



Rabobank

Flourishing flowers, promising plants

Chain organisation in European floriculture

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Rabobank is expecting big changes in the supply chain organisation in European floriculture. Companies will need to react quicker to changes in the market. Product flows and information flows will become more separated. We expect to see fewer intermediaries. Rabobank expects major changes in European floriculture supply chains. For example in economies of scale, consolidation, and shortening. Rabobank sees three different supply chains emerging: specialist, big box, and e-commerce. Rabobank expects these to have an equal market share of 30% in 2027.

Consolidation and integration

It all starts with breeding new varieties. Small breeding companies are unable to invest in biotechnology because of insufficient knowledge or cash. Their current operations are determining the speed of the innovation in their business. It is therefore essential for them to cooperate in order to access new technologies and stay in business. Large breeding companies accelerate this urge to cooperate, because they do have the necessary knowledge and financial means.

Currently, there are large differences in propagation of different species (tubers, bulbs, seeds, cuttings, in vitro). But in every propagation technique, the use of new biotechnology techniques will cause rapid changes and will lead to integration. Propagation companies will be part of a breeding or growing company, depending on the propagation technique.

The current succession situation is also important for the supply chain organisation. For example, 79% of Dutch greenhouse growers with an owner older than 55 years has no successor. 7% of Dutch growers of cut flowers and potted plants stop their operation annually.

These developments all lead to consolidation in the industry.

Growers are cooperating and taking the lead

In Europe, most growers still market their produce through intermediaries, but increasingly we see growers selling their products directly to retail channels. This is only possible if they pool their individual supply (forward integration). Growers can negotiate with retail organisations about market developments, positioning, category management, and price, and use third parties for logistics, administration and financial services.

Currently, we see some growers united in single product groups and collectively marketing their products. This allows them to achieve cost price and efficiency advantages. They do still depend on trade companies because their range is not broad enough. Growers with the ambition to become more integrated players need a broad product range, because retail outlets are demanding this.

Trade companies connecting growers

Trade companies are buying more and more from specific preferred suppliers. Traders are combining locally-produced flowers and plants with imported products and making them into a suitable range for specific retail channels (backward integration). The assembly of bunches/bouquets or anticipating retail actions or specific celebration days is part of the regular supply. Specific niche players in trade (bulbs, balcony plants, foliage) can exist because of the diversity of the floricultural sector. Nevertheless, the number of trade companies will decrease firmly in the next decade.

Rabobank expects that in the European big box retail market, just a couple of large trade companies will be responsible for 80% of the big box retailers' demand. These companies add value to both their customers and suppliers. Larger companies have a big advantage when it comes to investments in digitalisation, big data applications, or block chain technology.

Supply chain organisation

Rabobank expects three main supply chains to be dominant in the next decade.

Specialist

The first supply chain will focus on consumers who buy flowers or plants for special occasions (holiday, funeral, wedding). This chain has been around for a long time and consists of the speciality shop (florist, garden centre), wholesale, auctions or wholesale markets and growers focusing on product characteristics (product specialist). The auction will retain its current position in this supply chain, mainly because of its very broad and deep range. This chain will play a role in the future, albeit a smaller one compared to the current situation.

Big box

The second supply chain specialises in delivering flowers and plants to large retail outlets (supermarkets, DIY-stores, chains of garden centres, discounters). These outlets are demanding quick, responsive, logistical operations with economies-of-scale. They need reliable just-in-time delivery, consistency in price and product specifications. Cost-price leadership and operational excellence are essential in this supply chain.

A professional service provider plays a dominant role in this supply chain, taking care of sourcing, logistics, payments, quality control and so on. New large growing companies or associations of growers will arise. They are able to fulfill large orders of different flowers and plants from retail multiples.

E-commerce

Finally, there is a third supply chain: consumers ordering their cut flowers or pot plants online. This company involves a logistic partner to ensure quick delivery of the right product with the right specifications to the consumer. This supply chain has very high logistical requirements, due to the large number of small, client-specific orders. The playing field will change with the arrival of Alibaba, Amazon, new players with a subscription model (such as Bloomon) and new logistical players like Post.nl. The development of online will lead to a shortening of the supply chain and partial redundancy of the middle man.

Figure 1: Three main supply chains in floriculture



Rabobank expects that the size of these three main supply chains in Europe will be equal in ten years from now. Nowadays, the specialist chain has a share of over 50%. This share will decrease to approximately 30%. Meanwhile, the e-commerce channel will increase its turnover from USD 2 billion to over USD 11 billion in ten years.

Implications for suppliers

It is essential that industry players in the floriculture chain choose one of these supply chains and adapt all parts of operational management to be consistent with this choice.

Developments in demand, like larger volumes of sales of flowers and plants by big box retail and e-commerce have direct implications for the supply organisation. Companies have to decide which one of these fits with their strategy and operational skills. Do they want to be a very good product specialist, excel in operational efficiency, or create a brilliant marketing operation?

This is the fourth article in a series of articles on floriculture. This article is largely based on a recently published Dutch-language report on the Dutch floriculture "De Nederlandse sierteelt: Volop kansen: Strategie bepalen voor ketenpositie".

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