



Rabobank

World Floriculture Map 2015

Gearing Up for Stronger Competition

Rabobank International

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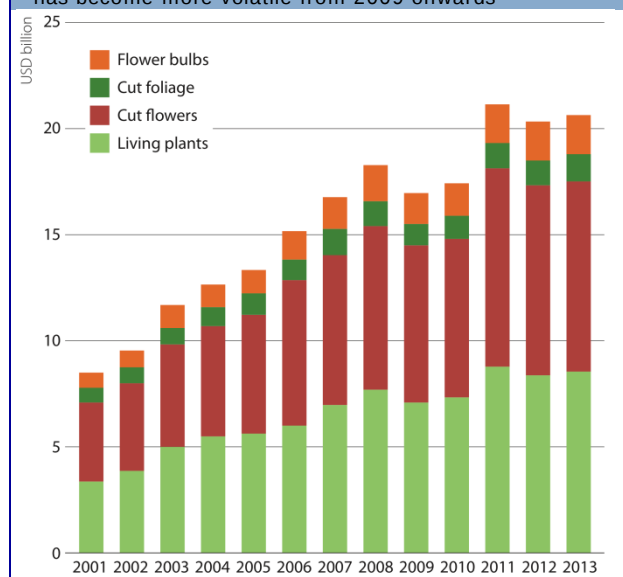
Rabobank's World Floriculture map 2015 illustrates that low-cost cut flower exporting countries close to the equator, such as Kenya, Ethiopia, Ecuador, Colombia and Malaysia, have increased their global market share in cut flower trade. These cost-efficient producers are strengthening their position in global production and trade, mainly driven by favourable growing circumstances, rising demand for competitively priced flowers in the main destination markets and improved logistics, including transportation by sea container. High-cost growers who do not want to sit on thorns need to differentiate themselves from low-cost competitors, or themselves become active in these low-cost regions.

Floriculture trade becoming more turbulent and international

Economic and financial turmoil—mainly in North America and Western Europe—has impacted global floriculture trade. The historically strong growth in global floriculture exports has taken a bumpier road from 2009 onwards (see Figure 1). In 2013, global exports of cut flowers, cut foliage, living plants and flower bulbs amounted to USD 20.6 billion as against USD 21.1 billion in 2011 and nearly USD 8.5 billion in 2001

Cut flowers, which are traded worldwide, have always been the main group within global floriculture trade, followed by living plants, which are traded more regionally. As geographic expansion of cut flower production as well as further developments in logistics make long-haul transportation more viable, the share of cut flowers in floriculture trade will likely grow.

Figure 1: Rise in floriculture exports from 2001 to 2013 has become more volatile from 2009 onwards



Source: UN Comtrade, 2014.

Competitive playing field in cut flowers is changing

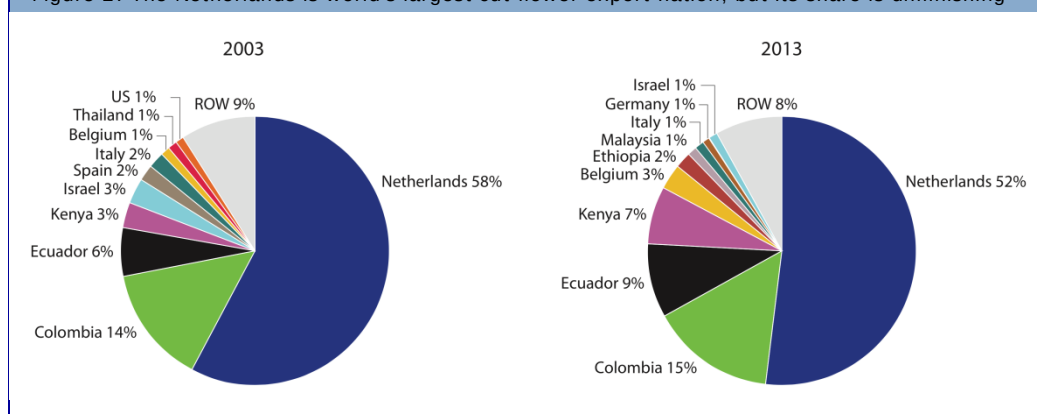
One of the main structural changes currently taking place in the world of floriculture is the increase in international competition, particularly for cut flowers. With a combination of locally produced flowers and imported flowers, the Netherlands is a dominant central market for global cut flower trade. However, the Dutch share in global cut flower exports is decreasing, declining from 58 percent in 2003 to 52 percent in 2013 (see Figure 2). At the same time, Kenya, Ecuador, Ethiopia, Colombia and Malaysia have increased their share in

global cut flower exports. Growers in these countries are able to achieve large-scale production of good-quality flowers for competitive prices.

Zooming in on the main import markets exposes the shifts in international competitiveness. For example, in 2003, Japan imported 8 percent of its cut flowers from the Netherlands. In 2013, this share had decreased to 2 percent. In the same period, Japan increased cut flower imports from Malaysia from 10 percent to 26 percent, and those from Colombia grew from 14 percent to 22 percent. Russia has increased imports from Ecuador and Kenya at the expense of cut flowers from or via the Netherlands. The United States (US) imported about 65 percent of all cut flowers from Colombia in 2013, against 55 percent in 2003.

In the past decade, we have not seen any clear major trends in import and export flows in large emerging markets such as Brazil, China, India, Mexico and Turkey. However, we do see growing domestic demand and an increase in production of flowers and plants.

Figure 2: The Netherlands is world's largest cut flower export nation, but its share is diminishing



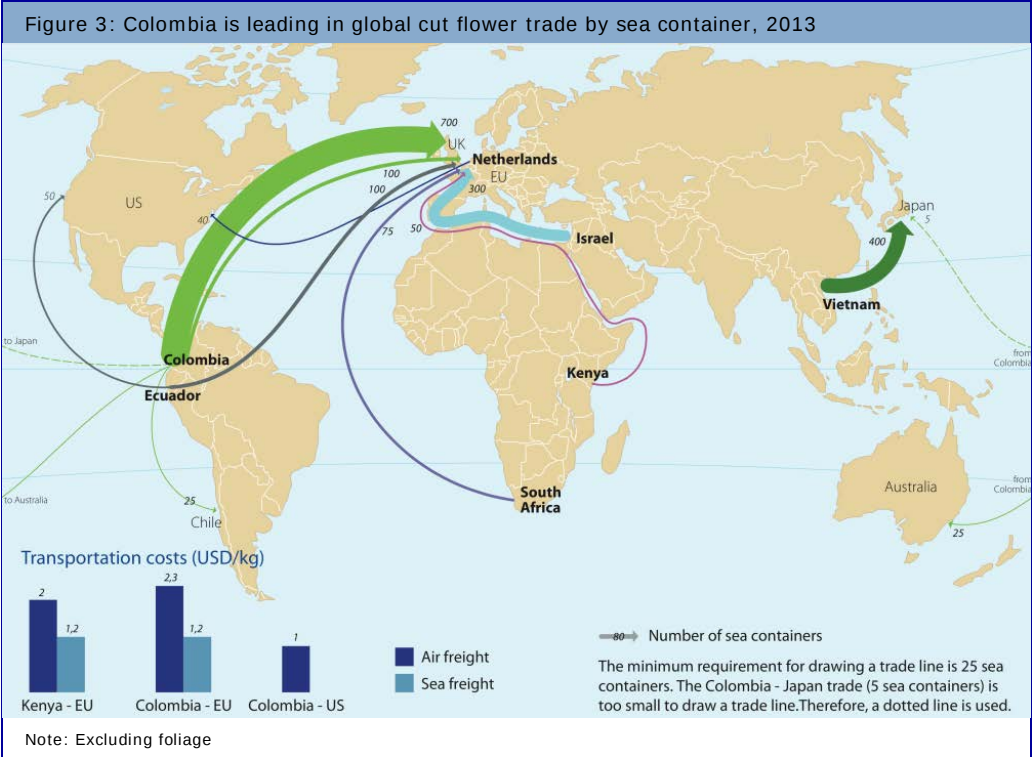
Source: UN Comtrade, 2014.

Breakthrough of container transport

Transport of cut flowers by sea container has become a major and an unstoppable development and has already become fairly substantial in a number of trade flows (see *Figure 3*). About 15 percent of total cut flower exports from Colombia are already shipped by sea. In 2013, Colombia shipped about 700 containers of mainly chrysanthemums to the United Kingdom (UK). One 40-ft container can be loaded with about 150,000 chrysanthemum stems. Other large container flows are from Vietnam to Japan and from Israel to Europe.

Transport by sea container is not new to floriculture, although it has been historically restricted to products with a relatively long shelf life, such as cut foliage, flower bulbs and young plants. Important foliage trade flows run from Costa Rica to the Netherlands and from China to Japan.

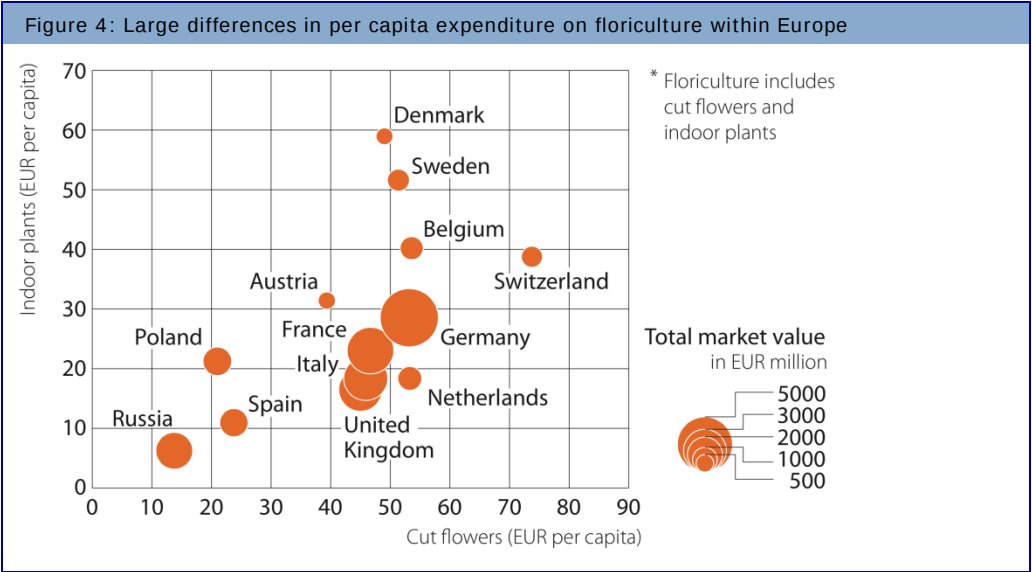
Expansion of container shipments in cut flowers is driven by various factors including the price difference between sea and air freight (the latter being roughly twice as expensive as the former), the ability to control conditions within containers, growing availability of port facilities and reefers, increasing knowledge of container transport and the best cut flower varieties to transport, and growing attention on sustainability issues.



Stagnation in the main floriculture markets

In the US and Western Europe, growth in expenditure on floriculture products has come to a standstill. This is partly related to economic circumstances, in particular in the case of cut flowers that have a high correlation with disposable income. Consumer expenditure on bedding plants is very much linked with weather circumstances. But other factors such as availability and religious and cultural traditions also play an important role in flower and plant purchasing.

In certain markets, consumers seem to have moved to the low-value end of the market, which is mainly sold by supermarkets, discounters and DIY-stores. In the UK, the vast majority of cut flowers is sold by supermarkets, including discounters. In Germany, DIY stores are popular outlets for buying indoor plants. If organised retail chains professionalise and focus on their floriculture departments, they will be able to raise their market share. In Europe, the main growth in floriculture consumption has been in the Eastern part, including Russia. The size of the Russian market has already exceeded the Spanish market (see Figure 4). However, the Russian market is a very unstable market.



Gearing up for the next decade

For the next ten years, Rabobank expects growth in global floriculture production and trade to continue, although it may be rather unsteady. The countries that are becoming more dominant in global supply and demand are also experiencing more instability compared to the current main production and consumption areas.

In the large traditional markets (i.e. Europe, the US, Japan), floriculture expenditure is not expected to increase, whereas in countries with rather strong income growth, floriculture consumption still has growth potential.

Although the US, Western Europe and Japan remain the world's largest floriculture markets in absolute terms, their dominance in the world of floriculture is slowly diminishing as both demand and supply grow relatively stronger in the rest of the world. Global trade in flowers and plants that are easy to grow and to transport (by container) will continue to expand and will benefit low-cost production regions.

Growers operating in the high-cost regions of Europe, the US and Japan have to take action to remain competitive against increasing global competition and market stagnation. One option is to focus on products with a high weight/value ratio (e.g. potted plants), specialty products, typical local flowers and plants, and seasonal products. However, competition will remain fierce. Alternatively, these growers may use their knowledge and skills to produce or advise abroad in emerging flower-growing countries.

Dedicated supply chains will become more important for large-scale growers in competitive production regions. Within an ever more global and competitive business that is dealing with a high diversity of perishable and very delicate products, control over the supply chain will increasingly be a critical success factor. Only with long-term partnerships can growers as well as retailers control risks related to availability, quality, ethical issues and prices.

Within the next decade, dedicated floriculture supply chains will require a so-called 'facilitator' to make this value chain work smoothly. This facilitator should be able to match supply and demand in a very efficient way, take care of bulk break flows, handle quality control, arrange information exchange within the value chain and advise retailers on category management. Some floriculture value chains already work with one strong facilitator (e.g. distributor, marketer or importer/exporter) that provides services to its suppliers as well as retail customers. However, other value chains are still operating with many—sometimes varying—intermediaries. This model is outmoded.