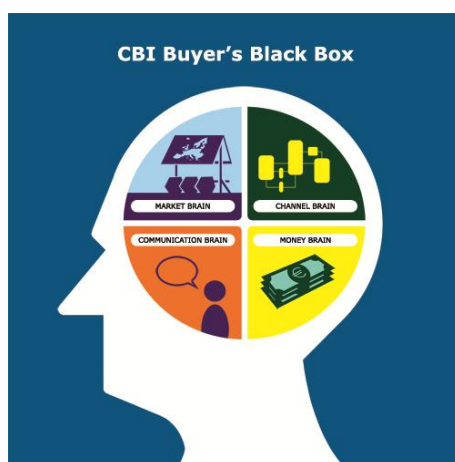




CBI
Ministry of Foreign Affairs of the Netherlands

CBI Buyers' Black Box: Cut Flowers



About this document

The CBI Buyers' Black Box offers exporters and Business Support Organisations (BSOs) in developing countries (DCs) a clear and up-to-date view of what goes on in the minds of European buyers when they are sourcing for suppliers from DCs. This Buyers' Black Box offers a specific analysis and interpretation of the expectations buyers have of exporters in the Cut Flowers sector, against the backdrop of general market trends. The purpose is to give DC exporters understanding of how buyers in their sector think, act and what they focus on, and to highlight opportunities and practical considerations for action. Topics have been arranged in four 'brain sections': market, channel, money and communication.

Sector introduction

The cut flower industry has seen tremendous growth in the last decade, with African countries gaining prominence as suppliers and the Netherlands expanding its role as gateway to Europe and the rest of the world. Due to market saturation and economic pressure in Europe, the sector is now facing a pressing need for reform. Major changes are underway, as mass market retailers have moved forward to take at least one third of the market in just a few years, setting new efficiency and CSR standards. As buyers tighten their grip on key EU markets while jostling for new markets and opportunities, they are also gearing up for a major supply chain upgrade that will, of necessity, involve every player in the chain from farm to final sales outlet. The changes most needed are: a more market-oriented approach, greater supply chain efficiency (logistics, freight, communications) and improved cold chain management. The key qualities buyers will be looking for in suppliers – both in the traditional and in the retail channel – are reliability, predictability and consistency. To DC exporters, all of this means there are exciting opportunities ahead, particularly for those equipped and willing to take a leading role in the coming change.

Market Brain

This section looks at external market factors, both macro- and micro-economic, that influence the business options and preferences of European buyers in this sector. Market factors, typically, are beyond the influence of both buyers and suppliers. The right-hand column presents opportunities and practical considerations for exporters in relation to the trends, developments and forecasts discussed at left.

Buyers, facing stagnation in leading EU countries, are seeking new markets

Buyers on the European cut flower market – primarily importers, wholesalers and retailers – are restless. The economic crisis is impacting this sector and the leading markets – Germany, the UK, France and Italy – are showing signs of saturation and even stagnation. Spain's decision to raise its VAT for flowers from 8 to a staggering 21% is just one example of the pressures wholesalers are facing. As a result, they are desperately seeking new markets and opportunities, while reviewing their current end markets. Eastern Europe, including Russia, is a major growth market. Buyers do perceive risks in direct trade with EE countries, though. The distance, in particular, is a challenge. Dutch buyers have a major and growing share in the EE markets.

Africa – once considered by buyers to be merely an extra supplier option – has become a prominent, key supplier of EU flowers. However, with EU demand stagnating and supplies still growing, competition will grow fiercer in the time ahead.

Because of the pressures and shifts, buyers appreciate suppliers who have a good marketing plan and demonstrate knowledge of other (non-EU) markets and their requirements.

Retailers are starting to use their own strict CSR standards as a 'license to supply'

Whereas in the past it was quite acceptable for growers to wait and see what their buyers would ask of them in terms of corporate social responsibility (CSR) standards, today's buyers expect suppliers to have a clear, future-proof vision in which these standards are fully integrated. The influence of the retailers in this respect is huge; they are constantly stepping up the requirements with respect to social and environmental performance. Consumer interest in the social conditions related to flower production, as well as its environmental impact, is one of the driving forces behind this trend. Supermarkets, eager to please these consumers, are adopting increasingly strict CSR requirements, while differentiating between B2B standards and consumer standards and placing high demands on both products and production processes. More and more supermarket chains, moreover, are selling flowers under their own private labels and with

Considerations for action

- The pressure on leading EU markets and the resulting shifts mean that as a supplier you must know your markets and distribution channels thoroughly. Don't export for the airport, but make sure you know exactly who your products are intended for and whether your assortment is really optimal for your target market/segment.
- Investigate whether direct trade with EE countries is a viable option or whether you are better off focussing on the more generic auction channel.

- CSR is no longer an optional marketing tool, but a basic condition: without it, you'll soon be out the export business.
- The very best (and simplest!) way to make sure your company can fulfil the rising CSR requirements of your buyers is to build your company on a genuinely sustainable business philosophy. Don't just acquire labels, embrace sustainability.
- Anchor the principles of CSR within your business plan as well as in the minds of your managers and staff.
- Match your CSR performance to relevant target markets.
- Resist the temptation, due to economic pressure, to drop your certificates. Despite the crisis, EU buyers will increasingly demand certified products.

corresponding social and environmental standards. They often take regular (industry) standards – such as [GlobalGAP](#), [MPS-A](#), [MPS SQ](#) et cetera – as a starting point for developing their own, stricter supermarket labels. Many supermarkets already use these standards as a 'license to supply' specific target market segments. This trend is likely to steadily progress in the next few years.

Buyers steer clear of illegal products, due to stricter IPR monitoring

Intellectual Property Rights (IPR), assigned to breeders to help them recover their investment in breeding new varieties, have been an issue in floriculture for many years, but have regained prominence in the last two or three years. The reasons are that on the one hand breeders are seeing their profits shrink due to decreasing European production (with some breeders even going bankrupt), while at the same time emerging supply countries like Ethiopia are seeking to renegotiate with breeders. As a result, these – primarily European – breeders have, and will, become stricter in monitoring grower activities, especially in Africa, confiscating illegal products at the border and penalising exporters. Wholesalers in Europe know full well that illegal products have very little chance of entering EU markets and they don't want trouble. This means they expect growers to have covered this issue properly.

Another important trend in this area is that breeders increasingly tend to reserve new species for a select group of 'partner' growers. These new species only go mainstream after successful introduction, by which time their price has usually dropped. This trend is likely to grow, which means breeders will increasingly be looking for reliable growers to partner with.

- As a grower, make sure that you do your homework properly with regard to IPR and that you pay your royalties. Failure to do so will disqualify you from exporting to Europe.
- Invest in developing and competently managing your relationship with breeders. They can give you access to good varieties as well as to promising new ones.
- Try to become a breeder's 'partner' by offering outstanding conditions.
- Lobby with your local government for good IPR regulation in line with WTO and UPOV standards.
- Check whether your country has signed the most up-to-date UPOV on plant variety protection.

Channel Brain

This section provides insight into key issues affecting the whole supply chain in this sector: product and process requirements and criteria applied by buyers in sourcing and trading. These issues are analysed and interpreted in order importance and converted into opportunities and practical considerations for exporters in the right-hand column.

Wholesalers are specialising in either the retail or the traditional channel

Focus has become a key word in EU flower trading. More and more wholesalers are specialising in one of the two main distribution systems, the traditional channel or the mass market retail channel. Each segment increasingly has its own set of requirements in terms of product range (flower types), stem length, volumes, delivery, flexibility, CSR and certification. In order to fulfil these requirements, wholesalers will increasingly need their suppliers to specialise as well. For instance, the traditional channel is characterised by high product quality, a finer distribution network, a wide and deep assortment, constant demand for new and exclusive species and day-to-day market prices. The retail channel, on the other hand, is characterised by mass distribution, a limited assortment with guaranteed availability, guaranteed prices and a strong emphasis on product safety (with rising attention for Maximum Residue Levels) and CSR-related requirements. The supermarket channel has steadily increased its share of the entire EU market in the last decade, but the ratio is likely to stabilise in the next few years, with the traditional channel accounting for about two thirds (although there are significant differences per country). In both channels, buyers will increasingly value suppliers who understand the channel and are proactive in helping them anticipate its needs.

Shrinking margins are making wholesalers desperate for supply consistency

Contrary to what many growers assume, margins in Europe are tight and still shrinking. This trend is driven largely by the huge bargaining power of mass market retailers and the resulting fierce competition. The implications are far-reaching. Wholesalers increasingly want bigger volumes with minimal risk, while they are seeking to develop strong ties with end customers. They need suppliers who are reliable and consistent in terms of service levels, quality and quantity. Regarding delivery quality, they will favour suppliers whose products can be resold with a minimum of handling. There is no room for (quality) mistakes; these can lead to claims from end customers and even to the termination of business relations. The shrinking of margins is felt most by wholesalers, who in the time ahead will increasingly be forced

Considerations for action

- In order to keep in step with your buyers, you may have to focus on either retail or traditional sales.
- Your choice of market or sales channel depends not only on external (market) criteria, but also on your internal analysis: your company's competitive strengths, product quality and efficiency, volumes, cost prices, market access and contacts, marketing methods.
- Develop an assortment plan that matches your target market (colours, varieties, volumes per variety, stem length). Selecting the right varieties will boost both efficiency and marketability.
- Build an export department (sales & marketing staff) that matches your buyers' requirements.
- With margins shrinking and wholesalers heading for vertical integration, your key word at this time must be consistency.
- Don't make mistakes. Do all you can to be a reliable, consistent supplier.
- Consistent growers will take the lead in the next few years.
- Many farms can improve (production) efficiency (lower cost price per stem). Do it!
- Communicate with your buyers to keep one step ahead of their needs and requirements (see also the Communication Brain).

towards further vertical integration.

Buyers will be pushing for improved cold chain management

European wholesalers are only now beginning to realise the full impact of effective cold chain management – and the risks of deficiencies in this key area. Better cold chain management, to them, means higher quality, less waste and more profit. Demand for cold chain protocols and service level agreements is growing. Mass market retailers, whose role will continue to grow, are doing tests and developing new and higher standards themselves. They are changing the very nature of flower trading by introducing closed supply chains involving just the growers and themselves.

With recent sector-wide studies having proven the dramatic effects of cold chain management on flower quality and vase life, buyers in the time ahead will have no choice but to reach for higher levels of excellence in this area – and they will expect other players in the chain to chip in. At the same time, they face the challenge of deciding where to begin, as cold chain management involves so many different actors, beginning right back at the grower's farm.

Buyers are eager to upgrade logistics and supply chain efficiency

Economic pressure is causing buyers to give more attention to logistical and (air) freight issues. As consumer demands rise and the sector professionalises, they are realising that the responsibility for controlling the supply chain must be shared with exporters and other players, such as transporters, forwarders and handlers. A more streamlined supply chain means lower costs, improved flower quality and increased end customer satisfaction. Increasingly, therefore, buyers are seeking collaboration with the rest of the supply chain. They will be looking for growers who do not just feel responsible for getting their flowers to their local airport, but for getting them all the way to the end customer in Europe. In some countries (e.g. Colombia, Ecuador), European buyers are taking more control themselves, purchasing FOB and covering this part of logistics themselves rather than leaving it to the exporters.

Key issues they will be tackling together in the time ahead include:

- Raising the quality of local airport facilities in both export and import countries (including the services of forwarders and handlers);
- Securing sufficient airfreight capacity;

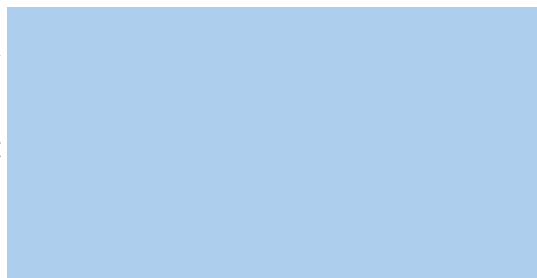
- The need for improved cold chain management represents a challenge and an opportunity for DC exporters. It will result in higher product quality and improved profits.
- While some cold chain improvements may be complex and costly, there are also many quick wins to be made. Read up on recent studies to discover key opportunities.
- As a grower (or cluster), developing and implementing cold chain protocols will be vital to survival in the coming years.
- Temperature checks, vase life tests and Service Level Agreements (SLAs) with logistical service providers are a necessary part of advancing to a higher level of cold chain professionalism.
- Don't leave the initiative in this area to your buyers, but take the lead yourself.

- Your first priority as a grower in responding to the need for improved supply chain efficiency is to join hands with other growers and organise.
- Together, engage in active lobbying with your government for improved logistical and air freight facilities.
- If the facilities (including the services of forwarders/handlers) at your local airport are inadequate, you are at risk of losing business in the time ahead.
- Combine export volumes to get better prices. Note that your sector must have sufficient export volume in order to attract airfreight capacity and negotiate good air freight rates. Smaller sectors will be struggling.
- Realise that indirect flights, while often cheaper, will adversely affect product quality and grower income.
- Another top priority is to develop a sense of responsibility and ownership regarding your product and the entire supply chain.

- Negotiating competitive airfreight rates.

With transportation costs rising, partly due to safety issues, Asian freight routes are offering buyers in Europe an increasingly competitive alternative to those from Africa. The importance of securing sufficient volumes is growing.

Where possible, buyers in the next few years will also be exploring alternatives to air freight, such as sea freight.



Money Brain

This sections deals with the financial requirements and considerations you are likely to encounter in doing business with European buyers in your sector. Issues such as price setting and promotional and logistics costs are looked at from a buyer's perspective and interpreted for you as an exporter.

Virtualisation means buyers will favour suppliers with good reputations and strong brands

The advance of virtualisation is changing the rules of the auction game. Virtualisation – i.e. auctioning on the basis of digital product images and information rather than actual products – reduces handling, saves time and costs and means the same products can be offered in different places at once. The digital information presented at the auction covers the product, its quality, ripeness, volumes et cetera.

The importance of product photos will also increase (so-called image auctioning), with buyers no longer accepting stock images, but preferring suppliers who provide their own, genuine and up-to-date product images.

So-called distant buying is another aspect of the virtualisation trend, currently accounting for some 60 to 70% of auction transactions.

This important technological trend places a greater than ever emphasis on the reliability of suppliers and the consistency of supplies. Wholesalers want recognisable suppliers they can rely on (low risk, maximum turnover and margin) and will increasingly favour suppliers with a strong reputation, a clear brand and a performance that is rigorously consistent.

Payment delays are an increasing risk to wholesalers (and their suppliers)

As end customers across Europe and beyond stretch out their payment terms to survive the economic downturn, many wholesalers increasingly find themselves having to take on the role of a small bank with its own working capital. Flowers bought at the Dutch auction have to be paid for immediately, after all, while an end customer in, say, Italy, may not pay for the delivery for weeks or months. Numerous Dutch wholesalers, including one or two large ones, have gone bankrupt in recent years because of liquidity gaps resulting from this trend. With margins steadily shrinking, the impact of payment risks is getting bigger. The fact that direct sales are gaining ground also increases this risk, forcing suppliers to deal with it as well.

In The Netherlands, worried wholesalers have set up a database pinpointing slow payers. However, terms of payment thus far are growing longer rather than shorter.

Considerations for action

- As an exporter, you must adapt to the virtualisation of the auctioning system by providing accurate digital information and strong, up-to-date product images.
 - Contact your top auction buyers to find out what they want and what will distinguish you from competitors (e.g. quality, a strong auction reputation, volumes).
 - Remember that virtual sales make supply consistency more important than ever: if you promise A quality while delivering B quality (even incidentally), buyers will instantly drop you!
 - Branding means you will need strong promotional material, such as a website and brochures.
 - While branding offers competitive advantages at this stage, it is likely to become vital to flower exports in the future.
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- If you're in the direct trade channel, you will increasingly have to reckon with slow payments by wholesalers. Retail payment terms are being steadily stretched.
 - Assess the payment risks you are running with your customers.
 - Insist on proper contracts with clear (payment) terms.
 - Beware of unknown, or new, buyers who may place a few significant trial orders and then disappear without paying. Investigate new buyers before doing business with them.
 - Unlike the direct trade channel, the auction offers growers payment security. It also involves extra costs. Assess what matters most to you: payment security or price.

Buyers are taking the quality of logistics into account, not just the cost

Until recently, buyers – as well as traders and growers – tended to take cost as the leading factor in logistics. More and more, however, they are discovering that cheap logistics often yield lower revenues due to loss of quality (see also the Channel Brain). The trade-off between costs and returns is placing efficient supply chains and proper cold chain management in a more favourable light than cheap solutions. Also, competition for these services is growing. As buyers become more aware of the potential gains in this area, they will need suppliers who are willing and able to work with them on the most profitable solutions.

- As the trade-off between the cost and quality of logistics calls for closer attention, make sure you have accurate data on your own costs and returns.
- Rather than blindly opting for the cheapest deal, base your decisions regarding logistics on actual costs and returns.
- Make sure you're aware of all the options available before selecting a specific logistics solution.
- When selecting a transport company, focus on quality of service, cold chain performance et cetera.

Communication Brain

This section is all about the 'human factor' in business. It highlights the communication behaviour of European buyers sourcing in DCs, offering insight into their expectations and practical suggestions as to how to meet those expectations as an exporter.

Buyers increasingly have to rely on accurate supplier product data

To buyers on the cut flower market, the product data provided by suppliers have become more and more vital over the last ten years and are still gaining importance. Buyers increasingly have no choice but to rely on the product data and export documentation provided by their suppliers. Obviously, they expect it to be streamlined and professional. Many buyers have had bad experiences in this area and would agree that suppliers still tend to underestimate this issue. Incorrect data, quite simply, cost money; they can negatively impact prices, causing claims and reputational loss. Accurate information has become so important, that all else being equal, buyers will always select the supplier with the most accurate, up-to-date and systematic information system.

Buyers expect proactive, professional communication from their suppliers

As the flower industry becomes more and more professional, the need for professional communication is also increasing. For instance, buyers expect their suppliers to be as reachable as they are themselves: they expect suppliers to have communication lines in place that always work and key staff members who can be reached – and expected to respond competently – 24/7. If they have contacted a supplier with questions, queries or issues, they will want to know how he intends to follow up and, where relevant, to receive progress reports.

Many wholesalers do not proactively communicate with suppliers themselves

Contrary to what they expect from their suppliers, wholesalers often do not get around to communicating about their own decisions with suppliers and intermediates further up the supply chain. The reason is that the market's pace is so high and competition is stiff. If a supplier fails them in one way or another, for instance, they may quite easily drop him without bothering to notify him or explain what went wrong. To them, there is no room for errors. As a consequence, they expect their leading suppliers to be proactive in (personal) communication and to keep in step with them on their own initiative (this power imbalance is added proof that the flower market is buyer-driven).

Wholesalers like to work with preferred suppliers who communicate well

Many wholesalers have their own portfolio of suppliers, from those they consider 'preferred' to those whose services are more optional and incidental. Suppliers who

Considerations for action

- Flower trading, increasingly, is centred on information. Provide product data your buyers can fully rely on.
- The emphasis on product data means you must be ruthlessly honest in your self-assessment and supply homogeneous lots (don't compromise on stem lengths, bud sizes, opening stages, numbers of stems per bunch et cetera).
- Set up clear contract terms (supply information, claims et cetera).
- Invest in national branding with likeminded growers in your sector.
- 'Do what you say, say what you do.'
- Beware of the growing importance of professional, proactive communication.
- Cultivate a strong customer orientation throughout your organisation.
- Develop your own corporate style so that your communications will be easily recognisable.
- Don't expect buyers to tell you everything (no news is not necessarily good news); contact them yourself for feedback. Recognise that the flower industry is buyer-driven.
- Use customer contact sheets or CRM software.
- Develop protocols for following up customer feedback (confirm receipt of feedback, check, report changes, monitor).
- Build a good, personal, long-term relationship with key customers.
- Call or visit your customers regularly (customer relationship management).
- Try to know and understand your customers and their

demonstrate proactive communication as well as delivering to requirement are likely to rise through the ranks to become preferred suppliers.

expectations.

This survey was produced for the CBI by Milco Rikken (CBI Sector Expert) and Stephen Teeuwen (copywriter).

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