Natural Resources Institute

MARKETING STRATEGIES IN THE CUT FLOWER EXPORT INDUSTRY: A CASE STUDY ON SUPPLY CHAINS AND GOOD PRACTICE

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EXECUTIVE SUMMARY

Latest trends

This report begins by providing a summary of the latest trends in the cut-flower market. This is based on the most recent experiences of Kenyan producers who provide instructive lessons for the African industry as a whole.

Thoen *et al* (in press) report that the Kenyan cut flower experience offers several lessons for emerging market policy-makers and investors, as well as other international stakeholders as follows:

First and most importantly, *the cut flower industry is very dynamic and cannot be led by public initiatives*.

The primary roles of government should be facilitative, with the most important such roles probably centering around laws and regulations for foreign direct investment, intellectual property rights, agricultural technology transfer, air cargo licensing, and foreign exchange transactions.

Second, the development of a competitive and sustainable cut flower industry does, nevertheless, *require collective action in a number of areas by the main industry stakeholders*. This may apply to some or all of the following areas: floricultural and supply chain training, developing/meeting environmental standards, packaging material standardization, industry promotion (and country reputation), cold chain facility investment, floricultural research and advisory services, and market information collection and dissemination

Third and related, the trends in the industry are such that the *barriers to smallholder (and small exporter) entry and sustained involvement are increasing*.

Fourth, *international development agencies should likewise be cautious about undertaking cut flower subsector specific projects and investments*. This is especially the case in the current market environment which, for several major flower varieties, is one of market saturation or over-supply.

Fifth, in some of the major cut flower importing regions, including the European Union, *the difficulties faced by developing countries in maintaining market access and competitiveness are likely to be exacerbated by rising social and environmental standards*.

Supply-chain reversal and shared learning

The second section of the report describes in detail the changing nature of supply-chains, and in particular the focus on customer requirements and how this influences the development of a supply-chain. This background is provided because it is essential that the South African industry understands these issues when exporting to European markets.

The market positioning strategies of European supermarket chains are predominantly and increasingly characterised by a focus on responding to consumer demands. The demands being targeted by retailers include:

- value for money

- a diverse and changing selection in any product category
- quality
- tracking and tracing to underpin food safety
- freshness/shorter shelf time for products
- convenience
- environmental sustainability.

Using supply-chains to promote best practice

Recent research Bessant *et al*, (1999) commissioned by the UK Department of Trade and Industry has pointed to the particular suitability of supply chains as a context for transferring learning about best practice.

Supply chains have strong potential to be a vehicle for effective transfer of best practice because:

- there is a commonality of interest, focused on delivering value to a particular customer and improving this core process along a supply chain; and
- conditions are conducive for reducing risks, transferring ideas, undertaking joint experiments and capturing other benefits of the shared learning experience.

However, the report emphasises that 'learning is not a natural feature of business networks. It is unlikely to thrive unless it is part of the emergent new models for inter-company collaboration, which stress trust, co-operation and mutual dependence.'

Pre-conditions for successful supply chains

The key elements are:

- the ability to act as a single point of contact for the products required by the UK market
- capability in supplying (or organising) the volumes, at the quality standards expected
- an understanding that to do business, relationships must be developed to reflect the requirements of the market (direct negotiations with retailers, category managers, importer, etc.)
- a willingness to get involved at the marketing end of the chain (organising promotions, etc.) in order to develop markets
- a recognition that to meet market requirements each link in the chain needs to be aware of the market trends and how these trends impact on doing business.

Case studies on marketing in the cut-flower export sector

The third section of the report provides individual case studies on the marketing strategies employed in Kenya, Colombia, Ecuador and Zimbabwe. The Kenyan case is a good example of the evolution of the industry from a "domestic hobby" to supply the domestic market in the 1960s to an international state of the art industry in the 21st century.

Barrett *et al* (1997) identified three types of marketing chain that have evolved in Kenya over the last 30 years. They are complex and dynamic and broadly speaking can be divided into traditional, export oriented and fully integrated:

- First, there is the older more fragmented 'traditional' chain linking small and medium growers to export markets through a series of agreements and contracts with growers, agents, exporters and freight agents.
- Second, there is a partially integrated system, which has developed primarily for large-scale growers who are also exporters.
- Third, and most recently there is the fully integrated chain where production, exportation and freight handling is controlled by one company. This last type of chain predominates in the cut-flower sector and has developed specifically to meet the exacting demands of the European and UK markets.

The third type, fully integrated, is the most important in the cut-flower sector in Kenya. The cases of Colombia and Ecuador demonstrate industries that from the outset were geared towards international markets. They represent fully integrated chains. Zimbabwe demonstrates an industry made up of a few entrepreneurial farmers who, when faced with declining world prices for traditional crops such as tobacco and coffee, diversified into cut-flowers aimed specifically at international markets. The flower export sector here represents a mixture of the second and third types, although the trend is towards the third.

Good practice and conclusions

The fourth and final section of the report concludes with lessons drawn from recent research on supply-chains and good practice drawn from the case studies presented.

The report describes good practices based on: export associations; establishment of distribution networks in Europe; co-ordinated approaches; scale; supplying supermarkets; and export strategies.

In South Africa itself, coordination along fresh supply chains must become more common, arguably mainly motivated by the search for efficiency and standardised quality for the **export** market. Moving to a strongly customer-responsive orientation makes competitive sense for South African growers.

2. INTRODUCTION

2.1. Background

The context of this report is provided by two sources:

- 'An Export Strategy For The South African Floricultural Industry' by Mr Rupert Barnard and Kristel Gaanderse of Kaiser Associates, Cape Town. This study was sponsored by the National Economic Development and Labour Council in cooperation with the Fund for Research into Industrial Development, Growth and Equity. September 2000.
- 'Feasibility Study For The Cutflower Industry In The Province Of Kwazulu-Natal' by Anton Scheepers of The Agricultural and Industrial Marketing Company. February 2001.

The author was commissioned by the South African Flower Export Council (SAFEC) to provide strategic guidance on the development of an export marketing system for cut-flowers with supporting standards. This report focuses on the marketing system, identifying key issues (good practice) of strategic importance to private sector providers. It should be seen as complementary to another report being prepared by the 'Agricultural and Industrial Marketing Company' which is focussing on the integration of marketing and logistics efforts by pooling mechanisms.

A later, complementary NRI report will deal with supporting standards.

A shortcoming in the preparation of this report has been the inability of the author to meet with the industry and other consultants due to previous contractual engagements and budget limitations. To ensure that a clear and thorough understanding of the needs of SAFEC is reached, the author plans to visit South Africa in August/September 2001 to discuss these needs with the consultants providing strategic guidance to the industry. This will ensure that a comprehensive approach to addressing the needs of the industry is devised without omission or duplication.

2.2. Method

In compiling this report, the author used:

- The lessons learnt by cut-flower export industries in both Africa and Latin America. These have been reported in various research reports and papers, the most relevant of which are referred to in this report.
- The author's and colleagues' personal experiences and expertise in the cut-flower sector; and
- Interviews with key individuals in the cut-flower industry in Africa, UK and Europe. These include supermarkets, import agents, consultants and trade associations.

3. LATEST TRENDS IN THE CUT-FLOWER SECTOR IN AFRICA AND THEIR POLICY IMPLICATIONS

Trade in horticultural products is increasingly characterised as a buyer - driven commodity chain. This means that 'buyers and retailers have acquired considerable influence over the chains' as a result of 'their oligopoly power' (Thoen *et al*, in press). The increased concentration of buyers (e.g. supermarkets in the UK[1]) and their strategy of consolidating the supply base to allow for greater due diligence and traceability along the supply chain has had significant implications for horticultural producers and exporters. Formerly, imported produce was channelled through wholesale markets, but there is an increasing trend for direct purchases and the largest UK supermarkets now control 46% of cut-flower imports [Jacky Stephen, Kenya Flower Day presentation, June 2001]. The UK's Tesco supermarket is not only the largest retailer of cut-flowers in Europe, but also in the World [Jacky Stephen, Kenya Flower Day presentation, Hampshire, UK, June 2001]. Exporters linked to the major supermarkets require producers to have management systems that oversee the use of chemicals, undertake audits, and develop monitoring procedures. This development, often prompted by new regulations in developed countries, has important implications for those developing countries where the potential exists for smallholders to develop export potential.

Thoen *et al* report that the Kenyan cut flower experience offers several lessons for emerging market policy-makers and investors, as well as other international stakeholders as follows:

First and most importantly, *the cut flower industry is very dynamic and cannot be led by public initiatives*. Officials and policy-makers in the public sector--regardless of their well-meaning motives-- should be very cautious about intervening directly in this sub-sector for promotional purchases and should avoid any notion of "planning" sub-sector investment and development. Private initiative must drive the industry. This is not an ideological statement but one dictated by the characteristics of the cut flower industry.

The primary roles of government should be facilitative, with the most important such roles probably centering around laws and regulations for foreign direct investment, intellectual property rights, agricultural technology transfer, air cargo licensing, and foreign exchange transactions. Government investment in and support for private investment in transport and telecommunications infrastructure and services could also aid cut flower development. Any more specific support for the industry should be supplemental to and preferably in tandem with actions taken by private investors and organizations.

[1] Multiple retailers now account for 76% of fresh fruit and vegetable sales by value (Dolan et al, p.9).

New Sources of Competitive Advantage

The Kenyan experience well illustrates the very dynamic nature of the industry and the ever-changing challenges to maintain international competitiveness. Kenya possesses a number of basic competitive factors, including a favorable climate, intra-annual consistency in daylight hours, and inexpensive and reasonably skilled labor. Translating these factors into a competitive industry initially required an injection of international floricultural technical and marketing expertise. To expand volumes and lower risks the industry then needed to attain increased control over critical distribution points and did so through investments and contractual arrangements in freight forwarding and air-chartering. Segments of the industry are presently in the next phase of competitive positioning--in the form of adding value to their products (i.e. ready-for-shelf bouquets; environmental codes of practice). More sophisticated applications of information technology, involving the rapid interchange of data and information throughout the supply chain, will likely be a key feature of the competitiveness challenge in the coming years.

Second, the development of a competitive and sustainable cut flower industry does, nevertheless, *require collective action in a number of areas by the main industry stakeholders*. This may apply to some or all of the following areas: floricultural and supply chain training, developing/meeting environmental standards, packaging material standardization, industry promotion (and country reputation), cold chain facility investment, floricultural research and advisory services, and market information collection and dissemination. In Kenya, organizations such as FPEAK and the Kenya Flower Council have undertaken a variety of programs in these and other areas. Such industry leadership is critical--it is difficult to envision a situation where a government could take the lead in these areas and have the programs actually reflect commercial requirements. Still, governments can encourage private activities in these areas and, where private leadership does occur, supplement these initiatives with public resources.

Third and related, the trends in the industry are such that the *barriers to smallholder (and small exporter) entry and sustained involvement are increasing*. With more exacting quality, environmental, and service standards, the industry is becoming more akin to an industrial supply chain rather one which deals with agricultural commodities. Unlike in industrial supply chains -- where there is ample scope for sub-contracting of small components suppliers, for example-- the perishability and investment requirements of many cut flowers create inherent stumbling blocks for smallholder participation. For some twenty-five years efforts have been made to promote smallholder floricultural development in Kenya. The results have not been especially promising and smallholders remain marginal players in the industry. Some opportunities do remain, however, in Kenya and elsewhere. What is important is for governments NOT to pursue unilateral 'public' smallholder support programs but to collaborate closely with interested exporters and grower/exporters and closely integrate smallholder supplies within those channels. Efforts by public agencies to promote smallholder production AND smallholder-based cooperative marketing of cut

flowers are almost certain to fail in today's (and tomorrow's) cut flower competitive environment. They have certainly not been successful in Kenya.

Fourth, international development agencies should likewise be cautious about undertaking cut flower subsector specific projects and investments. This is especially the case in the current market environment which, for several major flower varieties, is one of market saturation or over-supply. With international donor projects there is a risk of 'follow the herd' problems as a number of private investors are each provided similar information and analysis, leading to rather similar types of investments and marketing strategies. This may have been less problematic in an under-supplied and generic market where a new supplier could aim anywhere and hit some (market) target as long as product quality was decent. This applies less today. Today's growers and exports need precise aiming (of products, varieties, distribution channels) to access and survive in a multi-segmented market. Development agency resources and support must enable new or existing growers/exporters to navigate this more challenging investment environment and not simply promote more 'me-too' types of investments by investors observing past developments. Centering support on improving the investment-enabling environment and on strengthening privately-led technical and informational services might be beneficial and reduce the risk of encouraging misdirected new investments.

At their early stages of development, cut flower industries tend to have very limited backward and horizontal linkages. Potential beneficiaries of support are therefore a limited few entrepreneurs and larger numbers of wage labourers. In Kenya it took several decades for the industry to move beyond a narrow enterprise and geographical basis. Even today, however, only a dozen or so farms/enterprises account for most of the industry's output and profitability and the industry continues to have a high foreign exchange requirement. Policy-makers and development practitioners should understand the limitations of the industry for broad-based participation--given its technical and investment requirements. This is certainly the case in terms of stimulating widespread entrepreneurial participation and the inclusion of growers who have very limited resources. In Kenya, broader participation in the industry has essentially come through employment, either via the advances of indigenous Kenyans in company and field management roles or through the involvement of some 25,000 to 30,000 people as wage labourers. It has taken many years to reach this stage.

Fifth, in some of the major cut flower importing regions, including the European Union, the difficulties faced by developing countries in maintaining market access and competitiveness are likely to be exacerbated by rising social and environmental standards. Some of these standards are being developed by retailers; some by the flower auctions; and still others written into national or EU-level legislation. Kenyans, as others, are currently facing a moving target for compliance. There is a need for further clarification and harmonization of standards and regulations and effective communication of

guidelines to growers and exporters in developing countries such as Kenya. In some instances, technical support to help comply with such guidelines and regulations may be necessary and could come through joint public-private initiatives.

4. SUPPLY CHAIN REVERSAL AND SHARED LEARNING

This section highlights two persistent trends in the quest for increased competitiveness –chain reversal and shared learning – which are driving significant change in European (and other international) agri chains.

4.1. Chain reversal

Retailer strategy: 'quality vs price'

A recent report (IG&H Management Consultants, 1999) for the Holland International Distribution Council (HIDC) is based on interviews with ten major supermarket chains in several EU countries on trends in their overall strategies and, in particular, their fresh food logistics. The report characterises the strategies of the supermarket chains along a spectrum from a predominant focus on buying price at one end ('price') to a predominant focus on customer satisfaction at the other ('quality').

The report predicts that all major European supermarket chains will be committed to customer-oriented, quality-based strategies within the next five years.

UK supermarket chains such as Tesco and Sainsburys have been strongly pursuing customer-oriented strategies for more than two decades. It is difficult to predict the impact of the recent entry to the mature UK market of Walmart, a US firm known for its cost-efficiency and price competitiveness. Established UK retailers will certainly respond by looking for ways to make their operations more efficient, but they are expected to continue their traditional emphasis on quality as their competitive base.

Retail chains in Benelux countries are seen as having moved strongly towards customer-responsive strategies in recent years.

German discount supermarket chain Aldi has carved a strong reputation as a value-for-money, lower-price marketer. Observers are detecting a move by Aldi to greater responsiveness to customer demands on dimensions other than price, and expect this trend to intensify in the next few years.

In summary, the market positioning strategies of European supermarket chains are predominantly and increasingly characterised by a focus on responding to consumer demands. These demands include:

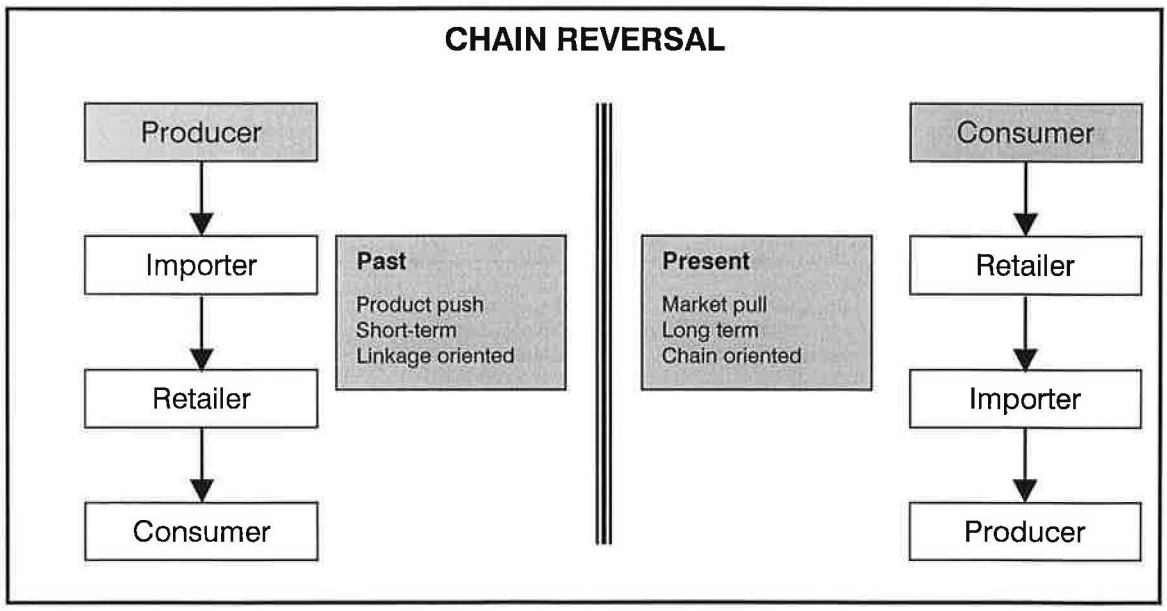
- value for money
- diverse and changing selection in any product category
- quality
- tracking and tracing to underpin food safety
- freshness/shorter shelf time for products

- convenience
- environmental sustainability.

Commentators are pointing to the next wave of consumer demands – the era of 'mass customisation' or 'mass individualisation'. These terms refer to strategies being adopted by some firms in traditional mass markets to move towards much more customer-specific offerings. The introduction of interactive home shopping through supermarket web sites is expected to accelerate this trend.

The changing nature of supply chain relationships

Meeting ever more complex consumer demands requires much greater coordination through the supply chain than can be achieved under traditional arms-length business approaches.



To some degree, European retailers are applying a 'stick' to force cooperation from their suppliers through increasingly stringent standards and monitoring. This is particularly true for product supplied under the private labels of retailers. The private labels have evolved from generic brands offering a value-for-money alternative to manufacturers' brands into retailers' own quality-positioned brands with the retailer assuming the role of brand guarantor. Leading retailers now have branding strategies that aim to position the whole store with their brand, and to use carefully targeted sub-brands to support the desired store image. As the imperative to protect the integrity of the brands increases, retailers take a more and more active role in controlling risk back through the production chain.

In the UK, 'own label' products account for close to half of all food purchased in supermarkets, and the fresh produce category is almost exclusively 'own label'. UK retail chains have been pursuing 'partnership in produce' schemes since the mid 1990s. Here the retailer and selected fresh produce suppliers operate in direct, long term relationships, although typically without formal contracts, and with varying degrees of exclusivity. (Fearne and Hughes, 1999).

Changes in agri-business supply chains – retail strategies and activities

Retail strategy	Branding
	Internationalisation
	Interactive home shopping
Retail activities	Developing shop floor brand
	Investment in the supply chain
	Mass marketing
	Direct customer relationships
	Brand integrity and brand culture

There is also the 'carrot' of preferred relations with retailers for suppliers able to actively support the retailer or the category manager [i.e., managers who have responsibility for specific products in meeting their consumer-focused objectives. This provides substantial opportunities for supply chains to build competitiveness strategies around:

- product innovation
- efficient consumer response
- customer-responsive quality.

Changes in the global food system – retailers demands

✓Supply certainity	✓Category management
✓Just-in-time	✓Distinctive capacity
✓Consistent products	✓Variation, fresh and safe
✓Year round	✓Good price/quality performance
✓Traceability of product	✓Ethical suppliers

4.2. Shared learning

The competitive drive towards co-ordinated supply chains in European agribusiness needs to be understood not just in terms of greater customer responsiveness, but also in terms of strengthened learning capabilities.

The learning organisation

Over the last decade there has been an explosion of interest in learning as a competency important in its own right for competitive advantage in firms. The term 'learning organisation' goes beyond basing competitiveness on knowledge assets, whether it is knowledge embodied in employees or knowledge that is explicitly codified. It points to competitiveness based on being better at learning how to learn.

Competing through knowledge and competing through learning

Not all firms fail and some thrive...The key feature, which they share is an ability to adapt and learn to deal with their rapidly changing and uncertain environments.

Research suggests that there are two important components involved in such learning. The first involves the accumulation and development of a core knowledge base – the 'core competence' – which differentiates the firm from others and offers the potential for competitive advantage. Acquiring this is not simply a matter of purchasing or trading knowledge assets but the systematic and purposive learning and construction of a knowledge base.

The second is the long term development of a capability for learning and continuous improvement across the whole organisation. Recognition of this need has led to growing emphasis on the concept of 'learning organisations' and on the mechanisms through which this capability can be developed.

Source: John Bessant and George Tsekouras, Centre for Research in Innovation Management, UK

One commonly highlighted aspect of learning in organisations, which underpins the Dutch approach to agri supply chain projects, is learning by doing. Learning is a cyclical process involving a combination of experience, reflection, concept formulation and experimentation.

Supply chain learning

An emerging focus in organisational learning looks beyond the boundaries of the individual firm to the learning potential of inter-firm relationships.

Shared learning between organisations offers many potential benefits:

- in shared learning there is the potential for challenge and structured critical reflection from different perspectives

- different perspectives can bring in new concepts (or old concepts which are new to the learner)
- shared experimentation can reduce perceived and actual costs and risks in trying new things
- shared experiences can provide support and open new lines of inquiry or exploration
- shared learning helps unravel the systems principles, seeing the patterns – 'separating the wood from the trees'
- shared learning provides an environment for surfacing assumptions and exploring mental models outside of the normal experience of individual organisations – helps prevent the 'not invented here' syndrome and other negative effects.

'...Learning is a requirement in the operation of effective supply networks. Learning new ways of working, particularly those, which involve enhancing the value stream or eliminating waste within that stream, are a key agenda item in the development of the 'new' forms of supplier/customer relationships. There is also a major need to change the frame of reference of players within sectors concerning the nature and operation of these relationships, and this culture change will require extensive 'unlearning' of outdated and inappropriate behaviours as well as acquisition of new, more co-operative models based on shared goals and continuous improvement.'

John Bessant and George Tsekouras, Centre for Research and Innovation Management, UK.

Recent research (Bessant *et al*, 1999) commissioned by the UK Department of Trade and Industry has pointed to the particular suitability of supply chains as a context for transferring learning about best practice.

Supply chains have strong potential to be a vehicle for effective transfer of best practice because:

- there is a commonality of interest, focused on delivering value to a particular customer and improving this core process along a supply chain; and
- conditions are conducive for reducing risks, transferring ideas, undertaking joint experiments and capturing other benefits of the shared learning experience.

However, the report emphasises that 'learning is not a natural feature of business networks. It is unlikely to thrive unless it is part of the emergent new models for inter-company collaboration, which stress trust, co-operation and mutual dependence.'

4.3. Preconditions for successful supply chains

Case studies of successful European agri-supply chains consistently highlight the importance given to achieving both chain reversal and effective shared learning.

More fundamentally, however, Dutch experience shows that success in agri-supply chains is built on trust between chain partners. In some cases, ways have had to be found to transform previously mistrustful or even adversarial supply chain relationships, and to address the ongoing management of sometimes difficult relationships.

The establishment and maintenance of trust is a crucial precondition for successful supply chain management.

Building chains: economics plus trust

'..sharing information, building trust and learning from each other have a profound effect on the performance of ... chains. The lack of trust and the lack of attention to forming a solid social foundation will almost certainly lead to the social as well as the economic failure of chains ... Therefore, trust, information transfer and learning add useful insights to economic theories that should be taken into serious account while building new chains.'

Source: R Janzen and J J de Vlieger, Agricultural Economics Research Institute, Netherlands.

The key elements of successful supply chain management are:

- the ability to act as a single point of contact for the products required by the UK market;
- capability in supplying (or organising) the volumes, at the quality standards expected;
- an understanding that to do business, relationships must be developed to reflect the requirements of the market (direct negotiations with retailers, category managers, importer etc);
- a willingness to get involved at the marketing end of the chain (organising promotions etc) in order to develop markets;
- a recognition that to meet market requirements each link in the chain needs to be aware of the market trends and how these trends impact on doing business.

5. CASE STUDIES ON MARKET STRATEGIES IN THE CUT-FLOWER EXPORT SECTOR

5.1. Introduction

This section describes the marketing strategies employed in Kenya, Colombia, Ecuador and Zimbabwe. The Kenyan case is a good example of the evolution of the industry from a " domestic hobby" to supply the domestic market in the 1960s to an international state of the art industry in the 21st century.

Barrett *et al* (1997) identified three types of marketing chain that have evolved in Kenya over the last 30 years. They are complex and dynamic and broadly speaking can be divided into traditional, export oriented and fully integrated:

- First, there is the older more fragmented 'traditional' chain linking small and medium growers to export markets through a series of agreements and contracts with growers, agents, exporters and freight agents.

- Second, there is a partially integrated system, which has developed primarily for large-scale growers who are also exporters.

- Third, and most recently there is the fully integrated chain where production, exportation and freight handling is controlled by one company. This last type of chain predominates in the cut-flower sector and has developed specifically to meet the exacting demands of the European and UK markets.

The third type, fully integrated, is the most important in the cut-flower sector in Kenya. The cases of Colombia and Ecuador demonstrate industries that from the outset were geared towards international markets. They represent fully integrated chains. Zimbabwe demonstrates an industry made up of a few entrepreneurial farmers who, when faced with declining world prices for traditional crops such as tobacco and coffee, diversified into cut-flowers aimed specifically at international markets. The flower export sector here represents a mixture of the second and third types, although the trend is towards the third.

The Zimbabwe case describes the use of marketing pools. A marketing pool is a means of combining the crop volumes of many growers under the marketing skills of one or a few specialized enterprises—in the case of the flower export industry this is usually an exporter/agent with sophisticated cool-chain facilities. Each producer then receives payment based on the average price received by the pool for each grower's consignment of flowers depending on the quality and quantity of product. Pool expenses are divided

in various ways among the participating growers, and are deducted prior to pool settlement.

In all cases only a small proportion of production goes to the local market whose capacity tends to be very limited. This is incidental and is simply a function of flowers not making the export grade, but the domestic market does allow for limited cost recovery.

Each of the industries in these countries are complex and dynamic. They are entering their mature phases, especially Colombia, Ecuador and Kenya and are well positioned not only to respond swiftly to market signals, but also to set trends. This is in contrast to the South African industry where the cut-flower export sector is still in its infancy with the exception of Proteas. Consequently, the South African industry is at the right stage of development to incorporate the instructive lessons from other countries in its own strategic development plans.

The evolution of the cut-flower export sector in each of the countries is described below. In particular, a brief description of the industry, a description of the national trade association and marketing arrangements are described.

5.2. Colombia

Brief description (Source: ASOCOLFLORES, Colombia, 2001)

Most Americans picture the Netherlands when thinking of foreign flowers, but Colombia's farmers supply 6 out of every 10 cut flowers sold in the US.

EXPORTS	US$ millions
1992	340.8
1993	381.9
1994	426.8
1995	475.7
1996	509.4
1997	544.5
1998	556.2
1999	550.5
2000	580.6

Colombia's cut-flower industry now amounts to $580 million in annual exports employing 70,000 people directly and 50,000 people in ancillary industries. This success comes after 30 years of hard work and investment - with a huge and growing market only a three-hour flight away. But trade preferences have

given Colombia an edge on competitors for the US market, and helped to boost productivity. Since passage of the Andean Trade Preference Act (ATPA) in 1991, Colombia's flower industry has employed thousands of people in rural areas who might otherwise have ended up working in illicit crops.

There approximately 450 companies devoted to the production and exportation of flowers, while the area allocated to flowers growing is approximately 4.200 hectares.

More than 40 types of flowers are grown, including carnations, pompon, roses, mini-carnations and alstromeria. Other sorts, resulting from the sector diversification policy, include gypsophilia, lilies, gerberas and statice.

Production is completely export oriented, leaving only 5% of the total production to the national market with a low-quality product known as "national flower", which is the left-over from the exportable flowers.

Trade association

ASOCOLFLORES (Colombian Flower Growers Association), the only flower grower association in Colombia, was organized in 1971 and has about 240 members or about 90 percent of all the Colombian flower producers.

It was created as a non-profit industry association. This was a response to the need for exporters to join forces and defend their position in the world flower market, and to seek integrated development of all aspects of the industry-production, technology, economic and environmental scientific research, transport and general welfare for its workforce.

Asocolflores represents the industry in economic committees and councils in both public and private sectors, to ensure that flower exports get their fair share in the bilateral and multilateral trade agreements promoted by the new economic order.

As a means of consolidating their markets, Colombian exporters and importers in Florida formed the Colombia Flower Council (CFC) in 1987 in Miami, with the objective of promoting the consumption of Colombian flowers in the U.S market. The activities of CFC have been highly effective.

In international terms, Asocolflores is a member of various organizations such as Union Fleurs, the WF&FSA Wholesale Florist and Florist Suppliers of America, the AIPH International Association of Horticultural Producers, the SAF Society of American Florists and the P.B.E.C. Pacific Basin Economic Council and the British Chamber of Commerce.

The Technical Department of Asocolflores conducts training and research projects, which will be of use for the development of the industry in a sustainable way.

Investment is administered through a virtual research centre, which gathers up the needs brought up by producers, creates strategic alliances with universities and research centres with capacity to work on the problems facing the Colombian flower industry. It also implements dissemination and training in the results of research.

The Asocolflores research programs have two general objectives: the development of environmentally-positive production techniques, which will minimize the environmental impact of the industry; and the optimization of production processes.

Main areas of research:

- Integrated Management of Pests and Diseases (IPM)
- Soil management, irrigation and fertilization
- Climate management for Flowers in Greenhouses
- Physiology and Post-Harvest Requirements
- Production Models
- Prediction tools to optimize production.

Asocolflores has set up agreements and projects with a number of Colombian entities, such as the CIAA agribusiness research center and CIAT, the tropical agriculture research center. It also has projects with Universidad Nacional, Universidad Catolica de Oriente and Universidad de los Andes. In the United States, it supports research in several universities through the American Floral Endowment. Results are then transferred and adapted to Colombian conditions.

Marketing

Fresh flower producers in Colombia have always been concerned by developments in the United States market since that market has always been the major destination of Colombia's production. (From the perspective of the US, Colombia is the major source of imported flowers.) In the beginning all commercial production from Colombia was exported to the United States, but since then some diversification has happened. Compared to almost 100 per cent at the start, in 1995 the North American market took 82 per cent of the total exports (and 85 per cent of exports by volume), and in 1996, 77 per cent (80 per cent). The United Kingdom and Germany have been the main buyers of Colombian flowers in Europe. In 1996 the European Union took 14 per cent of Colombian flower exports. Other countries in the world bought the remaining 9 per cent. It is important to note that at the international level Colombia is the second largest exporter of flowers after the Netherlands and its participation in the world flower trade is 11 per cent.

Over time Colombian producers have diversified not only export markets but also their products. Carnations and chrysanthemums were the first flowers produced in Colombia at the end of the 1960s. Later with experience acquired in the production of more fragile flowers and infrastructure

investments completed, Colombia started to export roses. In 1996, for the first time sale of roses exceeded those of carnations; indeed in recent years, the most dynamic exports have been non-traditional tropical flowers. Currently, over 50 varieties of flowers are produced.

Important changes have happened in the size of establishments and concentration of flower production. Up to the 1980s it was possible for a landowner in Sabana de Bogotá to enter into flower production replacing livestock or vegetables. Today few farms of less than 5 hectares can survive mainly for reasons of economies of scale achieved by larger establishments. Exchange rate instability and marketing problems of a perishable product also favour large farms. Small establishments, which have managed to survive sell their harvest to large establishments which have the necessary installations for grading, packaging and cold storage and which can count on a highly efficient distribution network abroad.

5.3. Ecuador

Brief description (Source: EXPOFLORES, Ecuador, 2001)

The cut flower industry in Ecuador has diversified from producing mainly roses, carnations, and chrysanthemums into producing gypsophilias, pompon chrysanthemums, statice and other flowers.

Between 1990 and 1997, the number of producers escalated from 39 to 179 and the total cultivated area went from 286 hectares in 1990 to 1,549 hectares in 1997. Today the industry is worth approximately US$ 150 million. About 75 percent of the total production area is under greenhouses, and the balance in open fields. Traditionally, over 90 percent of Ecuador's total cut flower production is exported.

Strong consumer demand for roses has helped Ecuador to become a distant third-ranked player in the U.S. market

In 1995, exports of cut flowers from Ecuador is estimated at 22,000 tons, up 16 percent from 1994. Roses accounted for about 50 percent of total exports; carnations, chrysanthemums, and gypsophila accounted for most of the remaining cut flower exports.

Trade association

Floriculturists belong to the Ecuadorian Association of Flower Producers and Exporters -- EXPOFLORES – which includes marketing companies, exporters and plant dissemination companies. EXPOFLORES develops training and technical assistance programmes, enters into agreements with other public and private institutions, debates and formulates proposals for the development of the sector, compiles statistics, and disseminates information on the position of floriculturists on financial, social and environmental issues.

EXPOFLORES has agreements with PROEXANT, which is a private technology development corporation incorporated with the purpose of providing technical assistance, information and training to the non-traditional export sector. Through these agreements, PROEXANT monitors companies and issues quarterly reports, mainly evaluating work-related risks and suggesting how to face them and introducing new production technology.

FEDEXPORT is a private association of general exporters which promotes export, compiles information on international market matters and is the entity with close ties with the Government. It was FEDEXPORT which pressed for the Foreign Trade Act which resulted in the creation of the Corporation for the Promotion of Exports and Investments, financed by the private sector. This organization has a Strategic Plan to 2020 for the promotion of exports. It also has a support programme for flowers which is handled through PROMERCADOS.

Marketing

From the start, the flower industry distinguished itself by separating production and marketing activities. This specialization within the industry contributed to the dynamism in the sector. As the number of producers has increased so have new marketing companies. Employment provided by these companies is considered as indirect employment. Most marketing companies are either totally or partially foreign and are very knowledgeable of the international flower trade. The following 21 companies exist (source: EXPOFLORES, 1997): American Flowers; Arco Valeno; Biocare Limited; Color from the World; Comendisa; Comercializadora Agrícola Caribe; Comprinz; Ecoflowers; Ecuaflor; Ecuplanet Trading; Ecuaplanta; Florimex Verwal Tung GmbH; Incaflor; Maximafarms Ecuador; Milflowers; Nevado Naranjo Ecuador; Noeliaflowers; Panorama Roses; Quito Inor Flowers; Trevis; US Flora Corp.

Some of the small flower producers have initiated direct marketing to flower buyers, especially from the United States, avoiding the intermediation by marketing companies.

Many of the companies operate on trust, avoiding the signing of contracts. The relationship with the marketing companies is transparent, as the producer always knows the final prices paid by his clients.

As can be appreciated, there are wide margins for the marketing chain, especially with respect to international shipping, freight and distribution. Most established producers knowledgeable of the market would prefer continuous demand at the sacrifice of higher prices for sporadic orders. The role of the marketing company is important in this chain, as it makes a contribution in terms of its knowledge of clients, margins, quality and costs.

The most important buyer is the United States, followed by the Russian Federation, and Europe, where the Netherlands, Germany, Italy and

Switzerland stand out. In South America, Argentina and Brazil dominated. Marketing follows three main patterns:

- sale to direct importers (especially United States, Canada and Europe);
- sale through contract;
- sale through local collectors/exporters (mainly Russian Federation).

The information presented above shows that Ecuadorian flowers have attained international competitiveness, especially in the American and European markets. The Russian market should be highlighted, as it shows considerable growth potential. Although these are year-round markets, peaks occur on Valentine's Day, Mother's Day, Christmas and Thanksgiving.

5.4. Kenya

Brief description (Source: Kenya Flower Council, Kenya, 2001)

European imports of Kenyan flowers have grown remarkably in recent years, increasing by 217% in value between 1992-1998. In fact, by 1998 Kenya had surpassed Colombia as the third largest supplier to the European markets. The industry output now exceeds 38,000 tons annually worth US $100 million in export earnings.

Air freighted daily to Europe, Kenya's flowers are traded at the Dutch flower auctions, distributed to German wholesalers and delivered to supermarkets in Britain. Holland is the largest market with 65% of the business followed by the UK with 23% and Germany 7%.

The production of flowers is a key part of Kenya's rapidly growing horticultural industry - the fastest growing sector of the economy and third in importance in the nation's export trade. There are presently some 5000 farmers or enterprises growing cut flowers for commercial purposes in Kenya. However, production for export is concentrated in some two dozen large or medium scale flower operations. The twenty five largest producers account for nearly 75% of total exports. The larger flower operations range in size from 20 to over 100 hectares with a labour force ranging from 250 to 6000.

Over 500,000 people are employed either directly by the industry or by ancillary suppliers, paying higher than average wages and providing health and educational benefits.

As the industry has grown and matured, Kenyan growers and exporters have kept pace with consumer preferences in terms of flower varieties, assortments and colours. Today, Kenya commercially produces over 30 different types of flowers, typically several varieties each. Despite the apparent breadth of Kenya's flower basket, the sector is highly dependent on a few varieties for its profitability and the top three flower types--roses, statice

and alstromeria have maintained their leading market position since the mid-1990s.

Trade Association

To ensure that accepted international standards of environmental protection and worker welfare are adhered to in Kenya and are fully recognised in the markets of Europe, approximately 30 large independent growers and exporters came together in 1994 to form the Kenya Flower Council (KFC).

KFC is a limited liability company formed by six producer-exporters. The eight-member board is elected annually by the membership. After a one-off joining fee, members pay a subscription based on tonnage exported. Voting rights are allocated according to the size of subscriptions.

Membership is open to all producers, exporters and propagators of cut flowers in Kenya, but all members must meet minimum social and environmental standards within the first year of membership as set out in the KFC code of practice. KFC's current focus is on enhancing the position of Kenyan cut flower producers, largely through enhancing environmental and production standards, increasing members' awareness of market issues, and maintaining credibility in overseas markets. A small secretariat and occasional consultancies implement its activities, which are all self-funded.

The KFC has 4 stated aims:

- To foster the responsible and safe production of cut flowers and related products with due regard for the interests of the community.
- To promote a safe working environment for all farm staff.
- To ensure the welfare of all workers in accordance with the laws of Kenya.
- To grow flowers in such a manner to safeguard the environment.

The methods of achieving these objectives are set out in the KFC Code of Practice. By joining the KFC, members commit themselves to the requirements and standards of the Code and make themselves available for continuous farm audits every six months.

In addition, KFC and a random selection of members are audited twice yearly by Bureau Veritas, the international inspection organisation, thus ensuring that the high standards are maintained.

The KFC Code of Practice was drawn up in close collaboration with Kenya's Ministry of Agriculture, the Horticulture Crops Development Authority, the Ministry of Labour and the Pest Control Products Board of Kenya. The main headings of the code of practice are:

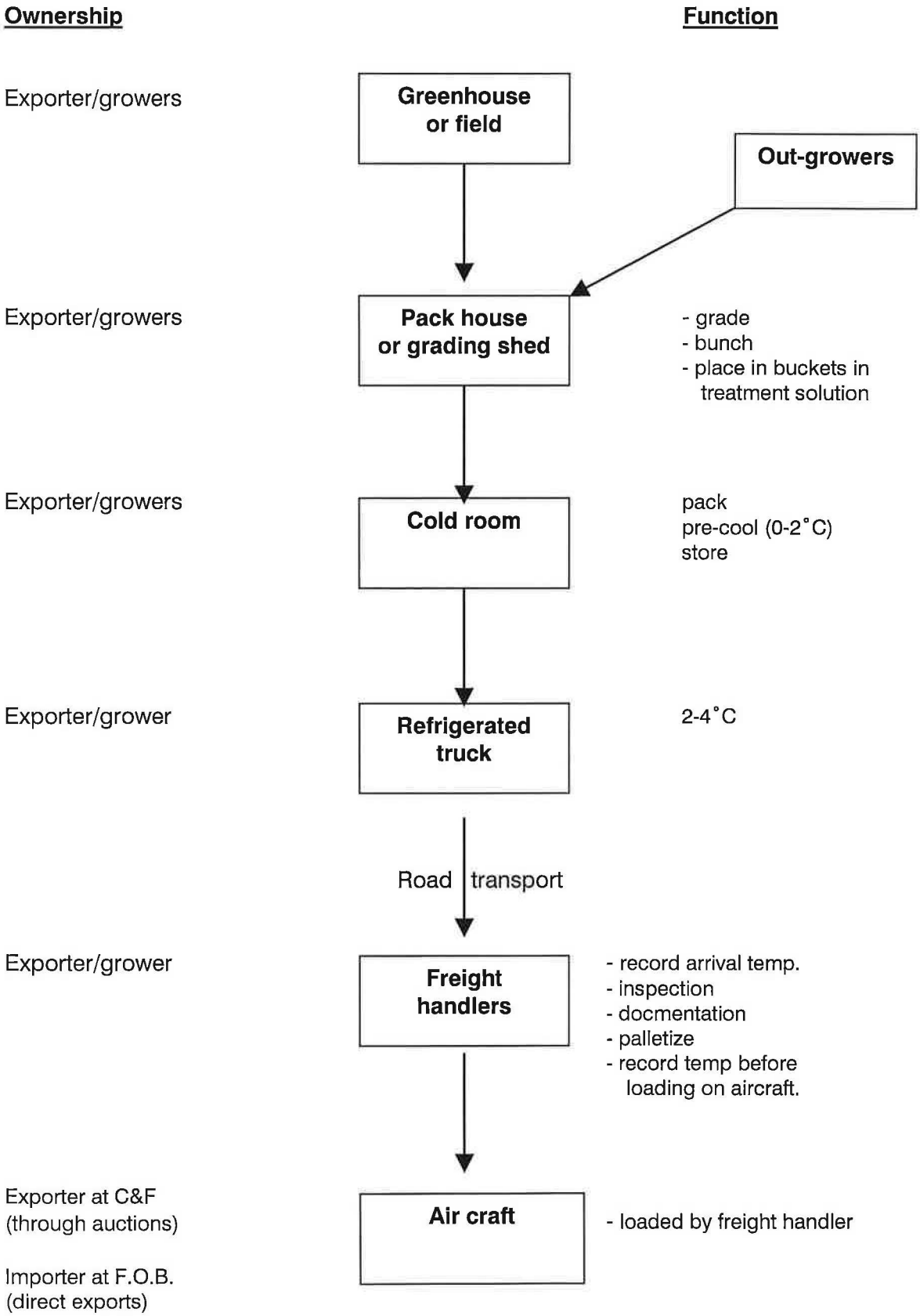
- Farm management responsibilities and proper documentation;
- Crop protection strategy;

- Safe use of pesticides;
- Application of pesticides and protection of workers;
- Transportation, storage and disposal of pesticides;
- General worker welfare;
- Protection of the natural environment.

Marketing

Most of the larger operations hire professional managers, including expatriates. Several large growers have forward links with freight firms, importers and agents in Europe and most supply both the Dutch auctions and UK supermarkets. These growers possess the product range and volume required to fulfill a sales programme, as well as the sophisticated facilities and quality assurance systems to meet supermarket requirements. The concentration of the industry towards larger producers/exporters is likely to continue, as security within the supply chain requires investment in post-harvest facilities, sophisticated logistics, large volumes and close relations with European auctions/agents/importers.
Supplementing these larger growers are several dozen small to medium scale commercial growers, each with between five and twenty hectares under production. Some have as many as 100 employees. These growers collectively account for some 10-15% of Kenya's total exports. In some cases these growers export directly, but as competition has intensified many have shifted to supplying larger firms rather than shouldering the risks and transaction costs associated with exporting.

The supply chain between the farm and air-freighting of Kenyan flowers to overseas markets is illustrated in the diagram below.



Source: Thoen, R., Jaffee, S., and C. Dolan, in press. 'Equatorial Rose: The Kenyan-European Cut Flower Supply Chain' in R. Kopiki (ed.), Supply Chain Development in Emerging Markets: Case Studies of Supportive Public Policy, Boston: MIT Press.

Approximately 90% of Kenyan flowers are handled by **four** specialised air-freight forwarders, which consolidate consignments from growers, palletize and load them directly onto commercial or charter airlines. Freight forwarders check quantities, varieties and temperatures, and keep flowers in a conditioned atmosphere until they are transported to the plane. They also facilitate customs and inspection by the Kenya Plant Health Inspectorate Service for phytosanitary certificates. Smaller exporters, which cannot afford the services of freight forwarders, use the fresh produce cargo shed of Kenya Air-Freight Handling Ltd (a subsidiary of Kenya Airways). This cargo shed does not provide adequate cold storage, resulting in higher flower temperatures and lower quality.

5.5. Zimbabwe

Brief description (Source: Horticulture Promotion Council, Zimbabwe, 2001)

The Zimbabwean horticultural export industry continues to experience phenomenal growth since inception in the mid-1980s and is now the third largest agricultural commodity after tobacco and livestock. In addition, horticulture is acknowledged as the second largest foreign exchange earner after tobacco and accounts for approximately 3.5 <4.5% of GDP. Foreign exchange earnings have increased by an average of 30% per annum over the past ten years.

The success of the industry has been based on free market situation requiring considerable entrepreneurial flair from producers. Most exporters employ agents who act on their behalf, and some growers access expertise in the form of consultants.

The horticultural sector is considered strategic in terms of high employment opportunities since most production systems are labour intensive. On average a project creates an additional 25 to 30 jobs per hectare. There are also high employment opportunities for women, who tend to be the most underprivileged in the Zimbabwean society. Experiences have shown that women are more productive than men in harvesting, grading and sorting of products. The sector is also a significant earner of foreign currency thereby improving the country's terms of trade in addition to numerous downstream benefits in the packaging, processing, input suppliers and transport industries.

Horticultural production and exports have been the fastest growing sector in the Zimbabwean economy registering a growth rate in excess of 30% per annum. In the last fifteen years horticultural exports have grown from US$3.515 million in the season 1985/86 to US$139.518 million in 2000/1. Prospects for continued growth are encouraging. Of significance is the fact that for all product groups, the most important export destination is the European community, with 99% of cutflowers, 89% of vegetables, herbs and spices, and 75% of citrus. Specific country breakdowns are given in the attachments. It is clear that the bulk of the cutflowers are destined for Holland

(1999/2000 -85.65%), the bulk of the fresh produce is destined for the United Kingdom (1999/2000 - 62.29%), whilst the citrus is less country specific, being destined mainly to France, UK, Germany and Holland (1999/2000 – 78.60%).

Floriculture has fast risen in stature as a valuable exporter of cut flowers. Today, it ranks as the second largest in Africa, behind Kenya, second amongst ACP exporters, and is the fifth biggest provider to the EU. Floriculture now accounts for 64 per cent of the total value of horticultural exports and 27% by volume. In the year ending June 2000, this amounted to 19, 488 tonnes worth US$89.65million –the latter marking a 24% increase over the previous season.

Currently, most exports, spanning a season mid-September to late May, are channelled to the Dutch auctions, though the UK, France, South Africa and the United States are gaining in importance as direct destinations. The Far East and Australia have also been earmarked for expansion.

Roses spearhead exports, with the peak supply period between October and April, when European production is low. Approximately 86% of rose exports are channelled to the Netherlands and six per cent to South Africa, with the balance largely destined for Australia, the Far East, Germany, the UK and the United States. Overall, exports have risen by 21% annually over the last 10 years. In line with this, production has risen to around 400 hectares, with Zimbabwe now the largest rose producer in Africa.

Much success has also been achieved with asters and proteas – both of which are popular in Europe. To an extent, this reflects moves by growers to diversify their offer, combined with trends toward protected cropping, particularly under plastic, which could present new opportunities. At present, just 30% of crops are grown outdoors. In fact, the provision of speciality lines – many available on a year-round basis is seen as a way forward for the future, along with hand-tied bouquets.

To back these initiatives, greater focus is being placed on improving yields and quality, with more attention paid to direct marketing and attaining recognised eco-labels.

Against this backdrop, production is increasing, with total output – of which 99% is exported – predicted to rise by 15% alone in the 2000/1 season. Apart from in the south, plantings are fairly widespread, with the highest concentration in the Highveld and the Eastern Highlands.

In spite of the progress made, difficulties still remain. The industry is fragmented– over 250 growers involved – with the average size of holding estimated at 4 hectares. This has made distribution and logistics difficult. At the same time competition on the global market place has heightened, particularly from Kenya, Israel and Colombia. Further concerns have

surrounded high interest rates, rising inflation, high duties on inputs and the insecurity from land reform.

The extent to which the above projected growth can be sustained in the medium to long term period will depend on the identification of new markets and efficient marketing channels, and the alleviation of existing and new constraints facing the industry.

Trade association

The Horticulture Promotion Council (HPC) of Zimbabwe was formed in 1984. It is producer based and is the central co-ordinating organisation of the horticulture sector providing an interface between the industry, government and the international community. It is responsible for four main categories; fresh produce, citrus, flowers and deciduous fruit. The HPC derives its income from membership fees and levies on horticultural exports. These levies are 0.5% of the F.O.B value of members' exports.

The HPC reviewed the business environment in June 2000 and compiled an industry strategic plan defining a strategic profile, create focus and seek to address the industry's key constraints.

The mission of the HPC was recently defined as: "To be the Zimbabwean producer based association whose primary role is to create and sustain an enabling environment for the maintenance and expansion of horticulture by promoting the development of markets and taking action necessary to maintain acceptable standards to secure and protect these markets."

The HPC Executive seeks to achieve this by:-

- Formation of Specialist Associations, presently consisting of;-
  i. Deciduous Fruit Growers' Association (DFGA),
  ii. Citrus and Sub-Tropical fruit Growers' Association (CSFGA),
  iii. Export Flower Growers' Association (EFGAZ),
  iv. Fresh Produce Producers' Association (FPPA),
  which fall under the HPC and are represented on the HPC Executive Committee.
- liasing with Government and formulating or participating in the formulation of national policies, objectives and standards pertaining to the production and marketing of all forms of horticultural produce within Zimbabwe and abroad.
- administering the collection of levies and Reserve bank Balance of Payments returns;
- advising and improving packaging and processing equipment and transport links for the distribution and export of horticultural produce;
- assisting producers to secure suitable seed, seedlings, clones, cultivars and plants and to acquire all irrigation and mechanical requisites, fertilisers, pesticides and finance necessary for the growing and harvesting of horticultural products and to assist those involved in the packaging and processing of horticultural produce to acquire all the plant, machinery,

finance and materials necessary for them to carry out those functions in a manner best suited to the export of horticultural produce;

- assisting Zimtrade in establishing appropriate export promotional activities;
- collating and processing production and export statistics as well as market trends;
- compiling and distributing the Horticultural Quarterly Magazine and appropriate airfreight newsletters where necessary;
- co-operating with NGO's and interested third parties on the monitoring and evaluation of ethical trade policies and improvement of worker welfare;
- determining and instituting minimum standards for quality control and packaging;
- establishment of linkages to enable small scale growers to create synergies with established exporters and subsequently benefit from access to export markets;
- facilitating quality and diversity the HPC is working on the establishment of an EU-accredited official Quality Control Inspection Authority to be initiated by donor funds;
- promoting every aspect of the industry and attending, where financially possible, exhibitions promoting horticulture and Zimbabwe in selected markets.
- identifying and selecting appropriate targets for marketing Zimbabwe's horticultural produce and to encourage the production of crops relative to selected target markets;
- implementing an industry wide Code of Practice to assure foreign markets that horticulture is grown in accordance with internationally accepted norms concerning ethical, social and environmental concerns;
- in conjunction with Zimtrade, co-ordinating market research and the systematic collection, analysis and dissemination of market information;
- maintaining a close liaison with the three Farmers' Unions especially on national issues;
- portraying a favourable public image the HPC plays the industry spokesperson role;
- providing appropriate technical assistance to growers, processors, packers and exporters;
- providing appropriate technical, financial and managerial advice to growers, processors, packers and exporters of horticultural produce;
- International networking such as representing members' interests on influential international institutions such as donors, World Bank, IMF, embassies;

The HPC was instrumental in establishing a Code of Practice for the whole industry in 1994. Today, all members of HPC must comply with principles set out in the code of practice. To achieve this, growers are audited on a regular basis against the HPC code of practice and the HPC code of practice is, in

turn audited by Bureau Veritas. Currently, the HPC code of practice, the Dutch MPS and the German flower label (BGI) are all well represented in Zimbabwe.

Marketing

In Zimbabwe pooled marketing systems are used. In a pool marketing system growers consolidate their individual exports into a single consignment for a specific targeted market. One such scheme is operating in Zimbabwe where a local syndicate has about 50 small-scale growers out of which about 22 are full-time. The syndicate exports roses, asters and a wide range of field flowers. To qualify under the pool system a grower must have at least one season of flower growing experience before they graduate into a full time supplier. The grower is directly responsible for production, packing and local transport to the agent coldstores located at the airport. The crop is therefore delivered ready for road-hauling or airfreighting to international markets.

Growers are invited to join this system on the following three criteria;

- varieties of flowers they grow;
- the quality of their production; and
- commitment to multiple marketing.

The agent on the other hand is responsible for;

- marketing the crop;
- airfreight or roadfreight logistics;
- export documentation;
- technical consultancy; and
- promoting cohesion within the syndicate through field days once a month rotating the venue amongst all the growers.

In exporting a particular consignment one Master Airway Bill (MAWB) for each flight is cut for the whole group of exporters. This is done to reduce freight forwarders' costs to a minimum. The growers' individual flower exports are consolidated into a single consignment for a specific target market and exported under one brand name.

The price paid to the grower depends on the price fetched by the grower's product on the overseas market. The syndicate has its own coding system for its growers, which it uses in monitoring exports and is therefore maintained in all transactions.

The pool system's diverse marketing has the following advantages:

- Greater returns to the grower by not allowing the syndicate to be tied to specific buyers or wholesalers, thereby maintaining the right to pick the highest spot prices on the market.

- Ability to take advantage of all the airspace available out of Harare. This is possible because the syndicate has positioned itself in several and diverse markets.
- It maintains a longer season than the traditional six months European winter; in the off-season flowers can be sold to complementary markets such as South Africa and Australia.
- Growers do not incur huge marketing costs especially in penetrating new markets.
- The syndicate provides bridging finance for airfreight costs, thereby relieving the growers of the usual huge financial burden of raising airfreight costs. The grower only pays these costs on receipt of payment.
- The syndicate offers a cost effective trucking service to Johannesburg airport twice a week. This service is used for South African, USA, Australia and the Far East bound consignments.

The pool system is not, however without disadvantages. The grower incurs all the total risks of the product until it is sold. The usual risks such as physiological damage to the product (e.g., frozen flowers, loss of quality due to delays and breakages of corrugated boxes); and collapse of the market are borne by the grower who has absolutely no control over the whole chain of the product delivery from the time it is taken from the farm. There is also the added risk of lack of a definite or guaranteed market as prices offered by importers are dictated by demand and supply rendering marginal products not viable when the markets are depressed.

Because floriculture is an export business, growers rely heavily on marketing agents to sell their products. While one or two of the big growers export directly, most operate through companies that have been formed to market cut-flowers. The EFGAZ Growers Handbook lists nineteen exporters and four forwarding agents. Most of the marketing agents use separate freight forwarding companies for handling transport. Only one marketing company with its own coldroom and freight forwarding facilities was found in the sample interviewed. It appears that growers tend to establish permanent relations with a particular marketing agent, although this is by no means universal. Those agents who do establish permanent relationships with growers appear to invest in providing growers with information on quality requirements. Some even do their own quality control testing. They also attempt to establish permanent relations with particular outlets in the destination countries, although the relatively small volumes of Zimbabwean production make this difficult.

Other agents essentially act as local buyers, making up their own consignments from a number of different growers. These agents tend to supply the auction markets, rather than specific outlets. It was suggested to us that this type of arrangement leads to less concern about the quality from individual growers.

At peak periods of the season, even agents with permanent relationships will seek ad hoc suppliers to make up consignments to meet the larger quantities they have contracted to supply. This means that there is competition amongst the agents, with consequent pressures on them to be efficient and to maintain the quality of their services.

The intricacies of agents' arrangements have not been explored in detail, although it is clear that these have important implications for the viability of the industry. It is common in the industry for consignments to be discarded at the destination because they are regarded as substandard. The testing for this is based on sampling, so that it is possible for acceptable quality flowers to be discarded because they are pooled with substandard ones. Some agents base the price paid to the different growers in a consignment on the average for the whole consignment. There is then little feedback to the individual growers about the quality of their produce. Others give detailed feedback to the growers about the prices received for their individual output. In the long run, it seems to us that this latter approach is more conducive to raising quality in the industry. However, the costs of freighting can be reduced by pooling, so that small grower have to rely on it. If the commission to agents is influenced by the amount of information and feedback they provide, it will be rational, at least in the short run, for small growers to trade off the higher quality for the lower cost service provided by pool marketing.

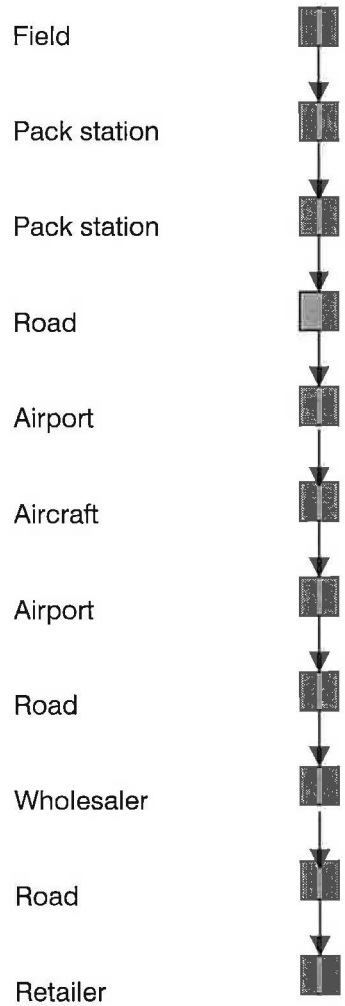
Source: Davies, Robert. 2000. The impact of globalization on local communities : a case study of the cut-flower industry in Zimbabwe. International Labour Office, Southern Africa Multidisciplinary Advisory Team (ILO/SAMAT), Action Programme on Globalization, Area-based Enterprise Development and Employment. Geneva : ILO.

6. GOOD PRACTICE AND CONCLUSIONS

6.1. Good practice

The perishable nature of cut flowers dictates the nature of the supply chain. Each step in the chain introduces stress-inducing factors and as stress accumulates as fresh flowers move along the chain so it adversely influences flower quality and shelf-life. So the shorter the chain the better—see the diagram below.

The Supply chain



Source: *International Trade Centre UNCTAD/GATT (1993), Manual on the Packaging of Cut Flowers and Plants, Geneva, Switzerland: ITC, p5.*

The shorter, cooler and more efficient the supply chain the greater the returns to the grower. Good practice (described below) must reflect this in the development of suitable marketing mechanisms. Moreover, although general 'good practice' guidelines can be identified, these have to be adapted to the specific circumstances that pertain in a particular country, in this case South Africa.

> *Cut flowers are among the most highly perishable of all agricultural products and so must be harvested, handled and transported with both extreme care and maximum speed and efficiency. Furthermore, because fresh cut flowers do not undergo any processing between harvesting and reaching the final consumer, growers are essentially producing a finished consumer product. Unlike most farmers, cut flower growers are similar to industrial producers of consumer product in that they must be aware of trends in consumer behaviour. The market structure for cut flowers is one of monopolistic competition—in contrast to the nearly perfectly competitive market for most agricultural commodities. Cut flowers sold in international markets often retain the identity of the individual grower, and so growers who can successfully differentiate their products and better satisfy their customers have the potential to achieve a level of profits far beyond what is common in other agricultural sectors.*
>
> ***Source:*** *Malter, Alan, Reijtenbagh, Ard and Steven Jaffee, 1999, 'Profits from Petals: The Development of Cut Flower Exports in Southern Africa', in S. Jaffee (ed.), Southern African Agribusiness: Gaining Through Regional Collaboration, World Bank Technical Paper, Washington, DC: World Bank.*

Good practice guidelines

- **Export associations**. The key to successful marketing of cut-flowers to Europe is based on a single organisation that represents both commercially and legally (and is recognised as such) the interests of the whole sector. In all the cases that are presented above, the single greatest key to success in the producing country has been the development of a single export organisation.

- **Establishment of distribution networks in Europe**. At the other end of the supply chain the single greatest key to success in the market is the establishment of a dedicated sales and marketing outlet for South African flowers. In discussions with flower buyers in UK supermarkets and European flower importers they have all stated that 50% of the success in supplying flowers to Europe is based on the establishment of dedicated sales and marketing outlets. These enable the South African producers to gain first hand knowledge on: who are the key players in the market; what are the best routes for marketing flowers; key aspects to accessing these markets; and new trends. From the establishment of the export association at one end of the supply-chain and the dedicated sales and marketing outlet at the other, all other logistical aspects of marketing flowers must follow.

To illustrate this point it is worth considering the strategies of one of the largest exporters of cut flowers in Africa, Oserian based in Kenya:

i. In 1994 in response to the restrictive policy of the Dutch auction system, Oserian Farms established the 'Tele Flower Auction' (TFA) managed by a company East African Flowers. The TFA is supplied by 40 Kenyan and East African suppliers. (It is not inconceivable that it could also supply South African produce?) The TFA offers a number of advantages to buyers; 1/ it provides a level of sophistication and customer service that is unavailable in the auction system; 2/ the streamlined distribution system of TFA eliminates much of the product handling associated with the auction system and so reduces the risk of product damage; 3/ the TFA system is more flexible and reliable; and 4/ TFA is more cost-effective providing clients with lower prices on the same terms of ownership-transfer and risk management.

ii. In 1989 Oserian Farms established World Flowers Ltd in the UK primarily to supply the supermarket trade. It also supplies garage and convenience stores, wholesale and e-commerce clients throughout the UK.

- **Co-ordinated approaches**: To make an impact on the European market, South Africa must have a co-ordinated strategy. The critical mass required to ensure successful trading will vary from product category to product category. However, the export effort to Europe cannot afford to be directed by a range of regional interests. It is a difficult enough task to get South Africa recognised as a source of cut-flowers, let alone marketing specific regions. Although regional based initiatives may be the most effective way to make things happen within South Africa, it is vital to understand that international markets often find local issues irrelevant and difficult to understand.

- **Scale** is a vital issue in the international marketing of cut-flowers. In each product category, the industry must develop the appropriate scale to enable it to compete.

- **Supplying supermarkets [1]**: Cut flowers are an increasingly important category in a supermarket's range of offerings. The supplier must be large enough to enable the retailer to market the product effectively. Promotional activity is a case in point. Some of these activities are planned by supermarket chains at a corporate level. The buyers must feel confident that the suppliers can come up with the required quantities to meet the demand created by its activities. Oserian and World Flowers Ltd are a prime example of this—see above.

- **Supplying supermarkets [2]**: The retailer will want to be confident that any co-operative or consolidation model structure will be working

as closely as possible to the desired model of a large, single entity. In many instances worldwide, the export organisation does not have the scale of a single entity. The point to recognise, however, is that the export organisation chosen must operate efficiently and effectively, challenging costs and working methods to ensure that it gets as close as possible to the ideal model of a single entity.

- **Develop strategies specifically for export**: It should also be recognised that simply to redirect activity (i.e. from a national to an international focus) could fall short on two accounts. If the export effort is not designed from top to bottom with the target market in mind, it is likely to under-perform. If there is an old way of doing business that is superseded yet allowed to continue, the costs involved will undermine the industry.

  The example from Uganda given in the box below demonstrates how to develop a strategy geared specifically to the export market. This model has been used successfully in both Zambia and Zimbabwe.

Establishing a pooled marketing system in Uganda.

I have over the last year been involved in setting up something similar to the Zambia Export Growers Association which involves getting all the growers round the table and asking them to pool their tonnage and money and work together.

We have set up a company called Fresh Handling Ltd about a year ago and the 22 grower/exporters are all shareholders, although in the articles of association it states that no one company or individual may hold more that 10% of the shares. This is good because no one grower gets preferential treatment although the company is completely grower controlled, and they can choose to make good profits or keep costs as low as possible. We issued class A shares to the two associations (Hortexa, fruit and veg exporters and Ufea, flower exporters) and class B shares at $250 each to all the individual companies and easily raised around $100,000 share capital. The shares have already gone up and been valued at $350 after the first year's very profitable trading and we could easily do a new share call and raise more money to expand the coldstore. FHL have a team of 23 Ugandans running it whom I helped train, the building itself with a 40 tonne capacity coldstore was financed by USAID $900,000 and CAA $300,000. FHL pays rent and concession fees to CAA and run it as a cold storage and handling company and charge 5cents/kg for palletising, cold storing and running out to the aircraft and 2c/kg for cold storage only. We have now formed a subsidiary company called Fresh Handling Air Cargo Ltd and I have got approval from Barclays to borrow $0.5m under the Bank of Uganda's Export Credit Guarantee Scheme, we will use this on a revolving 180 day fund to charter aircraft for the growers. Probably 5 flights per week each taking out 20-30 tonnes of flowers to Amsterdam and veg and fruit to London. By pooling the whole industry's tonnage through a grower owned and operated company, and getting them attractively priced finance at around 12%, we have knocked about 10c/kg on airfreight straightaway. This should save the industry at least $0.5 million per year and they are all supportive and willing to work together in using the facility. We have also just put $100,000 into an R and D site for vegetables on a commercial farm and the whole industry has access to it.

This sharing of technical info also helps unite them. We have also organised an annual floricultural trade fair, Ugaflor, which also gets them to work together and co-operate with suppliers etc. The key is to have a strong producers association run by an independent professional. You can then also look at group buying of inputs, for example in Zambia I used to buy all the packaging, ferts, agrochemicals etc for the growers, spending about $2m per year of money borrowed from EDP at Libor plus 1.5%. We tendered out and got prices 25% cheaper for the growers as a result.

Source: Personal communication with Steven Humphreys, USAID funded IDEA project, Uganda. July 2001.

6.2. What do the chain reversal trends in Europe mean for South African suppliers?

South African growers with an eye on markets in Europe need to understand and respond strategically to the supply chain trends described earlier in this report.

In South Africa itself, co-ordination along cut flower supply chains must become more common, arguably mainly motivated by the search for efficiency and standardised quality for the **export** market. Moving to a strongly customer-responsive orientation makes competitive sense for South African growers.

By being in the market and by supplying the market more effectively, South Africa should be able to increase its market share.

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