〈Research Note〉

A Study on The Distribution Functions for Cut Flowers in The Philippines

Evangeline G. Toroy and Katsuhisa Ito

I. Introduction

Since the important role of auction is absent in the marketing system of cut flowers in the Philippines, and due to the smallness in scale of growers as well, the cut flower distribution process of moving cut flowers from one production island to another to reach the demand centers and making them available to the consumers at the proper time, place and form that they need, is the function mostly of middlemen. The specialized activity that has to be done is the market exchange functions of buying and selling, physical functions of storage and transport, as well as the facilitating functions of grading and financing. And since the market exchange is not governed by any law, these activity is performed in an individualized and personalized manner following the suki system of trading. Through the primary data gathered from personal interviews and questionnaire surveys as well as secondary data from studies from several private and government institutions, it is the objective of this paper to examine the distribution operations of traders and what functions and role the suki system plays to accomplish the distribution process. Second, to evaluate the performance of the distribution process, it is necessary to examine the marketing cost incurred in carrying out this function which will be done by identifying the various expenses that a trader spent in the distribution operations.

II. Overview of The Distribution of Cut Flowers

1. Demand and Production

Unlike other agricultural commodities such as vegetables, fruits, and livestock which are the basics of life, cut flowers are considered secondary and sometimes luxury goods when the occasion does not call for

its need. But the awareness on the importance of cut flowers in the Philippines has expanded from being used as personal gifts to include special occasions, ceremonies and festivals, as well as family/business gatherings and office decorations. This resulted in the huge increase in cut flower sales in 1992 at 300 million Pesos¹⁾ (US 11.76 million) which was a 60% annual average growth from 1987. Metro Manila, which is considered the major market, absorbs 80–90% of total cut flower production²⁾. The increasing demand for this commodity proves that it is becoming a part of the everyday life of Filipinos.

This part of the horticulture industry although considered very small, is in fact the main source of livelihood of more than one thousand families who are engaged in production, of perhaps three times the number for traders and retailers, and of the many employees of private corporation-growers. The total area planted to cut flowers in the country was 820 hectares in 1993³⁾ which was a 2.6% increase from the year-ago level. Although production started slow, it has been increasing and quantity was about 40 million pieces in 1994, up by 40% from the previous year. Cut flower producers although dominated mostly by small-scale growers, is also composed of private corporation-type grower/integrator which cultivate cutflowers on large scale and adapt state of the art technology for cultivation. Despite the financial constraint of small growers which unable them to adapt to sophisticated technology, they perform several cultural practices to achieve peak production for high demand periods like production time programming to coincide with the specific climate in the area, flower induction, pruning, gradual cut back and increase frequency and amount of fertilization. In order to maximize the use of land, they practice intercropping cut flowers with vegetables, and to eliminate the occurrence of pest and diseases, farmers practice seasonal alternate cropping.

2. The Distribution System and Operations

a. Channels of Distribution.

Figure 1 presents the major producing provinces which cultivate major cut flower types while Metropolitan Manila's main cut flower wholesale markets include Dangwa, Quiapo and Baclaran Districts and the main retail area is Makati City, the

Figure 1. Map of the Philippines
(showing the major cut flower production areas)

leading business and commercial center of the Philippines. Because there is no auction in which cut flowers are gathered and prices are determined under one roof, cut flowers are shipped by the growers and received personally by traders and therefore move from the production areas to the demand center in various manners. Either it is distributed directly to the retailers, the shorter route, or passes through several intermediaries, the longer route. Figure 2 presents 8 different types of channels for cut flowers in the Philippines and the percentage absorption of each

channel. Channels 1 to 3 are the shorter routes as production areas are located nearest to the demand center such as Cavite and Batangas. These cut flower producers are the private corporations who have their own marketing arm, either in the form of a distribution center or a retail shop. Distribution centers are put up by private corporation growers in different areas in Metro Manila, usually in the heart of a commercial center and other strategic places, to serve as a place for the sale of cut flowers. Cut flowers from the farms have already undergone all grading and packaging activi-

Figure 2. The distribution channels for cut flowers in the Philippines

- ① A channel where 90% of produce by monoculture private corporation growers are brought to its distribution center and sold to flower shops operators while 10% is directly absorbed by consumers.
- ② Another channel wherein all produce intended for wholesale and retail are brought to its own flower shop.
- ③ Integrators who engage into contract growing and market tie-up scheme market 100% of their own produce plus those produce from contractees.
- ④ 11% of produce of individual growers goes to the assembly cooperative which is sold to market tie-up growers.
- ⑤ 50% of produce from individual growers under contract growing agreement goes to the contractor while the rest is distributed to different assembler-wholesalers.
- ⑥ The cooperative serves as a marketing arm of the member which absorbs 15% of the total produce, 100% of which goes to an assembler-wholesaler. The rest are absorbed by the florists.
- ⑦ Assembler-wholesalers absorb 70% of individual growers' produce, 10% of which comes from commission agents they hired to go to different production areas in the cities and towns to collect flowers
- ⑧ Assembler-wholesalers both from Metro Manila and the local province absorb 75% of growers' produce which is then passed to wholesaler-retailers. The rest are directly absorbed by the retailers in both areas.

*cut flowers that are sold by traders directly to consumers and not to florists and institutional buyers

Sources: Personal interview done at farm site in March 1994 from 3 private corporation growers, 1 integrator, and 5 individual growers from Cavite, Benguet and Laguna provinces; survey questionnaire response from a marketing cooperative in Negros Occidental province; and data taken from FRLD, Baecon, and SGV studies.

ties and are brought to these distribution centers ready for sale to florists who have already placed prior reservations. Hence, florists and retailers just come to pick up their reserved cut flowers and pay in cash. Credit is only allowed to very few florists. In the 7th channel, commission agents are hired by assembler-wholesalers. These commission agents, which are visible in Laguna, Cebu, and Davao provinces, go to different municipalities to collect flowers for these assembler-wholesalers which will add to those directly purchased from growers. As payment for their services, they are given commissions either on a per dozen or per box basis. They have access to traders and are skilled in negotiations. However, since they do not take title of the cut flowers they buy, such limited services rendered made their number in the cut flower market few. In all, assembler-wholesalers absorb 70% share of the total supply. Assembler-wholesalers are locally called *vijajeros* and they purchase different types of cut flowers from producers and other traders within the province and outside the province. Sometimes they maintain stalls as storage facility for cut flowers.

Assembler-wholesalers are either full-time or part-time. Cut flower trading is sometimes a secondary source of livelihood as they are engaged in main business such as coconut and banana production and transportation. For individual growers who are not engaged in any marketing agreement or who do not belong to any cooperative, they sell their produce to all the traders in the distribution channel. Since there are still no data available on the exact total number of cut flower traders in the country, their estimated number is revealed in table 1.

b. Physical distribution operations.

Cut flower production in the Philippines is widely scattered around the different islands and that variation in climate dictates the specific variety of cut flowers grown. However, one distinct characteristic is that production from almost all these areas are shipped by land, air and sea to Metro Manila which is considered the main market. To bring cut flowers from these growers to the demand center is the role of traders which compose of assembler-wholesalers, assembler-wholesaler-retailers, wholesalers, wholesaler-retailers and retailers. Farms within an island are even farm

Table 1. Estimated number of growers and traders of cut flowers

	Estimated number
Producer	
Integrator plus market tie-up and contract	4
Corporation-grower	10
Marketing	2
Individual	1,000
Trader	
Assembler	120
Wholesaler	80
Florists, retailers, institutions in Metro Manila	500

Sources: Bureau of Export Trade Promotion, Department of Trade and Industry March 1995
Board of Investment, Department of Trade and Industry, Jan. 1996
Market of Selected Tropical Cut flowers, Sycip Gorrez, Velayo Study, 1991
Foundation for Resource Linkage and Development, 1992
Personal interview and questionnaire survey, March, 1995

from each other such that assembly is needed. There is also a need to transport from assembly areas to the wholesale markets. Then, it again has to be transported to the ports to be air transported to Metro Manila or to other provinces. Within Manila, there is delivery to wholesale markets and to several retail outlets. The distribution then calls for additional number of traders because aside from the basic yet laborious functions which assemblers and wholesalers perform such as buying of cut flowers at the farm or at assembly areas (assembly and collection), buying and selling at local wholesale markets, then transport to Manila to several wholesale markets and retail outlets, other important functions are; post harvest operations such as grading, packaging, storage and transport, financial support, supply of agricultural inputs, and provision of market information to growers and fellow traders.

III. Buying and Selling

1. Outlook of the Buying and Selling.

Because of the absence of auction, and because there are more small-scale individual growers, there are three types of personalized market exchange; individual buying and selling, joint venture (contract buying/selling and market tie-up scheme), and coop-

erative buying and selling, although the first system prevails in the market exchange of cut flowers. Buying and selling is practiced through a personalized market exchange derived from an established long term fixed relationship between growers and traders and between traders and retailers, called a "suki system". Long term fixed relationship means that they have already done trading and negotiation repeatedly for quite a long time and from this have built a relationship based on trust in terms of the exchange of information on demand and price, payment, and distribution of cut flowers. Based on the interview made, a suki is more than a business counterpart, it is like a friend where aside from business, personal matters are entrusted. This is in contrast to the fly by night and non-personal exchange between trade of other commodities where the people doing exchange do not even know each other. Each constituent, be a grower, or a trader, create a friendship that guides them to be in favor of each other in business and personal matters. Even during business transaction, "its just business and nothing personal" rarely prevails.

2. The Functions and Role of the "Suki" System.

Trading through "suki" is manifested in the manner of purchase and sale of cut flowers, price and mode of payment, negotiation and support. This suki system is a process of not only rewarding each other for the benefits derived but most especially in returning or repaying the favor which one owes to the other. A favor which one can not be returned or repaid in monetary terms.

3. Individual Buying and Selling by Growers and Traders

a. Collection, assembly and sale of cut flowers.

The method of procuring cut flowers through the suki system varies by location. Traders such as assembler-wholesalers and assembler-wholesaler-retailers in the Province of Benguet collect cut flowers from their suki growers. Before the day of procurement, growers are already informed of the desired quantity of traders through telephone, or by letting them know the last time they procured the cut flower supply although such quantity may not always be met. Sometimes production exceeds the agreed quantity. Suki growers and traders are flexible and in such limitation, their per-

sonal relationship allows them to adjust to it. Most of the time, these traders are willing to absorb the excess quantity either of the same price or a little lower depending upon the market condition. Growers have small farm lands at the back or front of their houses and they place their packed cut flowers outside at the agreed pick up time of traders (like late in the afternoon intended for travel to Metro Manila during the night). Most growers in this province are located in mountainous regions far from the main road while others are around the vicinity of accessible roads. Suki assembler-wholesalers who are residents also of Benguet go around the houses of these suki growers or to the assembly area bringing their vehicles to pick up the cut flowers. Those suki growers who are located in far remote areas which can not be reached by ordinary vehicles bring their cut flower produce by foot to the assembly warehouse. Then assembler-wholesalers bring these cut flowers to their own flower stalls for repackaging and storing to be sent to other provinces and to Metro Manila. Assembler-wholesaler-retailers do the same and also bring their collected cut flowers to their retail shops in the local area for retailing. In the assembly of cut flowers, individual growers bring their cut flowers to the Baguio wholesale market through their own vehicle. Others bring them by foot to the assembly warehouse where suki wholesaler-retailers pick them and bring to other provinces or directly to Metro Manila. Others bring the cut flowers to the Baguio bus station for transport to Dangwa terminal in Metro Manila.

Such individual collection and assembly of cut flowers in the Philippines can be compared to the conventional method practiced in Japan before the implementation of the wholesale market law in 1971. During this period, some cut flower growers bring their produce to the wholesale or merchant store⁴⁾. There was no law which regulates the wholesale market. Generally, cut flowers are entrusted and shipped to the market at consignment sale without any condition underlying the disposal. The market normally gets 10% sales commission. In the presence of the agricultural cooperatives, the members receive only 7%. Unlike those of fruits and vegetables, the Japanese cut flower market did not have a broker or a commission agent

because cut flowers are perishable commodities which can not pass to many hands as any delay in movement will affect the quality. The use of cold storage facilities then was not as popular as today. Even with the wholesale market law at present where cut flowers intended to be sold at the wholesale market has to be passed through auction, there are still some small scale growers who perform individual selling like the cut rose growers in Kamogawa City⁵⁾. In this city, group system of selling is difficult to establish because most of the growers produce many types of cut flowers each in small quantities/land area which make individual selling more feasible. In the collection and assembly process, individual growers place their flowers outside their houses where a truck picks it up at around 7:00 o'clock. At the same time, another truck goes to another farm house to collect the cut flowers. These trucks assemble the cut flower produce to a warehouse after which a big truck whom these growers have contacted bring the assembled cut flowers to the auction market. However, such assembly process sometimes result to lower quality cut flowers.

b. Price Formation and Payment Negotiation.

Reference prices are used by suki traders as the basis for their pricing scheme and serves as traders' guide for determining buying prices (which are derived from the selling prices by subtracting the marketing costs and certain mark-ups). Suki traders normally depend on major demand centers for reference prices. Secondly, prices are also formed depending upon the prevailing market condition. The market condition during a transaction may either be a buyer's market (where sellers offer low prices for their goods because of excess production; buyers are then in a better bargaining position) or a seller's market (where producers command their desired prices because of shortage of supply of cut flowers; buyers then find themselves in a non-bargaining position). Generally, the seller's market condition prevails when the demand for cut flowers is high on such occasions as Valentine's Day, All Saint's Day and Christmas, while the buyer's market condition prevails during high production period of the summer months of April, May and June. Small scale growers who can not control high production during hot climate, produces cut flowers more than

the normal quantity though demand is lower (which happens during the school summer vacation in April and May). To prevent unsold, growers persuade their suki clients to absorb the excess rather than letting the cut flower spoil. Growers agree that with such low demand condition, prices may be a little lower than the normal. The level of price decrease may range from 20% to 40% although it varies depending on the quantity of excess production, how much of this quantity the suki client can absorb, and the strength of the bargaining power of growers in relation to their suki clients. From the growers standpoint, this manner of negotiation would perhaps put them at a disadvantage although this may not be the case. Such arrangement is their only resort because of the difficulty to control production.

The most common mode of payment under the suki system is seven days to one month credit term. Cash is sometimes used depending on the agreement. The price is usually fixed and agreed upon by both parties, although sometimes haggling results. Traders who have suki suppliers either pick up the flowers or have them delivered. This set up depends primarily on volume. Buyers who purchase large volumes on regular basis normally have flowers delivered to them. Other modes of payment include pre-harvest payment scheme, and after-harvest repayment scheme. The pre-harvest payment scheme is practiced during peak selling months when traders compete for the limited volume of cut flower production. Most traders give cash advances to growers two weeks to one month before harvest to be assured of cut flower supply. Other traders furnish fertilizers and chemicals. Growers use this loan not only to buy farm inputs but also for basic life commodities as well and have therefore committed their harvest to these suki trader-creditor. In the after-harvest repayment scheme, other suki traders lend cash or inputs to suki growers so the latter will have enough means (finances and materials) to cultivate cut flowers. Suki traders either require a very minimal or no interest rate at all from suki growers. The suki grower therefore pay the suki trader after harvest and most importantly with such favor owed to the suki trader, suki growers prioritize the suki trader-creditor with good quality and

needed quantity of cut flowers.

c. Support service

—Market information and Financial Assistance.

Suki traders also provide support services in the form of credit and market information especially on price, and demand and supply condition. Some growers rely on suki-traders for sources of price information as the latter provide loan or cash advances to them. Price information tells the different levels of buying and selling prices. These include the current or day-to-day price conditions and major price changes in key demand areas. Sometimes they include past or seasonal price variations, and expected prices. Not all growers and traders keep records, hence cannot keep track of prices of cut flowers. Some recall past prices while other growers trade price information with other fellow cut flower growers in exchange for cut flowers and planting materials. Most assembler-wholesalers obtain information on the buying and selling prices of cut flowers from other traders in their areas. Marketing cooperatives provide current prices of cut flowers to grower-members. Traders who own facilities (tele-

phones and facsimiles) have access to latest trading prices relayed by other traders within/outside the local area. Florists obtain price information from other florists. Growers and Manila traders give information to florists in Laguna, Cebu, and South Cotabato where they have direct contact through telephones. With regard to the demand and supply situation, both growers and traders use past years records to estimate the future demand especially with particular seasons. Assembler-wholesalers and assembler-wholesalers-retailers buy certain volume of cutflowers based on the potential demand from their buyers and prior agreement with existing and prospective market outlets inside and outside the local area.

Although some cut flower growers and traders are self financed, others borrow capital from several sources such as fellow traders, fellow growers, money lenders relatives, friends and input suppliers. In the suki system, traders are top creditors for some growers and they provide credit either in cash or inputs and growers, in turn, commit their cut flower harvests. Money lenders are also preferred than financial agen-

Figure 3. Support service and mode of payment through suki system of trading

cies because they provide shorter waiting period and less requirement. Banks and financial agencies impose strict collateral fixed asset requirement, shorter grace period (six to eight months), and prohibitive interests (12–18%).

4. Contract Buying and Selling

(Contract Growing Scheme).

Though contract growing started with vegetable producers, recently, there are a number of cut flower growers who are engaged in this agreement. This is currently practiced by some orchid growers in Davao of the Southern Mindanao and chrysanthemum growers in the Benguet Province. In this scheme, large-scale grower (as the suki contractor) contacts individual growers (as the suki contractee) to produce cut flowers so the contractor can concentrate on marketing. The contract is normally good for two years only as short-terms crops such as orchids and chrysanthemums are used. Since the contractor is an integrator who propagates planting materials, he provide the contractee with seedlings and chemical inputs. When the plants are harvested, 50% of the total production goes to the contractor while the remaining half goes to the contractee. The contractee has the option of selling his remaining share of harvest to the contractor at a guaranteed price or to another interested buyer, usually assembler-wholesaler or wholesalers. A guaranteed price is a secured price in which the contractee is assured that all costs incurred in production are already included in the price and that the growers will not incur loss. Such costs compensate for the use of land and labor/service rendered. Most of the time,

the contractee prefer to sell them to the contractor because of such assured price and besides he doesn't have to negotiate with other buyers.

5. Market Tie-up Buying and Selling.

Integrators are large-scale growers found in Benguet, Cebu, Davao, and South Cotabato who perform various function, from breeding to growing and marketing. They are either diversified or monoculture integrators. Diversified integrators grow cut flowers as well as fruits and vegetables while monoculture integrators grow cut flowers only. They produce planting materials through breeding which are either used for their own farms or sold to other growers. They market their cut flower produce and engage in market tie up or contract growing agreement with other growers. An integrator interviewed in the Benguet Province is engaged in a marketing tie-up scheme (figure 5). To extend assistance to a cooperative who could not market the small scale grower-members' cut flower produce, this integrator establishes an agreement with this cooperative. The integrator then serves as the marketing arm of the cooperative's produce if the quality meet the criteria set by the integrator. This is because the cut flowers produced by the cooperative together with those produced by the integrator will be sold to the distribution center or the flower shop which the integrator has established as their market outlet. Aside from quality requirement, there is a specific time of transport which the cooperative must follow. The cooperative assembles all the grower-members produce and quality selection is done. Most of these grower-members cannot produce standard quality cut

Figure 4. Contract growing scheme

Source: Personal Interview with a Chrysanthemum Grower in Benguet Province, March 1995

Figure 5. Marketing tie-up buying and selling

Source: Personal interview with an integrator-market tie-up grower in the Benguet Province, March 1995

flowers, hence, only 11% goes to the market tie-up grower after selection and the rest are distributed to the assembler-wholesalers or directly to the retailers.

6. Cooperative Buying and Selling.

There are cooperatives who markets (marketing cooperative) while others are less successful in marketing the produce of its grower-members (assembly cooperatives). The failure to channel sales through cooperatives is primarily due to limited access they have to reliable buyers in the key demand areas. Secondly, some grower-members are reluctant to adapt to new varieties that cater to the market needs. Such reluctance stems from the fact that sometimes cooperatives fail to provide enough market information to members. As the grower-members are located in mountainous areas with farms far from each other, the cooperative put up a warehouse to have a place to assemble their cut flower produce. This also serves the purpose of easier access for assembler-wholesalers who travels to far areas to collect cut flowers. The grower-members bring their produce to this house and assembler-wholesalers come and transaction is done. Although assembly cooperatives do not market the grower-members' produce, some extend services such

as seminars on propagation and pest control and provide farm inputs or cash to grower-members.

The activities of marketing cooperatives which are found in the provinces of Benguet and Negros Occidental differ in some aspects. Although some growers are members of a marketing cooperative, they have their own individual buyers already, which they prefer because of faster sales turnover than marketing cooperatives. Though some cooperatives are capable of providing financial assistance, others can not generate much funds to provide the members with cash loans and agricultural inputs which force the members to resort to borrowing from wholesalers. According to a newly established marketing cooperative in Benguet Province, they have just organized their multi-purpose cooperative with members who are either or both cut flower and vegetable growers. They have assistance from JICA (truck to transport cut flowers, a water pumping station, and a warehouse) for the assembly of cut flower produce. However, they reported that of the total 150 grower-members only 35 course the marketing of cut flowers through the cooperative. The rest of the members still utilize their own suki traders which they already had before they became members of the

cooperative for two reasons: 1) cut flowers are sold to cooperatives on consignment basis. Since the cut flowers still belong to its members before it reaches its buyers, whenever losses occur due to spoilage from handling and transport, plus percentage unsold which is about 20% of the total quantities shipped, such loss will be deducted from the overall cut flower sales of the cooperative. In contrast to this procedure, their own suki trading agent usually get the flowers from the assembly area, and since these suki agents transports the cut flowers themselves, they take the risks in terms of spoilage/losses. These suki agents will still have to pay the grower with the agreed amount of purchase regardless of the occurrence of unsold or losses due to breakage. 2) from individual growers to suki agents, remittance of payment is faster (which is quite important for those growers with insufficient financial resources) than sales through the marketing cooperative. Remittance of payment through the cooperative normally takes more than one month after sales due to financial recording and bookkeeping. Middlemen are more financially able and their access to market information give them the power over the growers. They can buy cut flowers at low prices and are in the position to sell them at high prices. Some traders receive financial assistance from suki retailers. This is in exchange for the prioritization of the good quality and right quantity at the right time and right prices of cut flowers needed by retailers.

The cut flower marketing cooperative in the Negros Occidental Province handles the selling of cut flowers to suki assembler-wholesalers or directly to suki retailers. This cooperative contact these suki traders located either within the local area or at Metro Manila. The marketing cooperative provides the grower-members with current prices on cut flowers. The

production capacity of the cooperative is estimated by requiring each member to account for the total number of plants for each cut flower type, area cultivated, and the percentage of plants blooming. This will determine the marketable supply, after allowances for rejects and losses (normally 10% of total production). The cooperative is also the main source of information on production technology.

7. Corporation type-growers' Market Exchange.

The table below shows a pricing schedule based on the buyer classification and occasion for a grower-corporation who is engaged in the production of cut roses. These are the prices of cut flowers of the corporation to florists and retailers in Metro Manila. Here, the suki relationship is based on loyalty, or the capability of a client which compose of florists and retailers, to procure cut flowers on a regular, frequent and consistent quantity as well as the ability to pay purchase in cash. Due to scale and greenhouse method of cultivation, they can always assure clients of stable quantity of supply such that prices are maintained at a fixed rate, and no bargaining or negotiation occurs. Purchase on cash is strictly enforced thus are more powerful than retailers in contrast to those small-scale grower-trader system of exchange. In exchange, regular buyer-retailers (suki) obtain the privilege of supply priority especially during low production periods and during peak selling seasons. At occasional price increases, suki clients are provided the least rate of percentage increase compared to non-regular (non-suki) clients. Suki clients absorb 90% of produce and the rest is distributed to non-suki and walk-in clients. To give priority to suki clients, prices are lower (P120.00). Non-suki as well as walk-in/ultimate consumers are given higher prices and can only avail of the lower prices if they become suki. High prices for non-suki and

Table 2. Suki pricing schedule during normal and occasional price increase from a Private Corporation Cut Rose Grower

Type of buyer	Normal price-Pesos average price per bdl of 20 stems	(%) Increase from the normal price for rose cut flower				
		no occasion	Valentine's Day	Mother's Day	All Saints' Day	Christmas
Suki buyer (retailers)	120	0	200	75	150	100
Non suki buyers	150	25	300	100	200	150
Walk-in consumers	180	50	400	125	250	200
First timer walk-in	240	100	500	150	300	250

Source: Personal interview from a private corporation type grower in Cavite, March 1994

walk-in clients is a sound business ethic and is a protection for the suki.

IV. Distribution Efficiency

1. Efficiency Evaluation.

Market efficiency is a complex subject to measure. Because to estimate the efficiency of the market means to determine all costs involved in the marketing process of the growers, of all middlemen, that is from the assembler-wholesalers, to wholesaler-retailers, and then of the retailers, and the value of the commodity sold, or the traders' selling prices. With the available figures on table 3, we can try to estimate and compare the distribution efficiency of one trader, either assembler-wholesaler, assembler-wholesaler-retailers or marketing cooperative between one location to another and between one type of cut flower to another through all costs incurred in performing the distribution operations.

Does (high) low margin mean (in)efficient distribution operation? We need to determine their two components, marketing cost and net return, before we can say so. As the behavior of these two components are positively correlated with margin, high margin is caused by either or both high marketing cost and/or high net return. The high level of marketing cost does

not always determine the inefficiency of the distribution operation because of the distance of the production area to the demand center and the different services that has to be performed in the process. There is high and low or differences in marketing costs of the differences in the distance of production areas and demand centers, the difference in the kind of traders, and the difference in the distribution activities of these traders. Consider the case of heliconia and rose traders from Laguna, Cebu, and Benguet who generated high marketing margins (Table 3). The wide difference (more than 100%) between the buying price and selling price of heliconia is not attributed to the marketing cost (because they were able to maintain it at low level) but to the high net return. Cebu traders on their part obtained a higher margin than Benguet mainly because of the higher marketing cost incurred. Although Cebu traders sell cut roses within Cebu and Negros Occidental, they (Cebu traders) cater to the ultimate consumers on retail basis and hence spend more cost for flower arrangement and other materials for packaging. High selling prices were realized not only because of high marketing cost (a high percentage of which comes from transportation cost) but also by the high net return. High quality of cut flowers, limited production areas, and proximity of production areas to

Table 3. Marketing cost and margin

Unit: Pesos/dozen, %									
Cut flower type	Orchid		Anthurium	Chrysanthemums		Gladiolus	Roses		Heliconia
Production area	Neg Occ	Davao	Laguna	Benguet	Cebu	Laguna	Benguet	Cebu	Laguna
Consumption area	Manila	Manila	Manila	Manila	Manila	Manila	Manila	Cebu/Neg.Occ	Manila
Trader	Mkt Coop	A-W*	A-W	A-W	A-W	A-W	A-W	A-W-R**	A-W
Buying price (a)	62.00	79.30	97.40	25.00	30.00	12.00	9.80	15.00	7.00
Mktg cost (b)	15.30	13.60	1.80	2.40	6.00	1.80	1.80	4.50	2.60
Net return (c)	12.80	11.90	17.60	7.60	9.10	5.20	3.50	5.50	5.50
Mkt margin (b+c)	28.10	25.50	19.40	10.00	15.10	7.00	5.30	10.00	8.10
Selling price (a+b+c)	90.10	104.80	116.80	35.00	45.10	19.00	15.10	25.00	15.10
% Mktg cost (A)	17.0	13.0	1.5	6.9	13.3	9.5	11.9	18.0	17.2
% Net return (B)	14.2	11.4	15.1	21.7	20.2	27.4	23.2	22.0	36.4
% Margin (A+B)	31.2	24.3	16.6	28.6	33.5	36.8	35.1	40.0	53.6

Sources: Questionnaire surveys from wholesalers in Benguet, Laguna and Negros Occidental
Foundation for Resource Linkage and Development 1992 Study
Sycip, Gorrez and Velayo 1991 Study

*Assembler-wholesaler

**Assembler-wholesaler-retailer

$$(A) = \frac{\text{Mktg cost}}{\text{Selling Price}} \quad (B) = \frac{\text{Net Return}}{\text{Selling Price}}$$

the main demand centers among others. For instance, chrysanthemum sold in Cebu were priced higher than Benguet because of better quality produced owing to better planting materials used and different production and cultural methods practiced. As there is no standard classification practiced, differences in classification system would lead to differences in prices. This is also the reason why chrysanthemum in Cebu were priced higher than those in Benguet. For example, medium and large flowers in Cebu were classified as large and extra large in Benguet. If the same standard is used, prices of chrysanthemums in Cebu would have slightly higher prices than those in Benguet. On the other hand, production of heliconia is limited to the three main areas of Laguna, Negros Occidental, and South Cotabato. The first two areas supply domestically while South Cotabato cater to the export market. As heliconia production is new in Negros Occidental, there are still few growers who cultivate this cut flower. This left Laguna which is also proximate to the retailers in Metro Manila, to be a major source of heliconia which enable this province to command higher selling prices.

2. Comparison of operational efficiency for each location and type of cut flowers with the use of Percentage Marketing Cost

Due to the data limitation, evaluation will be focused mainly on measuring operational efficiency. This measure is concerned with exerting a downward pressure on marketing cost to achieve efficiency in conducting the various physical activities during the distribution process. Bringing cut flowers from the supply areas to the demand areas entails several costs which traders shoulder as part of their distribution function. And because of the perishability nature of cut flowers, it will require more careful packaging, storage, and transport. Table 3 shows how the activities of traders are reflected in the marketing costs. For Orchids, Davao assembler-wholesalers sell orchids at a higher price per dozen than the marketing cooperative from Negros Occidental because buying prices of orchids from Davao are higher (Table 3). This is because these orchids are bought by these assembler-wholesalers either directly from the grower or through commission agents. It can be noted that the marketing

costs incurred by traders from Davao do not include sorting anymore which means that growers have already performed this activity and included this cost into the buying prices (Table 4). On the contrary, Orchids from Negros Occidental bought from grower-members are at relatively lower price because it is the cooperative and not the growers who has to perform sorting for correct size classification. With such additional marketing cost, growers can not sell their produce at higher prices. Without cost for sorting, Davao traders incurred lower marketing cost. Although marketing cost of Negros Occidental cooperative is high, the difference between that of Davao traders is small. This is because of the high transportation cost to send Orchids to Metro Manila plus additional expenses for delivery to the different outlets. For chrysanthemum, higher marketing cost incurred by Cebu growers is due mainly to high air freight cost in transporting chrysanthemums to Manila. Benguet traders spend less in transport as the area is nearer to Metro Manila and is accessible via land vehicle. But they also spend for grading and packaging. For roses, the variety that is produced by growers from Cebu are the small and spray types which are not sold in Manila as the standard single flower variety is preferred, which is produced by growers from Benguet. Roses produced by Cebu growers are therefore sold at the local market and to Negros Occidental mostly by assembler-wholesaler-retailers at retail basis already, which explains the high marketing cost spent on flower arrangement. Roses as well as chrysanthemums from Benguet are assembled from the farm and brought to the assembly area. From the assembly area to Manila, these cut flowers are either transported via hired vehicles or through passenger buses. Traders from the Laguna Province are the most proximate to Manila and are advantageous with regard to less marketing cost in terms of transportation and packaging. The shorter distance of travel does not necessitate the use of strong and sophisticated packaging. Among the traders of heliconia, anthurium, and Gladiolus, assembler-wholesalers of heliconia incurred the higher marketing cost primarily due to the added cost for defoliation. On the other hand, the marketing cooperative of orchids and other middlemen generated a high net return which

Table 4. Percentage breakdown of traders average marketing cost

Cut flower type	Orchid		Anthurium	Chrysanthemum		Gladioli	Roses		Heliconia
	Neg Occ	Davao	Laguna	Benquet	Cebu	Laguna	Benquet	Cebu	Laguna
Procution area									
Consumption area	Manila	Manila	Manila	Manila	Manila	Manila	Manila	Cebu/ Neg.Occ	Manila
Trader	Mkt Coop	A-W	A-W	A-W	A-W	A-W	A-W	A-W-R	A-W
Sorting/grading	31		11	10	2	12	10	1	13
Sleeving					1				
Dethorning/defoliation						9			16
Pulsing/conditioning			14		1	2		1	
Packaging	15	15	14	17	6	23			25
Flower arrangement/Packaging							17	80	
Total transportion	45	85	45	66	88	52	66	14	43
farm to assembly area				14		4	19		17
assembly area to airport	3				1				
airport/pier to Manila	42	56			75				
assembly area to Manila			45	52		48	47		26
Manila to market outlets		29			12				
assembly area to local mkt outlet								1	
assembly area to Bacolod city								13	
supplies	2		16						
others	7			7	2	2	7	4	3
% Total marketing costs	100	100	100	100	100	100	100	100	100

Sources: sam as above

may mislead impression of consumers that return is excessive. We recognize that returns as a percentage of the selling prices are a matter of interest to the consumer. However, a considerable share of what is called returns may be actually costs as it will be diverted to interest on investment or share capital for middlemen. For the cooperative, such interest plus the rest are to be distributed as patronage dividends or refunds (although such data are, unfortunately, not available in this study). If this is so, the high net return would in one way indicate higher cost. In another way, it may mean that a good share of the patronage dividend they receive is interest on investment and lesser patronage refunds. To use net return as an indicator of efficiency or inefficiency, concepts such as risks and uncertainties, return on investment, and opportunity costs are, therefore, necessary instruments.

V. Discussion

As the traders (middlemen and cooperatives) were able to attain a low level of marketing costs and high net

return, it is fair to conclude that they have performed their operations in an efficient manner. But were they really able to perform their operations favorable not only to themselves but also to the other constituents, say, the producers, the consumers, or the marketing system as a whole. Were the producers able to perform their part and achieve the desired levels of profit from the prices of the cut flowers they produced. There is therefore a need to examine this aspect as well as on how efficiency was attained particularly with respect also to the "suki" system of market exchange. The first merit is attributed to the fact that some production areas are geographically located proximate to the demand centers. This lessens the number of middlemen in particular distribution flows and is also one cost reduction advantage particularly to middlemen from Laguna in terms of transportation and packaging (the shorter travel time does not necessitate the use for strong and sophisticated materials). Secondly, one factor affecting the ability of middlemen to generate high net returns is the better quality of flowers. Most

middlemen are financially capable to perform proper grading and storage and therefore lessens the risks of spoilage and quality deterioration. In addition, the personalized market exchange called the suki system is also a merit to both middlemen and growers in terms of supply assurance from growers in exchange for the support (loans at low interest, cash advances, inputs, market information, etc.) provided by the “suki” middlemen. Another advantage to growers as far as the strong personalized tie is concerned is the ability of the “suki” middlemen to absorb the excess quantity of flowers (especially during summer months where production is high and demand is low) at a negotiated price. Another merit lies on the success of marketing cooperatives to divert profits from the middlemen. There are marketing cooperatives who are successful in channeling sales of the grower-member, extending technical know-how and helping them improve quality of produce. This is through the provision of such services as market information, training and seminars on production and post harvest practices to grower-members. In another respect, the success of other growers who are able to engage in joint marketing ventures (such as contract growing and market tie-up scheme) is also considered a merit to the present distribution functions.

However, buying prices of some cut flowers are low due to such factors as low quality of production, production time which do not coincide with the demand, no standard grading, as well as the lack of necessary market information. These factors can be traced from the demerits of the production and distribution functions. Low quality resulted from a disadvantage of some production areas as far as geographical location is concerned. There are very few demand centers and most production areas are too far from them. Such distance results to handling problems and the perishability of cut flowers is at risk. Another is the lack of capital due to smallness in scale of cut flower growers. Growers are unable to acquire imported planting materials and adopt up-to-date production (laboratories for propagation, production equipment, etc.) and post-harvest technologies (for proper grading, packaging, etc.). There is still limited support from the government in terms of financial assistance as well as

researches, training, seminars, extensions and other services. Such factor prompted growers to depend on “suki” middlemen for cash and inputs. However, such indebtedness results to weaker bargaining power. Another demerit of the “suki” system is the “breach of trust”. Growers are mostly located in far remote areas and due also to lack of communication facilities, they do not have access to the needed information. Middlemen sometimes provide them with the wrong market information such price and demand. Another demerit is the inability to form cooperatives due to lack of proper guidelines for cooperation. Besides, when channeling sales through cooperatives, there is slower sales turnover. Individual small scale growers lack proper collateral and they hesitate to loan from financial institutions due to the long processing and high interest rates imposed by these institutions.

The biggest concern is therefore on quality and quantity improvement as well as the leavening of the condition of small-scale growers. Because growers are small in scale, they need to organize into cooperatives and try to operate desirable to its members. There will be stronger bargaining power and unnecessary traders will be eliminated resulting to shortened distribution route. Acquisition of necessary facilities will be possible, sales of inputs at lower costs, and application of technology for increased quantity and improved quality for assured market. Government intervention is very important in this respect. It has to create possible course of action by providing appropriate services to improve the condition of growers, introduction of improved production techniques, setting up market laws and regulations to guide the growers and the traders, proper and fast market information, credit support, input availability, and accessibility among others. The Philippine government started its intervention by promoting the cut flower industry when they included cut flowers as one of the ten major commodities prioritized for its Five-Year Development Plan in 1991.

Notes

- 1) Dy, R.T. Strategic Directions for the Philippine Cut flower and Ornamental Export Industry. PhilExport. Confederations, Incorporated, December 1993.

- 2) Export Sectoral Updates. The Philippine Cut flower Industry: Opportunities Ablooming. PhilExport Confederation, Incorporated, August 1993.
- 3) Center for Research and Communication. Cut flower Update. Manila Philippines, March, 1995.
- 4) Okada et.al. Practical Floriculture <1> Cut flowers. pp.507-513, March 1970.
- 5) Kaneko Noko, Keino Seiji. An Economic Study of Flower Marketing System—Cooperative and Individual Selling of Cut Rose Growers in Kamogawa City—Technical Bulletin of the Faculty of Horticulture, Chiba University, Vol.49. Nos.233-242, 1995

References

- Board of Investment, Department of Trade and Industry. Recent update on the list of cut flower-producer-exporter registered with the Board of Investment. Manila, Philippines, 1995.
- Bureau of Agricultural Economics. The Marketing System for Anthuriums and Orchids. Vol.5. No2. Manila, Philippines. 1990.
- Center for Research and Communication. Cut flower Update. Manila, Philippines, March 1995.
- Dy, R.T. Strategic Directions for the Philippine Cut flower and Ornamental Export Industry. PhilExport. Confederations, Incorporated, December 1993.
- Export Sectoral Updates. The Philippine Cut flower Industry: Opportunities Ablooming. PhilExport Confederation, Incorporated, August 1993.
- Foundation for Resource Linkage and Development. Cut flower—Marketing Systems in Major Production and Demand Areas in the Philippines, June 1993.
- Francisco, L.S. A Market Study on Cut flowers. College of Development Economics and Management. University of the Philippines at Los Baños, March 1986.
- 福井清一, 取引慣行が支配する混沌のマニラ卸売市場—「スキ」が作ったフィリピンの流通システム (変貌する農産物流通システム—卸売市場の国際比較—, 所収199, 農文協 pp210-231.
- Kaneko Noko, Keino Seiji. An Economic Study of Flower Marketing System—Cooperative and Individual Selling of Cut Rose Growers in Kamogawa City—Technical Bulletin of the Faculty of Horticulture, Chiba University, Vol.49. Nos.233-242, 1995.
- Mendoza, Carol. Product Profile on Cut flowers. Bureau of Export Trade and Promotion. Department of Trade and Industry. Makati City, Philippines, 1993.
- Okada et.al. Practical Floriculture <1>“Cut flowers” pp.507-513, March 1970.
- Philippine Value Digest. Sales and Marketing—Techniques and Strategies, Filipino Style, Vol.V6, No2, 1991.
- Piadozo, M.E. Syllabus on Agricultural Marketing. College of Economics and Management. University of the Philippines at Los Baños, 1987.
- Rosacia, H, and Pamplona, J. The Philippine Cut flower Industry Analysis, A Contemporary Study. Special Problem, College of Economics and Management, University of the Philippines at Los Baños, April 1995.
- Shepherd, G. & Futrell, G. Marketing of Farm Products. The Iowa State University Press, 1982.
- Sycip, Gorrez, Velayo SGV. A Market Study of Selected Tropical Cut flowers in the Philippines. Makati City, Metro Manila, Philippines, 1991.

Acknowledgment

Heartfelt gratitude is especially expressed to all the respondents of field interviews and questionnaire survey and to government and NGOs who provided data on cut flowers. Personal appreciation goes to: Ms. Paz Pedro of Philippine Cut flower Corporation; Ms. Mauricio of Ponderosa Farms; Mr. Boni of Puyat Farms in Benguet; Mr. Efren Chato of Cut flowers and Ornamental Cooperatives in Benguet; Ms. Evangeline Cumihan of BSU University; Mrs. Magda Balaki, an Anthurium grower in Benguet; Ms. Millie Kilayko of the NOCPC; Mr. Gil Divinagracia of Laguna Cut flowers, Ms. Tess Alparas and other traders whose names prefer to be withheld. Thank you also to Ms. Olive Tadaoan for interviewing Benguet traders and Ms. Imelda Toroy for floating questionnaires for traders in Laguna as well as to Mr. Keiichi Hayashi and Ms. Hiromi Fukushima for the English translations.

(Evangeline G. Toroy; United Graduate School of Agricultural Sciences, Tottori University. Katsuhisa Ito; Faculty of Life and Environmental Sciences, Shimane University)