



FRESH2U

Cook Islands



Investment Case Study

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FRESH2U

Country

Cook
Islands

Sector

Agriculture



Type

Local
Investment



Background

Altogether, Bob has twenty-two years' experience in the agricultural sector comprising twelve years in New Zealand and ten years in the Cook Islands. In 2006, Bob and his wife invested in the agricultural sector in the Cook Islands by setting up a hydroponics business that primarily grows and sells lettuce. The purpose for this investment was that it was more of a hobby when choosing to retire in Rarotonga. Originally from the UK, Bob met and married his Cook Island wife in New Zealand and they had a daughter. The couple have previous industry experience in an agricultural investment in New Zealand as they bought a package deal that included five greenhouses and a house in East Auckland, New Zealand. As sole owners and employees of the greenhouses, the couple worked long hours to grow, pick, grade, pack and sell vegetables for twelve years. Along with cucumber and capsicum, every week they grew 3,000 tomatoes with 80 boxes ready for the Auckland market. After paying off the mortgage of their first investment in two years and

becoming self-sufficient the option of redundancy came up. They sold the greenhouses and residence in New Zealand together and made a good profit.

As a Cook Islander with strong ancestral ties to the land, Bob's wife inherited a piece of land in Rarotonga in 2004. For this reason, the decision was made to move to the Cook Islands. Bob was 65 at the time. The idea of setting up a hydroponics system arose as a potential investment because it could be a hobby and would be easy to maintain during retirement. Bob says, "I didn't want to work all day, I only wanted to work about an hour a day". The objective of setting up the small hydroponics business was simply "to pay the bills" with revenue covering weekly living expenses. He says, "as long as I make enough to pay for the power, the petrol, the phone, I'm happy". Bob gained local advice and read a few books about hydroponics before setting up the shade houses for an affordable cost. As the Owner and Operator of the business, Bob's daily functions

are to check the trippers and the feed level, water the plants, pick and bag the lettuce, then sell and distribute it in the truck. Bob recalls when Fresh2U started, the lettuces sold so quickly that the business had to be extended to include another shade house and an additional tunnel house later on. He explains, "We were selling that many, that fast, I had to get another house joined up to it, and then we still couldn't keep up!"

Fresh2U has a consistent customer base to which it frequently delivers. The market includes small businesses like cafes, hotels and restaurants in Rarotonga as well as local Cook Islanders and tourists who purchase the lettuce at the local Saturday market. The price for Fresh2U lettuce is NZD\$3 whereas the imported New Zealand lettuce sold at local supermarkets is priced higher at NZD\$4. Bob picks between 30-40 lettuces on weekdays and picks 70 lettuces for the local market. He says he always sells out of lettuce at the markets. He says the probability of "being busy depends on whether customers order lettuce at the same time". Bob believes that demand for hydroponic lettuce is shared among the suppliers because he only services customers within the vicinity of his village and explains that the other lettuce suppliers operate in their own villages as well. Bob is not sure if his growing operation is similar to other hydroponic growers because he does not usually network with them unless he runs out of lettuce as then he can get other growers to service his regular customers. However, he promotes his lettuce, as being "spray free and grown in purified water" which he says is a point of difference to other growers.

According to Bob, the investment process for setting up a hydroponics business in the Cook Islands was "easy" and he did not experience any problems. He states that "Fresh2U is a partnership [with his wife] so there was no need to register a company". The only involvement with the Government was interacting with the Cook Islands Revenue Management to set up the business. He also employed a

local Cook Island female accountant to assist with his finances who Bob says has "a good rate".

Bob believes the investment process was hassle free because he is married to a Cook Islander; he says, "it was no problem at all, mainly because I'm married to a local". He also believes that the investment process in the Cook Islands is similar to that in New Zealand. He mentions that the only difference between his agricultural investments in New Zealand and the Cook Islands was the scale of investment as Bob grew and sold more products in New Zealand (i.e. tomatoes, cucumber and capsicum), which involved more work thus this operation was larger scale than the hydroponic lettuce business in Rarotonga. Lastly, Bob states that no local knowledge or networking with locals was needed to set up his investment, as the process was straightforward.

Benefits of Investment in Agriculture

Investment in the agricultural sector in the Cook Islands provides local investors with income, and supplies local customers with fresh produce. Hydroponics has sufficient local supply chain links, which result in employment in related businesses and the private sector.

In making the decision to invest in agriculture in the Cook Islands, a key benefit for Bob has been that it has provided adequate income during his retirement. Bob proclaims that his investment in agriculture in the Cook Islands has definitely been successful because it is now worth NZD\$650,000 (that includes the shade houses, residential house and truck) and he has made a good profit from it. Bob is therefore happy with his return on investment. Fresh2U has enabled the couple to run a low maintenance hydroponics operation that has met its investment objectives of paying the bills whilst being a hobby. He says that "planting 200 seedlings

in a seed table only takes me 20 minutes” and enjoys only having to work for an hour every day whilst running a business in the islands. Another benefit of investing in a hydroponics business in the Cook Islands is that local customers are supplied fresh lettuce (e.g. hotels, cafes, restaurants, local market).

Bob believes the local supply chain links for a hydroponics investment in the Cook Islands are very good because he is able to access all equipment for his investment locally and does not have to source anything from overseas. He explains that he purchased the shade houses from a local gardening specialist in Rarotonga and the supplier installed the shade houses for him with no problems. In fact, Bob says, “he does everything”. For instance, Bob buys all products required for his investment from this local supplier making sure that he places any orders in advance to ensure the supplier can source supplies in time from overseas (if needed). Bob says, “If I want some seeds, it takes about ten days to get them up so you make sure you tell him before you run out and he orders them up”. Bob also uses this local supplier for any additional services his investment needs such as general maintenance of the hydroponics system. For example, Bob says, “He puts the new roof on when the plastic rots, because it only lasts 4-5 years maximum and then it starts to break up because of the sun”. This is another benefit of investment in agriculture in the Cook Islands as Bob’s investment generates employment for other businesses.

Barriers and Disincentives to Investment

In the Cook Islands, the fundamental barriers to investment in agriculture are land ownership, climate-related issues, maintenance and payment retrieval.

Indeed, it is the general notion that perhaps the biggest disincentive to investment in the Cook

Islands (and the Pacific) is land ownership. In Bob’s case, the main motivation for moving to Rarotonga and investing in agriculture in the Cook Islands was founded on land ownership. However, the considerable barrier to his investment occurred nine months after building the house and setting up the shade houses on his wife’s land. The barrier relates to a conflict in land ownership, with another Cook Islander challenging the ownership of the land. The conflict was due to historical records with Bob remarking “my wife’s family gave them this land” but the land was not properly partitioned out, so the records showed the land as “un-investigated” meaning that the land did not belong to anyone. The dispute continued with the eventuation of Bob having to purchase a lease from the newly proclaimed landowners because Bob’s house and business are on this land. Leasing instead of ownership has an effect on the investment both short and long term. Short term, the amount requested for the lease has since fluctuated to an “unrealistic price” and Bob argues, “The valuation is only that high because of the thousands of dollars and hundreds of hour’s work that has been put into it”. This issue draws attention to the fact that if land has not been secured prior to investment, it can be extremely difficult to invest in the Cook Islands.

On another note, an ongoing challenge with Bob’s hydroponics investment has been the climate in Rarotonga. According to Bob, the heat and humidity in summer can cause severe problems for growing. Bob says, “Sometimes the heat makes the lettuce shoot up and become too stalky”. To manage this problem, Bob explains the actions you need to take with the lettuce “you’ve got to try and make them grow slower, so they fill out”. Another problem associated with the heat and hydroponics in Rarotonga is the disease known as Botrytis, which causes brown spots on the leaves and roots of the lettuce. Bob has currently been having problems with botrytis and it has even prevented him from being able to go to the market to sell lettuce for the past month. He says that although botrytis does

not affect the taste of the lettuce “it affects the look of the lettuce”. This has had a negative effect on his business because he has had to throw out large batches of lettuce and regrow it, as customers will not buy lettuce with defects. Unfortunately, Bob says, “you can’t do anything about it” and adds, “you could cut the top two thirds of the lettuce off and use it but the bottom bit is mangy”. Given that Bob and his wife are financially self-sufficient and the investment is part of his retirement scheme, he says, “Luckily we don’t depend on this for a living so we’re alright. It’s not like we’ve got a mortgage or a loan to pay”. However, other investors in agriculture who are not financially self-sufficient would struggle to be successful if the aforementioned climate-related issues affected their crops.

The general maintenance of the hydroponics system can also prove to be challenging to an agricultural investment in the Cook Islands. In particular, one of the most recent problems with Fresh2U has been trying to maintain the correct Ph. and feed levels. Bob states that “2016 has not been a very good year” largely because of issues with the Ph. level in his hydroponics system. Bob explains that without any added substances, the normal Ph. level for a hydroponics system is 5.8 but this is inefficient for growing. He says the ideal Ph. level for effective

“They’ve changed the rules now. They can live up here for 6 months or a year...so what a lot of them are doing is renting and leasing some land and building a house. Then they come up here for the winter and they go back to New Zealand or Australia for the summer”

growth requires adding the right amount of acid to the system to “balance it out”. Due to having the incorrect Ph. level, Bob’s investment suffered for six months as it resulted in dead plants. Bob recalls, “For six months, they were all dead”. Trying to identify the problem was costly as Bob says, “We tried everything...it cost a fortune getting everything tested, getting advice, using this and using that”. After undergoing tests in New Zealand, the issue was finally identified. Bob explains “It turns out my Ph. meter was reading wrong, and the Ph. was incorrect”. The specialists in New Zealand told Bob “You’re trying to grow them in acid”. In Bob’s ten years of experience in hydroponics, Bob believes problems have only arisen since being more technical (e.g., changing Ph. and feed levels). He says, “It’s only since we’ve been starting to get more technical, we’ve been getting a lot of problems”. Although Fresh2U was out of business for six months as a result of producing dead plants, fortunately Bob did not lose much business once he got back underway with growing. He says, “When I had no lettuces for six months I only lost one customer. All the rest waited, they bought them somewhere else until I was back online and then they came back”. Another element of maintaining the hydroponics system is checking and adjusting the feed. In order to ensure the lettuce grows sufficiently, it needs to be fed the right amount of nutrients. Bob checks the feed level for his hydroponics system on a daily basis and adds more nutrients to the system if the feed level reading is low. Bob says that he was initially given incorrect advice about the feed from the person who set up the system. However, after reading a book and experimenting with trial and error Bob learnt the feed should read lower than what he was originally advised. He says, “I just keep it constant”. In terms of maintenance, an additional small challenge with a hydroponics investment is that the roof of the shade houses must be replaced every 3 years but this is easily resolved simply by organizing the local gardening supplier to do it.

Lastly, a minor challenge with a hydroponics investment can be the payment from customers. Bob says that in Rarotonga, sometimes it can take months for customers to pay but Bob has managed to set up a loyal and efficient network of customers who pay him upfront when he delivers lettuce. Bob also says he lost one customer to his opposition because of payment issues. He says his customer "arranged a barter payment with him but I didn't want that, I want cash". Bob prefers to be paid in cash when it comes to selling his lettuce as that way he does not have to wait to receive payment.

Risks and Costs of Investment

This case highlights the fact that the investment climate in the Cook Islands can be unstable, and exposes some risks and costs to investing in the Cook Islands. For Fresh2U, the primary cost to this investment has been the land ownership issue.

A potential risk to local investment in the Cook Islands is that from Bob's perspective, there appears to be more foreign investors in Rarotonga now. Bob says, "Everything is changing" in the Cook Islands as he has been noticing a significant shift in the general population over the last decade of being a resident. He says he is seeing the local people migrate overseas and be replaced by Europeans. Bob says, "It's getting full up with Papa'a (Europeans) here". Bob believes this is because the Government have changed the immigration regulations as he explains, "They've changed the rules now. They can live up here for 6 months or a year...so what a lot of them are doing is renting and leasing some land and building a house. Then they come up here for the winter and they go back to New Zealand or Australia for the summer". Bob believes this will have a negative impact on local Cook Islanders because by foreigners leasing mass amounts of the land and renting the rental accommodation in Rarotonga, this will increase the cost of living in the Cook Islands.



Source: Image provided by Jaimee Raymond

A cost to the Cook Islands economy of small-scale agricultural investment is that this type of investment does not generate much employment. Bob has not employed any full time staff because the hydroponics operation is easy for him alone to manage (with some assistance from his wife when needed). The business was also set up to be small-scale; Bob says, "I don't have any spare money to pay any extra employees". At one stage, Bob employed one local Cook Islander to maintain the section on a part time basis. However, this did not last, as Bob did not have enough work for him. He says, "I did have a young guy mowing the lawns but he's working now and I can't get him up here". Bob has heard from others that some local Cook Island employees are unreliable, although Bob says his ex-local employee was "a good worker" and Bob is not bothered with when work like maintaining the property is done. Bob says, "as long as he comes up eventually, he doesn't have to come up instantly". With respect to other businesses and their employees in Rarotonga, Bob has heard about local employees not turning up to work. Although this is a concerning issue for the Cook Islands, Bob believes it is due to the nations' insufficient minimum wage as he says, "mind you, they are only getting paid \$7 an hour...I mean how can you live on \$7 an hour? How can you look after a wife and two kids on that money?" Bob also states that another employment problem in the Cook Islands is the influx of migrant workers. He says, "You're getting a lot of Fijian's and Filipino's working here now".

Growth and Development

Fresh2U is Bob's only investment and looking back, Bob states that he would not change anything if he were able to relive his investment experience. Although Bob believes there are opportunities with his investment over the next five years such as utilizing advertising to expand the business and learning more about hydroponics, he is not interested in these opportunities because of his age and running

a large-scale business was never his objective. Bob says, "I could learn more if I wanted and I would if I was younger" and "I didn't want that much money... it was just to pay the bills". Bob is not optimistic about the future of his investment because he wants to "stay at the status quo" thus, is not looking to expand his investment. He also has no desire to invest in anything further in Rarotonga or the Pacific merely because of his age. Bob has attempted other opportunities with his hydroponics investment as he tried growing herbs at one stage but discontinued as he says, "it was so fiddly". Bob's wife also grows beans and tomatoes in the shade houses for personal consumption but these products are not sold to customers. Bob's reasoning for not growing and selling additional products other than lettuce is because "lettuces are easy" and "I haven't got the time".

Due to the complicated situation with land ownership in the Cook Islands, the next step for Bob's agricultural investment is to try resolve the land lease issue. Even though Bob's negative experience with land ownership in the Cook Islands has created a risk to his investment, Bob would still recommend investing in the agricultural sector in the Cook Islands to others "as long as they have the right mind-set". Bob's advice to other investors would be to "1) know what you are doing, 2) get advice from agriculture (as you can get extra crops from them), and 3) control your expenses i.e. start out slow and build up". Lastly, Bob states that there is an opportunity with investment in the tourism industry in the Cook Islands even though it is becoming competitive. He says, "You can make good money up here in tourism but there's so many of them going up now".