailing to GSP was about $4.2 billion, or 12 percent of total GSP under the Bureau's estimating method.

Thus, even excluding the value of goods that pass through the industry, retailing still accounts for a significant share of total employment and GSP. But while retailing is a big industry, with a number of high-profile giants like Sears and Wal-Mart, it is mostly an industry of small businesses. In March 1997, there were 7,200 retail establishments in Hawaii with paid employees, with an average of 16 employees per establishment. When small retail establishments with no paid employees are taken into account, the number of establishments is probably about 13,000.[1]

Structure and Organization of Hawaii Retailing

As indicated in figure 1, the largest concentration of retail employment at both the state and national level, is in restaurant, night clubs and other drinking establishments. At about 47,000 workers in 1997, this retailing segment is larger than many full-fledged industries including construction (21,000), transportation/utilities (41,000), finance (36,000), hotels (39,000) and Federal activities (31,000). Fast food establishments probably account for an important share of this category, although the exact proportion is not clear.

Compared with the nation as a whole, Hawaii has a somewhat larger share of retail employment eating and drinking activity—41 percent compared with 35 percent nationally. This may partially reflect stronger demand for such establishments by local residents, but probably results from the demand for restaurants by visitors, who constitute about 12 per-

[1] The most recent available count of total retail establishments is from the 1992 Census of Retail Trade, which reported a total 13,185 establishments.

cent of the state's (de facto) population on an average day.

Hawaii also shows a higher concentration of employment in apparel shops and miscellaneous retailing than does the nation as a whole. This is also probably related to the state's large visitor population. Hawaii shows less concentration in such areas as automotive, furniture, food stores and particularly the hardware/garden specialty, which is less than half the national proportion.

Apart from the distribution of retail activity, Hawaii also has more retail employment per capita than the nation as a whole, even when visitors are taken into account. Figure 2 shows the number of retail employees per 1,000 population in Hawaii and U.S. for both the resident and de facto population measures. The resident population includes only people who reside in the state, while the de facto population is a measure of people physically present in the state on average, including visitors.

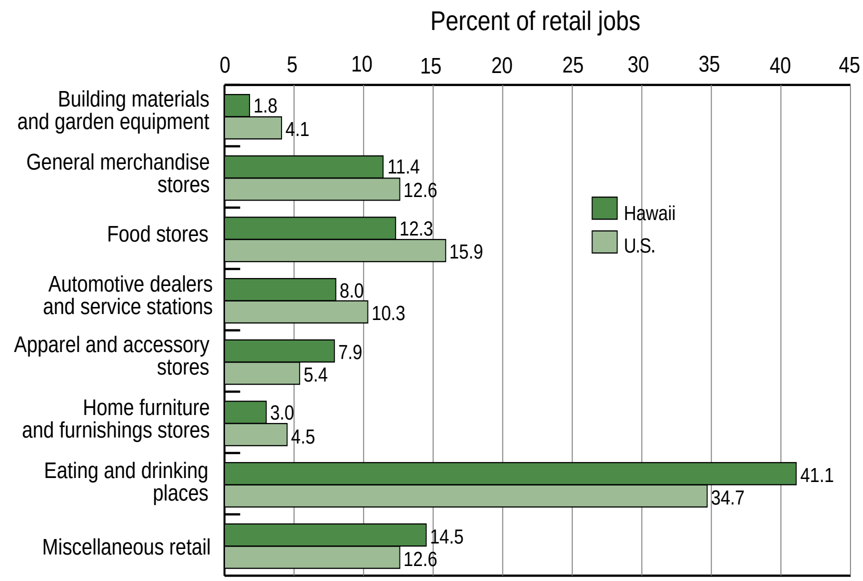
Per thousand residents, Hawaii had nearly 100 retail workers in 1995, 20 percent more than at the national level, which had about 83 workers per 1,000 residents. On a de facto population basis, the number of retail workers drops to about 91 per 1,000 population in 1995, but this is still about 10 percent over the U.S. average. As the figure indicates, Hawaii's concentration of retailing employment on a per capita basis was greatest relative to the mainland in the two economic boom periods, i.e., the late 1970s and, most recently, the late 1980s.

About 84 percent of Hawaii's 7,200 retail establishments that have paid employees maintain street locations throughout the community, either alone or in small shopping plazas. These range from standalone stores and restaurants of various sizes to tenants in the many small business parks and plazas around the state.

The remaining 16 percent or 1,200 retail stores occupy space in one of Hawaii's 20 major shopping malls.[2] Table 1 lists these centers and some information about them. The most typical of the major shopping malls is about 370,000 s.f. in leasable area with about 60 stores. The closest fit to this profile is the Kahala Mall on Oahu, although its store count is larger.

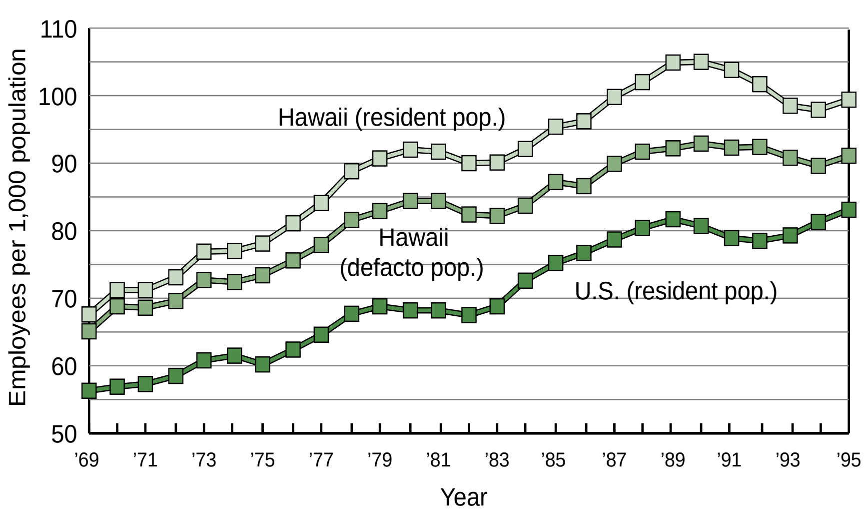
Stores located in a major shopping mall can significantly increase their pool of potential customers. Shopping center management strive to maintain a customer-friendly environment, advertise heavily, and choose a mix of stores that will complement one another, thereby leveraging consumer traffic through the center. Moreover, the larger centers offer theaters and other entertainment activities to increase traffic. On the other hand, stores in centers can expect to pay a high price, often including a portion of their sales revenues for

Figure 1. Distribution of Retail Employment, U.S. and Hawaii, 1995



Sources: U.S. Bureau of Labor Statistics (BLS); Hawaii Department of Labor & Industrial Relations (DLIR).

Figure 2. Retail Employees per 1,000 population



Sources: BLS; DLIR; U.S. Bureau of the Census.

[2] Defined for State Data Book purposes as shopping centers exceeding 250,000 square feet of leasable area on Oahu or 150,000 square feet on the Neighbor Islands.

privilege of being in the center. Centers may also exercise considerable authority over the guidelines for store operation and store conformance to mall-wide objectives for promotion and ambiance.

Recent Growth Trends

As suggested earlier, several factors have combined to lead to major changes and restructuring in the retail sector. An important factor has been the softening of the Hawaii economy in 1990s. As figure 3 shows, taxable retail sales in constant 1997 dollars declined after 1990 following a decade of relatively strong growth. Real sales fell about 16 percent from 1990 to 1993, then rallied back to earlier levels by 1996. Jobs also declined slightly after 1990, but not as sharply as real sales. One reason that jobs did not shrink as much as sales may be that hours were declining over the period, particularly between 1990 and 1991, as shown in figure 4.

In contrast to jobs and real sales, the number of retail establishments has grown nearly every year that sales have been in decline. As figure 5 shows, there was an aggressive expansion of retail establishments in the mid-1980s which slowed but did not stop in the late 1980s and has continued into the 1990s.

Competitive Trends in Retailing

The slowing of the economy has meant that retail businesses must be more aggressive in getting a slice of an economic pie that has not been growing and, in the case of the Japan visitor market, may be shrinking. Moreover, with new firms entering the market, competition has intensified.

There are currently two major sources of competition in the local retail sector. Considerable attention has been focused on competition from new large mainland retailers entering the Hawaii market. However, another factor resulting in stiffer competition among retailers is the ease with which firms can enter the retail market.

Competition and the Ease of Entry

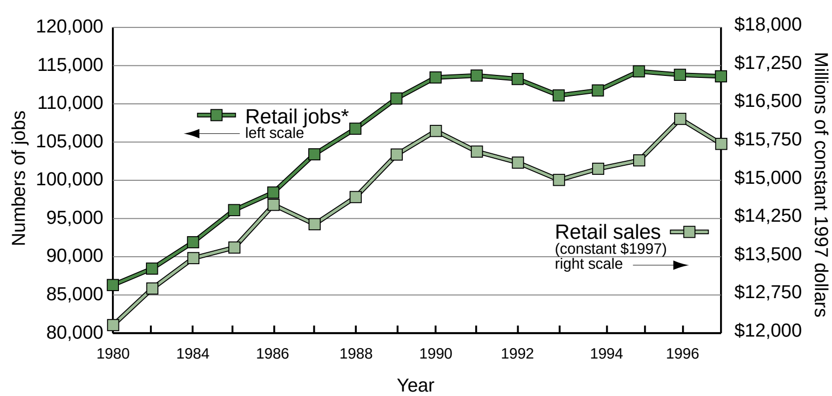
The reason for continued growth in the number of retail establishments in the face of slack sales, as depicted in figure 5, is not altogether clear. One reason may be that it is very easy to start a retail operation. All one needs is a location, a source

Table 1. Major Shopping Centers, 1996[1]

Island and name of center	Location	Year opened	Site area (acres)	Gross leasable area (1,000 sq. ft.)	Parking spaces	Number of stores
Oahu:						
Ala Moana Center	Honolulu	1959	50	1,500	7,800	200
Kahala Mall	Honolulu	1970	20	407	1,800	86
Koko Marina S.C.	Honolulu	1963	15	281	855	64
Mililani Town Center	Mililani	1988	45	434	1,675	85
Moanalua S.C.	Honolulu	1952	15	250	500	50+
Pearl City S.C.	Pearl City	1967	14	252	830	34
Pearl Highlands Center	Pearl City	1993	13	411	1,847	17
Pearlridge Center	Aiea	1972	56	1,400	6,600	170
Royal Hawaiian S.C.	Honolulu	1980	7	280	614	150
Waikele Center	Waipahu	1993	60	728	3,400	80
Windward Mall S.C.	Kaneohe	1982	30	530	2,300	105
Hawaii:						
Kaiko'o Mall S.C.	Hilo	1970	15	220	950	33
Keauhou Shopping Center	Kailua	1984	22	170	876	50+
Pines Plaza	Kailua	1992	1	161	64	(NA)
Prince Kuhio Plaza	Hilo	1985	46	419	2,798	78
Waiakea Center	Hilo	1996	18	245	1,138	20+
Maui:						
Kaahumanu Center	Kahului	1972	32	573	2,864	102
Lahaina Market Place	Lahaina	1969	2	208	16	17
Maui Mall Kahului	1972	27	191	1,272	49	
Kauai:						
Kukui Grove Center	Lihue	1982	49	454	2,574	61

[1] Includes all centers on Oahu with more than 250,000 square feet of gross leasable area and all centers on other islands with more than 150,000 square feet.
NA Not available.
Source: International Council of Shopping Centers, *Hawaii Shopping Center Directory 1996.*

Figure 3. Retail Jobs & Sales, 1982 to 1997

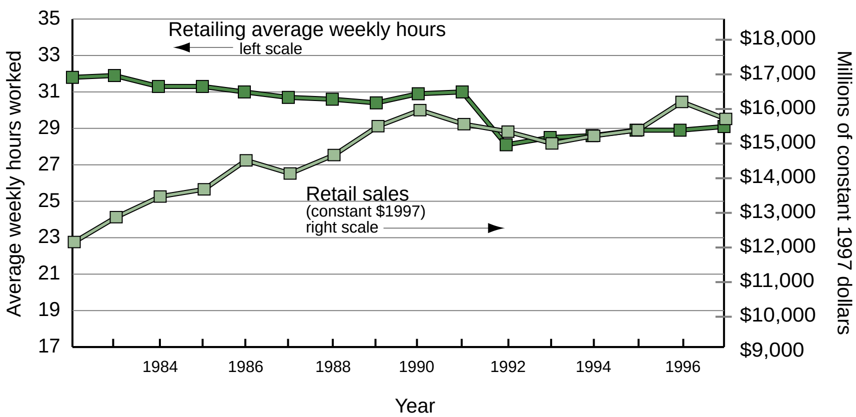


* Wage and salary.
Source: DLIR; Hawaii State Department of Taxation (DOTX).
Constant dollar calculations by DBEDT using Honolulu Consumer price index.

of goods to sell, and a small line of credit to carry inventory. Ironically, these elements are easier to assemble in a slack economy since there is often plenty of empty shop space and manufacturers are motivated to provide products to the retail level. Normally, retailing requires no special license, special training, or even paid employees if partners and family members are available to staff the shop.

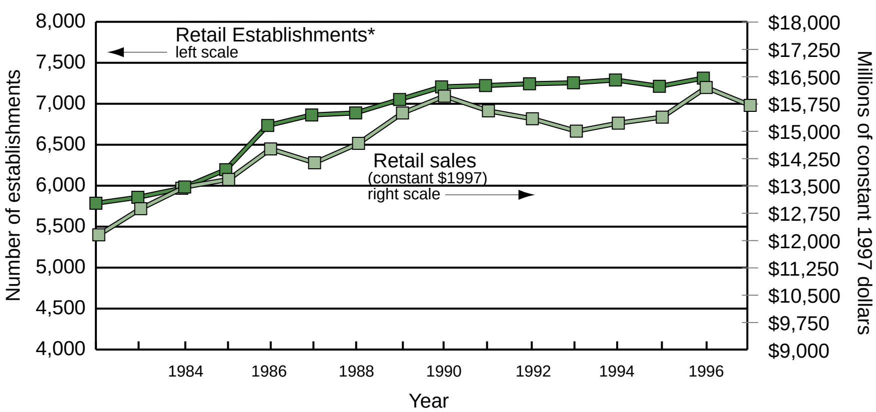
By comparison, most service businesses and certainly manufacturing activities require special training and skills, as well as substantial start-up investment in equipment and facilities. Acquiring a large amount of start-up capital means convincing lenders, through well-prepared business plans, that the target market is sound, that the entrepreneur has the expertise to run a business, and that the plan is likely to succeed. Most small retailers are not subject to this screening process and are consequently thrust into a competitive market for which they may not be prepared. This ease of entry and lack of pre-screening result in more competition and probably a higher failure rate, particularly in the kind of sluggish consumer market that Hawaii has faced in the past few years.

Figure 4. Retail Sales and Average Weekly Hours



Source: DLIR; DOTx; DBEDT (deflated sales data).

Figure 5. Retail Sales & Establishments, 1982 to 1997



* Note: 1982 through 1990 establishments adjusted upward to approximate work-site based compilation beginning in 1991.

Source: DLIR; DOTx; DBEDT (deflated tax data).

Mainland Retail Chains

Of course, the most often-cited source of new competition, and another reason the number of establishments has grown in the face of slack sales, has been the influx of large mainland-based retailing operations. As the article on page 12 indicates, outside competition for Hawaii retailers is not a new phenomenon. Local retailing faced the entrance of Kress and Sears in the 1930s, Longs Drugs and Woolworth in the 1950s, the Safeway Chain in the 1960s, and the 7-Eleven stores in the 1970s.

However, the competition that began to enter in the late 1980s has been perhaps the most difficult for existing Hawaii retailers, because it has featured a new breed of discount retailers that focus on price, selection, and customer satisfaction. Beginning with the Price-Costco membership store in 1988 and continuing with the entrance of K-Mart, Wal-Mart and Sam's Club, Hawaii retailing has been thrust into the era of so-called "big box retailing." This competition features huge stores of 100,000 square feet and more, with prices comparable to those charged nationally.

Beyond the "marts" and membership stores, another type of big retailer, nicknamed the "category killer," has also played havoc with established local retailing. This group of stores includes such giants as Sports Authority, Eagle Hardware, Computer City and Circuit City, to name a few. These stores focus on one major category of merchandise but with tremendous variety and selection within that category. The big-box discount retailers and category killers rely on a national inventory and purchasing system, which can provide goods quickly and cheaply, and on a store operation designed for maximum efficiency.

Hawaii is certainly not alone in having to adjust to this revolution in retailing which, in fact, has been occurring nationwide. Nearly all communities on the U.S. mainland have experienced a similar reorganization of retail activity over the past decade or more. Moreover, the revolution is far from over. In the future even the big-box retailers will be scrambling to hold market share as new innovations in retailing evolve that will include entertainment and social elements, as well as merchandise focus. Another looming innovation is virtual shopping that may become a staple of retailing in the future as technology merges television and the internet into an interactive world in the living rooms of most households.

Changes in the Consumer Profile

A third major factor affecting retailing is the consumer. A key trend in consumer behavior over the past generation has been the aging of the baby-boom generation and their changing needs. In the 1960s and 1970s, this large group of consumers were generally in their 20s, single and devoted considerable time to recreation and entertainment. In the 1980s, this market was into family formation. In the 1990s, baby boomers have been raising their children and are saving for retirement. In the next decade, they will begin to retire and entirely different spending patterns will likely emerge.

Following the baby boomers have been smaller-sized generations. While they have certainly made their own mark on retailing and other industries, they have not had the dollar impact of the boomers. As a result, those areas of retailing serving younger markets have experienced keener competition for sales dollars.

Beyond this well-known “aging of the population” factor, consumers generally have less time to shop. As a result, consumers today tend to patronize retailing that delivers what they want and can get them out the door quickly. “Big-box” and “category killer” retailing are particularly designed to provide selection, fast service and prompt resolution of common consumer problems such as exchanges and returns.

Finally, today’s consumers are becoming increasingly aware of their shopping alternatives. They are becoming accustomed to a competitive environment in which customer service is a high priority, and they tend to search out the best price in the quality range they desire. They may have some brand loyalty, but generally have little store loyalty and will go where prices and service are superior.

The kind of retailing represented by the big-boxes and category retailers evolved to address these emerging consumer patterns. It is not surprising, therefore, that they have done well in Hawaii at the expense of established retailers, who are now struggling to adjust to both the new competition and the new consumer.

Retailing Efforts to Adjust

This competition has generated a classic shakeout and readjustment period in Hawaii’s retail sector over the past decade. This readjustment has intensified as the economy has continued to remain sluggish, particularly with the decline in the number of high-spending, eastbound travelers to Hawaii over the past year. As mentioned earlier, gone are locally-grown retailers such as Gem Department stores, Arakawa’s General Store, Atlas Building Supply and Kuni Dry Goods. More recently, there have been problems with some of Hawaii’s larger stores as well, including the Chapter 11 bankruptcy of Liberty House and the closing of all but one of the Honolulu Book Shops. Even some international retailers have retrenched in the face of the strong competition, particularly those focused on the eastbound visitor market. Duty Free Shops, for example, has cut back its operations in Hawaii and Guam. Recently Japan’s Marui Imai company announced intentions to close its United Colors of Benetton stores in Hawaii, as well as in Guam and Saipan. Undoubtedly, scores of other, smaller retailers have left the market with little or no public notice.

But many stores are fighting to survive and find niches in the new era of power retailers and more demanding consumers. A number of grocery stores have begun scan card programs that provide customers on-the-spot discounts and reward them for loyalty with bonuses on accumulated purchases. McDonalds restaurants have instituted a similar program in the fast-food sector.

Stores are looking hard at their shopping environments and at the relevancy of the merchandise they are offering. To attract more customers, many small stores are remodeling to give their shops a more contemporary look and ensuring that their merchandise is up-to-date and plentiful.

Stores are also trying to find niche markets in which they can excel and prosper, and which are not attractive to the giant retailers with their low-cost, high-volume market base. Apparel stores such as Cinnamon Girl on Oahu and Baby’s Choice on Maui have carved out such a niche.

In the computer market, category killers like Computer City, CompUSA and Circuit City probably contributed to the demise of such small vendors as Software Plus. But in the shadow of the high-volume computer stores, a number of new niche stores have emerged. These new niche players have targeted more-advanced computer users instead of competing head-to-head with the computer category giants for general computer and software sales. Instead, they offer an array of competitively priced components and custom-built systems to a growing computer-enthusiast market, along with a level of personal and expert service that the category giants are hard pressed to match.

Of course, it is not only the stores that are trying to adjust to the new retailing environment. The major shopping centers are also caught up in the challenge of more intense competition for the increasingly demanding consumer in Hawaii. The newer power retailing centers of Waikele and Pearl Highlands have increased pressure on the traditional regional centers such as the Ala Moana, Pearlridge and Windward Malls.

Thus, the structure of the retail market is slowly adjusting to the new onslaught of big-box and category retailers by finding the niche markets that are not well-served by the big retailers and tailoring products and services to those niches.

Small stores are trying to find niche markets in which they can excel and prosper but which are not attractive to the giant retailers

Frontiers in Hawaii's Retail Sector

But the adjustment in retailing may be a long-term process, as Hawaii's retailing revolution shows little sign of subsiding soon. Indeed there are developments on the horizon that retailers will need to watch and adjust to, perhaps well into the next decade.

Merging of Retailing and Entertainment

Many regional shopping centers around the country are fighting back against the draw of the big-box and category retailers by turning their facilities into entertainment and recreation centers that provide considerably more than merchandise. The most notable example of this concept is the Mall of America in Bloomington, Minnesota, where many customers drive hundreds of miles to spend the entire day at this 4 million square foot Mega-Mall. The facility features an amusement park, theaters, restaurants and hundreds of stores.

However, centers that merge entertainment, recreation and shopping need not be huge. Developers, such as the Mills Corporation of Virginia, build medium-sized malls that practice the concept of "destination shopping," where customers can spend an entire day enjoying entertainment and recreation as well as shopping. Mills runs more than a dozen major regional shopping centers around the country averaging around 1.5 million square feet in leasable area (about the current size of the Ala Moana Center). These malls feature major, off-price retailers, hundreds of shops, plus food courts, theme eateries, virtual reality arcades, theaters and other attractions in a package Mills describes as "vibrancy and value."

Direct Marketing, Mail Order, TV, and the Internet

Bypassing the store to go directly to the customer is not new. Door-to-door selling and catalog sales have been a fixture of retailing since the days of the general store. However, technology and the communications revolution have given direct selling the tools to reach a huge potential customer base at a relatively low cost.

For one thing, new, computer-based desktop publishing tools have reduced the time and expense of putting out merchandise catalogs and other product literature, and increasingly more manufacturers and product brokers are using these tools. Also, thanks to the proliferation of cable and satellite dish systems, there has been an explosion in the number of television channels available. This has permitted the development of specialty channels such as QVC and the home shopping channel, which can focus entirely on direct purchase by phone of products shown on the TV channel. Perhaps of most significance for the long run has been the rise of the worldwide web of the internet as a cheap and effective advertising medium for products.

Supporting these "front end" advances in direct selling has been the improvement in the fast shipment of goods at the back end. Competition in the airfreight industry has resulted in faster service for customers ordering goods and traditional surface shippers that are faster and more efficient.

> Technology and the communications revolution have allowed manufacturers to directly market their products to the consumer, utilizing magazine ads, catalogs, direct mail and the internet as "virtual stores."

As a result of these advances, hundreds of major manufacturers nationwide now directly market their products exclusively, utilizing magazine ads, catalogs, direct mailing, and the internet, as their "virtual store." This is particularly true of the electronics market where such computer giants as the Dell and Gateway computer companies deal with clients almost exclusively through direct contact.

Even small producers are now finding that direct selling through the internet can greatly expand markets at very little cost. Hundreds of smaller companies use direct marketing to sell the same array of products found on retail shelves. Many of these companies neither make nor warehouse the products they sell, but rather pass orders on to manufacturers or distributors to be filled. Of course, all of these operations cut into the business traditionally held by retail stores.

Like most other retail innovations, catalog, TV and internet marketing may be a mixed blessing for Hawaii. On the positive side, such sales medium offers the consumer a wider variety of merchandise and price options. Moreover, internet and TV marketing offers valuable opportunities for Hawaii products to find new markets on a global basis. Already, several local companies have found QVC to be a boon for sales and company growth. DBEDT has worked and continues to work with both QVC and manufacturers of local products to take full advantage of this opportunity for Hawaii companies to reach national markets. Scores of Hawaii companies have a presence on the internet, and several "virtual" Hawaii shopping malls have been set up on the net.[3]

On the other hand, to the extent that direct marketing through catalogs, TV and the internet by companies outside of Hawaii takes sales away from local retailers, they reduce employment and business opportunity. They may also result in an increasing drain on general excise tax revenue because it is difficult to collect on such sales.

Of course, these new mediums are almost certainly here to stay. This means the best way for Hawaii to address the negative aspects of these new direct selling mediums is to utilize them more effectively than the competition.

There are limitations on the advantages of direct selling that will ensure that there will always be a role for the retail store. First, one cannot closely examine or sample the merchandise shown in catalogs, on TV and on the internet, an option many consumers insist upon. Second, even with priority shipping, the local customer must wait several days or more to receive the product. Also, if problems are encountered with the product, refunds, exchanges or repairs can be time-consuming, costly and, occasionally, unsuccessful, with few options for

[3] Using the search phrase 'Hawaii AND shopping' will generate a comprehensive list of sites on the major internet search engines.

redress. Finally, direct marketing does not accommodate the social experience of shopping and combining other activity such as eating and entertainment with shopping, which are important to some consumers.

Despite these limitations, it is likely that the trend towards direct selling through TV and the internet will continue to grow and may pose a serious competitive challenge to traditional, store-based retailing. To compete, traditional retailers will need to emphasize the areas where direct selling is weakest, including the immediate availability of merchandise and ensuring fast, satisfactory resolution of customer complaints. Moreover, retailers can compete by offering customers the opportunity to combine shopping, entertainment and recreation, and by ensuring that shopping is an interesting experience rather than a chore or even painful experience, which is the motivation for many consumers engaged in direct purchase through catalogs and TV.

Government's Role in the Retailing Revolution

The retail sector of the economy is undergoing a revolution that challenges all business in the industry. However, the role of government in the retailing industry's adjustment process is a limited one. This is because competition within the private sector for markets is the basis of our economic system and contributes to our higher standard of living. In our economic system it is not government's role to always protect local business from competition. This could have the effect of denying consumers the opportunity to enjoy a higher level of consumption on their limited income.

Rather, the public sector has the role of helping to maintain a level playing field for both business and consumers, so that competition actually does lead to an expanding economy and rising standard of living. Government does this by monitoring changes in competitive conditions to make sure that laws regarding anti-trust, unfair competition, protections for labor and for the consumer, are enforced. By allowing the players in the economic process to experiment and adjust to the changing nature of competition, the development of a strong, adaptable business structure is fostered.

Such an adaptable business structure is essential if Hawaii is to compete in the evolving national and world markets. For instance, the entrance of the factory outlet stores, big box, and category retailers in the Waikele Center offered Hawaii a powerful marketing opportunity for tourism, drawing hundreds of thousands of Japanese shoppers to the islands who may have otherwise gone to alternative destinations.

> Allowing businesses to experiment and adjust to the changing nature of competition fosters a strong, adaptable business structure. Such a structure is essential for Hawaii to be competitive in evolving national and world markets.

Of course, the public sector has an economic development interest in the results of the competitive struggle in retailing apart from regulatory concerns. State government would prefer that retail jobs in Hawaii not be lost to other areas outside of the state, unless the net result is that even more economic activity and opportunity are generated within the state. Government would also prefer that retailing provide quality jobs for the roughly 20 percent of the work force employed in the industry. Finally, the public sector would like to facilitate retailing that either enhances Hawaii's position as a destination, or promises to bring the products and services of Hawaii to national and international markets.

Achieving these economic development goals requires good and frequent communication between the retail industry and government. At the State level, DBEDT is working to facilitate that communication and better integrate retailing into tourism and other product promotion, as well as to help the community to better understand the very competitive retailing industry and its important role in the economy.

Conclusions

Ease of entry, new competition from national chains and a sluggish economy have made the 1990s one of the most competitive and difficult in the local industry's history. These conditions have generated a retailing revolution in Hawaii which has seen many long-time island retailers either close down, consolidate or attempt to restructure under the threat of bankruptcy.

The revolution is continuing on many fronts. Additional large retailers are expected in Hawaii in the future, focusing on such specialty areas as home improvement and consumer electronics. New and renovated shopping centers that combine shopping with entertainment and recreation are on the horizon, and existing centers are retooling to meet this trend.

Finally, technology is presenting more options for low-cost "virtual stores" on both TV and the internet. This option provides Hawaii producers with a valuable opportunity to reach national and international markets. However, the trend may also result in more outside competition for Hawaii's consumer dollars by firms that will not be providing local employment opportunities, buying Hawaii-produced services, or paying local taxes.

On the demand side, the retailing revolution has been a welcome change for most consumers, bringing lower prices and a greater selection of stores and merchandise. This experience and a greater awareness of shopping options have made Hawaii consumers a more demanding group. They expect better quality, lower prices and more service than in the past and have less loyalty towards any particular retailer. Of course, for the 20 percent of the work force dependent on retailing for their livelihood, the retailing revolution has been a difficult and sometimes painful period.

The role of the government in the retailing revolution is not to protect existing businesses at the possible expense of consumers, but to ensure a level playing field for all and to work with the private sector to achieve economic development goals for retailing. In this way a strong competitive retail sector can emerge that will be in a better position to provide stable employment, good quality and competitive prices to consumers, as well as help attract visitors to the state.

Emerging Trends in U.S. Retailing

Until the post–World War II period in the U.S., retailing was primarily a “Main Street” activity with individual department, drug, variety (five & dime) stores and coffee shops clustered in the hearts of towns and cities. In an earlier retail revolution, the market segmentation and economies of scale achieved by the department and variety stores had virtually wiped out the “general stores” which had ruled retailing during the 19th century. But as large segments of the population moved to the suburbs in the 1950s and 1960s, a new retailing revolution took place, as suburban shopping malls challenged and broke the dominance of the Main Street stores.

The leading edge of the current retailing revolution was the rise of the large “big box” discount stores of Wal-Mart and K-Mart

Moreover, the profile of the shopping public was changing in the post-war era. Main Street retailing was structured to serve the needs of the traditional nuclear family with a single breadwinner that shopped as a unit once or twice a week. However, by the 1970s and 1980s, this profile had become a minor segment. Increasingly more families had two-income earners. Individual family members were making their own purchasing decisions and consumer demand was moving beyond the staple items stocked by Main Street stores.

Some giants, like Sears, Woolworth and J.C. Penny were reasonably successful in establishing new stores in the suburban malls catering to the emerging consumer groups. But also emerging from this migration of retailing to the suburbs was a new breed of aggressive, discount retailers led by such pioneers as Wal-Mart in general merchandising and McDonalds in the fast-food market.

As American society continued to change in the 1980s, a revolution in the format and leadership of retailing resulted in the current retailing environment. The leading edge of the revolution was the rise of the large discount stores of Wal-Mart and K-Mart. These stores are often referred to as” big boxes” because they tend to build single stores of 100,000 square feet or more, surrounded by a sea of parking stalls. These two retailers succeeded where most other discount marts failed in the 1970s and 1980s, by staying abreast of what the consumer wanted. That formula includes having a wide range of merchandise on hand at the best possible price. These stores also have a proprietary, national distribution system, which adds to the efficiency and lowers the cost of the store system.

On the heels of the “marts” came the trend towards huge, specialty stores called “category killers.” These operations specialize in selling many types of merchandise in a particular category, in a large and well-stocked store. One of the first of this new breed of retailer was Toys R Us. Today the category killers are dominating many specialty markets such as hardware, computers, books, and sports equipment. This aspect of the retail revolution may have been more damaging to the vast segment of small, specialty merchants than were the big box retailers.

The third component of the retail revolution has been a rapid shift in the infrastructure or venue of retailing—mainly towards the shopping mall. Just as the suburban shopping malls supplanted Main Street retailers, new types of shopping malls are emerging to serve new consumer preferences.

One emerging shopping center trend has been the “power center,” a facility with about half a million square feet of store area designed to house a few huge stores of the big box and category type. The lower portion of the Waikele Center above Waipahu is an example of this type of arrangement, with a big box (K-Mart) augmented by a series of category stores in specialties such as hardware, books, office supplies and computers. A more compact example is the Pearl Highlands Center in Pearl City.

Another recent mall variation is the “factory outlet center” where brand-name manufacturers maintain direct retailing outlets for their products, usually garments. The upper section of the Waikele Center is an example, along with the Dole Cannery Square.

Still another variation is the festival market place, featuring specialty retailers in an outdoor, entertainment-oriented atmosphere. The Aloha Tower Market Place on the downtown Honolulu waterfront is such a facility.

One of the most recent and significant innovations in shopping malls has been the move towards so-called “mega-malls,” encompassing several millions of square feet and featuring a wide variety of entertainment and non-retail activity in addition to many more stores than the average regional mall. A prime example of this concept is the Mall of America, in Bloomington, Minnesota. This 4-million square foot facility contains a seven-acre amusement park complete with roller coaster and ferris wheel. In addition to 400 specialty stores and countless restaurants, the complex includes cinemas, a comedy club, an 18-hole miniature golf course and a wedding chapel. On the weekends, as many as 200,000 customers enter the mall each day, many traveling more than 150 miles to visit the mall. The Mall of America is setting the trend for new shopping centers in terms of diversity of activity. However, few, if any, new developments have attempted to duplicate this mall’s physical scale.

The “mega-mall” innovation features several million square feet of entertainment and non-retail activity in addition to many more stores than the average regional mall.

The Language of Retailing

Small Retailing:[1]

General Store: Wide variety of unrelated merchandise. Usually in rural areas. May be able to survive when customer options are limited. But the small operation cannot become sufficiently expertise in each line to compete with specialty or large department store operations.

Specialty Store: Limited line such as bakery, jewelry, women's clothing, or shoes. This class has the greatest success rate for retailing because personalized service rather than price only is a factor. The assortment within the limited classification is wide. The store's buyer can become expert within the more limited class of merchandise.

Boutiques: Similar to specialty stores but focuses on the highest quality or latest fashion of a particular classification. Usually very expensive and limited in stock. Often feature in-house creations.

Food Specialists: Handle a narrow assortment of items, many ready to eat or reheat. Popular because consumers can find what they want quickly and less time for food prep at home.

Flea Market stalls: Has become a regular format for entrepreneurial retailing. Flea markets have become a big city fixture. Cost is only about $40 per day.

Kiosks and Push Carts: Successful in large shopping centers and festival markets. Low overhead operations.

Large Retailers

Department Store: Offers a large volume of hard and soft goods organized into specialty departments, numerous customer services and a large staff specializing in various functions.

Chain Store: A centrally owned and managed organization with two or more similar units, each carrying same categories and classification of merchandise. These can be variety chains like Woolworth, food chains like Safeway and hardware such as Eagle.

Supermarkets: Large, departmentalized, self-service organizations selling food primarily, but supplemented with fresh meats, poultry and sundry items. (Today, delis and bakeries are common.)

Direct Market Retailer: Merchandising through catalogs and ordering through the mail. More recently, merchandise is offered on the internet and purchases can be made directly on-line.

Catalog Store: Local warehouse stores where customers can buy catalog items they have chosen at home.

Off-price Merchants: Find volume merchandise at a substantial discount such as overruns and discontinued lines. Items can be sold at retail, below the original wholesale price but still at a profit to the merchant.

Manufacturers (factory) Outlets: Stores set up by manufacturers specifically to sell their surplus and other goods they will not be selling through regular marketing channels.

Warehouse Clubs: Large retail operations charging an annual membership fee. Merchandise is usually sold in bulk or larger than normal quantities. Self-service and usually no frills, such as bagging purchases.

General Merchandise Discounters: (Wal-Mart, K-Mart) Large stores, large assortment and sell mainly price.

Shopping Centers

Free standing stores: Generally, large discount stores surrounded by a vast expanse of parking, and usually located on major traffic arteries.

Neighborhood Clusters: A number of small stores grouped together in urban or suburban areas where neighborhood traffic is a major source of business.

Festival Marketplace: Composites of shops and eating places in a festive setting, often fashioned from structures that once housed industrial activity. Frequently a public-private sector effort to rehabilitate or revitalize a section of town. New York's Fulton Fish Market, St. Louis' Union Station and downtown Honolulu's Aloha Tower Market Place are examples.

Mixed Use Centers: Combination of shops, commercial offices, residences eateries and movie theaters, usually found in major cities or large suburbs. Copley Place in Boston is a prime example. In Hawaii, Honolulu's Restaurant Row comes closest to the concept, except for a lack of a major department store.

Strip Mall: Relatively small, outdoor shopping centers of about 20, independent or small-chain stores, featuring mainly apparel, hardware, food, and miscellaneous merchandise.

[1] Sales under $500,000 per year (1995).

Power Centers: Shopping centers featuring two to three major category or big chain retailers. Usually between 200,000 to 500,000 sq. ft. leasable area.

(Factory) Outlet Centers: Devoted mainly to apparel manufacturers' outlet stores.

Regional Shopping Center: Major shopping complexes mixing strategically chosen department stores and smaller retailers, often with eateries, entertainment and recreation facilities. Generally more than 500,000 sq. ft. of leasable area.

New Nomenclature

Big-Box Retailer: Major, general merchandise chain stores of 100,000 sq. ft. or more.

Category Stores (also called Category "Killers"): Major chain specialty stores, usually more than 50,000 sq. ft.

Mega Mall: Super regional malls, designed to be "shopping destinations" providing a full range of shopping, entertainment, recreation and eating opportunities. Usually more than 1 million sq. ft.

Sources: Diamond, David, & G. Pintel, *Retailing, Sixth Edition*, 1996; Cook, David, & D. Walters, *Retail Marketing Theory and Practice*; Pittman, Robert, & R Culp, "When Does Retail Count as Economic Development?" *Economic Development Review*, Spring 1995.

State of the Economy

Hawaii's economy remained steady in the first five months of 1998. Some indicators of activity, such as nonagricultural wage and salary jobs and visitor arrivals declined slightly. Other indicators, such as personal income (only available for the fourth quarter of 1997) and tax revenues, improved. Overall, the low, but steady, rates of economic growth that Hawaii has experienced over the last several years continued through the first quarter of the year.

In the labor market, the familiar pattern of mixed signals continued. For the first five months of 1998, the estimated number of civilians employed in the State's economy showed a 1.3 percent increase over the same 1997 period and the number unemployed declined 14.2 percent. On the other hand, the estimate of total nonagricultural wage and salary jobs showed a 0.5 percent decline in the first five months of this year. Construction continued to show the sharpest decline of any industry, down 2.9 percent in the January to June period. Only the services sector, government, and agricultural wage and salary jobs showed an increase in the first quarter of 1998 compared to the same period in 1997. Retailing jobs showed a 1.4 percent decline for the first five months of 1998.

The visitor industry has also shown mixed results. For the first five months of the year, a declining visitor count from Asia and the Pacific has slightly offset solid gains in the U.S. and other westbound markets to result in a slight, 0.5 percent decline from the same period in 1997. However, the average daily census of visitors for the first five months is the same as the year before, thanks to the longer length of stay by the westbound visitors. Overall visitor spending in 1998 may showed a decline from 1997 due to the decline in the very high-spending Japan market segment. Poor economic conditions in Japan coupled with a lower-valued yen than last year are the major causes of the decline in visitors from Japan. The number of visitor arrivals was 1.7 percent lower in the first quarter of 1998 than in the first quarter of 1997 (table 1). All of this decline was due to the large drop in eastbound visitors of 6.3 percent. With the Asian economic crisis and the declining value of the yen, the eastbound market is likely to remain weak.

Hawaii County had the strongest economic performance among the counties in the first five months of 1998 (p.24). The county's job count showed a 2.8 percent increase from the same 1997 period and visitor arrivals were up 7.0 percent. All other counties showed fewer visitors and jobs, except on Kauai, where the job count was the same as in the comparable period of 1997.

Visitor arrival growth of 1.0 percent is expected in 1998, accelerating slowly over the next two years. Wage and salary jobs should continue the low level of growth seen in 1997. Inflation-adjusted personal income and gross state product should show modest, but steady, growth of 1 to 1.5 percent per year.

A thorough review of Hawaii's current and anticipated economic conditions can be found at the DBEDT internet web site, located at:

http://www.hawaii.gov/dbedt/qser.html

Selected Economic Indicators: State

Series	1998		Percent change from same period in previous year	
	May	Year to Date	May	Year to Date
Civilian Labor Force (persons)[1]	591,250	592,250	0.5	0.3
Civilian Employment	556,750	559,200	1.3	1.3
Civilian Unemployment	34,450	33,050	-11.4	-14.2
Unemployment Rate (percent)[2]	5.8	5.6	-0.8	-0.9
Total Non-Agr. Wage & Salary Jobs	529,900	530,000	-0.7	-0.5
(number)				
Contract Construction	21,300	21,550	-3.4	-2.9
Manufacturing	16,100	16,250	-3.3	-2.1
Trans., Comm., Utilities	40,400	40,800	-2.4	-1.4
Trade	131,900	132,800	-1.4	-1.1
Retail	111,000	111,900	-1.7	-1.4
Finance, Insur. & Real Estate	35,000	35,250	-3.0	-2.6
Services & Miscellaneous	169,400	169,350	0.7	0.5
Hotels	37,600	38,150	-1.1	-1.5
Government	115,800	114,050	0.4	0.4
State	68,900	67,250	0.7	1.0
Federal	30,400	30,350	-0.7	-0.7
Agriculture Wage & Salary Jobs	7,300	7,300	7.4	8.0
Taxes ($thousands)				
State General Fund Tax Revenue[3]	211,895	1,182,640	3.7	6.8
Trans. Accom. Tax Revenue	9,288	54,342	-12.4	-0.9
General Excise & Use Tax[4]	105,417	597,235	-8.8	-0.9
Retailing Tax	40,471	243,485	-13.8	-6.2
Services Tax	19,178	89,809	0.4	-0.9
Contracting Tax	8,897	45,728	-12.2	-2.4
Hotel Rental Tax	5,852	33,012	-18.4	-7.3
Producing Tax	204	1,103	-13.6	5.3
Unallocated Net Collections	5,544	48,851	23.9	81.3
Visitor Arrivals (persons)[5]	525,720	2,784,480	-0.9	-0.5
Westbound Visitors	329,320	1,752,110	7.0	4.3
Eastbound Visitors	196,400	1,032,370	-11.7	-7.6
Hotel Occupancy Rates (percent)[2]	67.0	74.3	-0.9	-2.0

[1] Labor force and jobs averages are based on monthly rounded data. Labor force data were also rebenchmarked in February 1997. Self-employed data will no longer be published by DLIR.
[2] Change represents absolute change in rates rather than percentage change in rates.
[3] If tax period ends on a weekend some of the collections may be shifted to the next period.
[4] Components may not reflect true collections due to unallocated net collections.
[5] Preliminary data.
Note: Data for 1995 and 1996 were rebenchmarked by DLIR.
Sources: Hawaii Department of Labor and Industrial Relations, Dept. of Taxation, Hawaii Visitors & Convention Bureau, and PKF-Hawaii. Compiled by Economic Planning Information System, READ, DBEDT.

Table 1. Selected Economic Indicators by County: January to May 1998
(value and percent change from same 1997 period)

Indicator	C&C of Honolulu Value	C&C of Honolulu Percent Change	Hawaii Value	Hawaii Percent Change	Maui Value	Maui Percent Change	Kauai Value	Kauai Percent Change
Unemployment Rate[1]	4.7	-0.6	8.4	-1.6	6.4	-1.5	9.4	-2.7
Non-Agr. Wage & Salary Jobs	401,200	-0.8	50,700	2.8	55,100	-0.5	23,200	0.0
Construction	16,150	-3.2	2,200	-4.8	1,800	-5.3	1,000	5.3
Manufacturing	12,500	-2.3	1,600	-3.0	1,750	0.0	400	0.0
Retail	80,850	-1.9	11,200	0.4	13,750	0.0	6,100	0.8
Services & Miscellaneous	121,000	0.3	18,200	5.5	21,350	0.7	8,250	-0.6
Hotels	16,900	-5.3	7,000	6.1	11,050	-0.5	3,350	-1.5
Government	91,850	0.3	10,400	1.0	7,500	0.0	4,000	0.0
State	52,000	0.9	7,350	1.4	5,200	3.0	2,600	0.0
Federal	28,600	-0.5	900	0.0	500	0.0	400	0.0
Agriculture Wage & Salary Jobs	2,000	8.1	2,550	11.1	1,850	-5.1	900	20.0
Visitors, total number[3]	1,955,750	-3.5	543,620	7.0	978,430	-0.6	414,100	-0.2
Westbound	932,240	-1.1	414,400	5.3	803,240	2.9	357,120	2.3
Eastbound	1,023,510	-5.6	129,220	12.9	175,190	-13.9	56,980	-24.7
Room Occupancy Rate (%)[1]	75.5	-4.8	73.5	4.3	75.0	0.2	67.0	-1.6

[1] Measured as change in percentage points rather than percent change in rates.
[2] Labor force and jobs averages are based on monthly rounded data. Labor force data were rebenchmarked as of March 1998.
[3] Preliminary data.
Note: Data for 1995 and 1996 were rebenchmarked by DLIR.
Sources: State DLIR, HVCB, PKF-Hawaii. Compiled by EPIS/READ, DBEDT.

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