

Economic and Marketing Issues of Cut Foliage Industry in Colombo District, a Study from the Exporters' Perspective

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ABSTRACT

Cut foliage is getting a better demand among other floriculture products in present world market. A study was carried out to rank the factors affecting the cut foliage business, price determinants and constraints from exporters' view point. It used primary data collected through a questionnaire based survey which was conducted in Colombo District with a sample of forty exporters. Results of chi-square test analysis revealed that operating costs and demand were most affecting factors on export foliage business while cost of production and grade of plants were major determinants. Based on the study; high cost of air cargo and lack of investment of funds were identified as significant constraints in export cut foliage.

KEY WORDS: Cut Foliage, Exporters' Perspective, Constraints

INTRODUCTION

After the British rule Floriculture really came into practice not as industry but mainly as a hobby for pleasure. Later with many new introductions of tropical and subtropical plants the trend was gradually passed down to other levels of society. Floriculture in Sri Lanka started as an industry in 1970 (Danasekara D.M.U.B.). It has grown substantially during the last few years to become one of Sri Lanka's major foreign exchange generating ventures. Consequently export earnings from floriculture increased by 19 percent to Rs. Million 924.86 in year 2003. Cut foliage products contribute above 60 percent of market share. Today Sri Lanka's foliage industry consists of three categories of producers or growers. (Anon 2004) (Figure 1)

- (a) Large commercial ventures for export.
- (b) Middle level growers catering to the local market.
- (c) Village level producers who sell their products to either of the two categories mentioned above.

Currently more than 80 companies are involved in export of floriculture products. (Anon 2004) and industry employs more than 3000 persons directly. (Mawalage, D, 2001)¹ Floriculture has a great potential in Sri Lanka even though the existing market share is less than 0.2 percent of the world market. A comparison of the world trend and the production figures of Sri Lanka clearly show that Sri Lanka is not in line with the world trend.

Tropical climate of Sri Lanka facilitates the floriculture through out the year free from seasonal interruption and climatic variation coupled with diverse terrain enables to develop a wide range of floriculture products. So Sri Lanka cut foliage industry has better future prospect.

As cut foliage industry is a consumer driven economy, quality of products, selling price, channel of marketing should be considered to increase the demand. So, it is an urgent need to identify impacts on cut foliage business with respect to them.

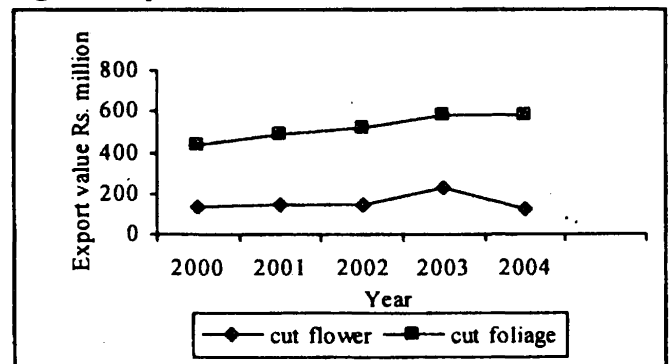
This study deals with identifying impacts on cut foliage business, determinants on price and constraints from exporters' view point. Eventually it assists the new exporters to be aware of the cut foliage industry.

METHODOLOGY

The study was carried out to identify factors affecting cut foliage business, price determination and expansion of the business from the exporters' view point. Colombo district was selected as survey area because most commercial ventures for cut foliage have been established with respect to other districts.

The survey was conducted with the total sample size of forty exporters; sample was randomly selected and interviewed through pretested questionnaire. Data were analyzed by SAS using Pearson's chi-square test.

Figure 1. Export of Floriculture Products from Sri Lanka



Source: Statistics of Sri Lanka Export Development Board 2004

RESULTS

Operating cost, demand, own managerial expertise, investment of funds and environmental regulations were five top factors which have impacts on export cut foliage business. 55 percent of respondents ranked operating cost as the most important factor which affected the business. 50 percent and 45 percent of respondents ranked demand and own managerial expertise as very important factors respectively. Ability to attract and retain competent management personnel was the least impact on cut foliage business.

42.5 percent of respondents had identified attraction and retention of competent management as having the least impact. (Table 1) According to level of importance in price determination of cut foliage export industry cost of production was ranked as very important factor. 65 percent respondents had identified cost of production as the major determinant on selling price. Grade of export plants, demand and product uniqueness were the other three very important factors when determining selling price. 50 percent and 47.5 percent respondents ranked grade of plant and market demand as very important factors respectively. Inflation was the least important factor among others from the exporters' viewpoint (Table 2).

Inadequacy and high cost of air cargo, lack of investment funds, inconvenient and expensive

phytosanitary clearance and lack of trained personnel were important factors that limit the expansion of export foliage industry. 85 percent of respondents had identified high cost of air cargo as the highest limiting factor for expansion, while 77 percent, had identified lack of investing funds as second important limiting factor for expansion. Inconvenient and expensive phytosanitary clearance had been ranked by 75 percent respondents as an important limiting factor. The study revealed that less awareness of international market information on prices, trends and information on pesticides were minor limiting factors for expansion from the exporters' view point. 60 percent and 65 percent of respondents had identified above two factors as minor limiting factors respectively. (Table 3)

Table 1: Ranking of factors which affect to cut foliage business

Factor	Ranking				
	Minor	Neutral	Important	Very important	
Ability to attract and retain competent management	42.50	15.00	15.00	27.50	100
Ability to attract and retain hourly employees(full-time)	20.00	15.00	30.00	35.00	100
Own managerial expertise	20.00	17.50	17.50	45.00	100
Demand	10.00	15.00	25.00	50.00	100
Investment of funds	15.00	20.00	27.50	37.50	100
Operating costs	2.50	12.50	30.00	55.00	100
Competition from other exporters.	15.00	27.50	32.50	25.00	100
Environmental regulations (weather uncertainty)	15.00	20.00	27.50	37.50	100
Government regulations	15.00	20.00	30.00	35.00	100

Probability=0.035

Table 2: Ranking of factors which determine the price of export cut foliage

Factor	Ranking				
	Minor	Neutral	Important	Very important	
Cost production	0.00	7.50	27.50	65.00	100
Inflation	15.00	25.00	37.50	22.50	100
Other grower's prices	15.00	20.00	37.50	27.50	100
Grade of plants	7.50	17.50	25.00	50.00	100
Demand	5.00	15.00	32.50	47.50	100
Product uniqueness	15.00	17.50	27.50	40.00	100

Probability=0.039

Table 3: Ranking of factors which limit the expansion of export cut foliage industry.

Factor	Ranking			
	Minor	Neutral	Important	
Inadequacy and high cost of air cargo	0.00	15.00	85.00	100
Lack of research & development	15.00	40.00	45.00	100
Lack of trained personnel	2.50	25.00	72.50	100
Lack of investment of funds	2.50	20.00	77.50	100
Lack of improved systems of marketing	17.50	30.00	52.50	100
Difficulty in acquiring suitable land	30.00	25.00	45.00	100
Less awareness of international market information on prices, trends	60.00	25.00	15.00	100
Lack of information on pesticides	65.00	20.00	15.00	100
Wages for labourers -High	25.00	32.50	42.50	100
Inconvenient and expensive phytosanitary clearance	10.00	15.00	75.00	100

Probability= 0.001

DISCUSSION

Operating costs, demand, own managerial expertise, investment of funds, environmental regulations were more important factors which have impacts on Sri Lankan export cut foliage industry, from the exporters' standpoint. The turn-over of cut foliage crops is very rapid and they need operating capital for short periods until sales are made. (Brumfield, Robin 2003). It proves that higher operating costs in export cut foliage have an important impact on the business. World demand for cut foliage products is growing at a rate of 6-9 percent per year and total world consumption is 31 billion US \$ (1995) (Miller, MN 2003). Consequently higher demand from the consumers attracts the cut foliage suppliers all over the world; including Sri Lankan exporters. It shows that demand has an important impact on foliage business. Due to own managerial expertise, cost of production is cut down to some extent. (Brumfield, Robin 2003) It shows that own managerial expertise has an important impact on business.

Large scale export oriented ventures need modern equipments such as shade nets, UV stabilized polythene, irrigation and fertilizing systems to remain competitive in world market (Dhanasekara, D.M.U.B). It reveals that investing funds on the cut foliage business for modern equipments etc has an important impact on business. Pest and Disease attacks prevent the exporters acquiring quarantine standards demanded by the international markets. (Miller, MN, 2003) So environmental regulations such as Pest and Disease attacks, weather uncertainty have important impacts on cut foliage business.

The factors important in price determination are cost of production, grade of plants, market demand and product uniqueness. They are directly associated with sales or income earning by business. When the cost of production rises exporters have to retail high prices to make profits. (Miller, MN 2003) That shows that cost of production is an important determinant on price. Grading of plants is possible to cater into different niche market with higher price as consumer preference and consumer demand vary with culture and per capita income. So, it becomes a determinant on price.

According to the above study inadequacy and high cost of air cargo was the most significant constraint in export foliage industry while less awareness of international market information on prices, trends and lack of information on pesticides were least significant. Lack of trained personnel, big initial investment and inconvenient and expensive phytosanitary clearance were other important constraints in limiting expansion. Lack of improved systems of marketing, lack of research development and difficulty in acquiring suitable land were moderate constraints for export cut foliage.

As the biggest constraint for the expansion of the industry is high cost of air freight, government should negotiate with Sri Lankan airlines and other foreign airlines to bring down the cost of freight by 10% for perishable cargo. Then to overcome big

initial investment on industry, 200-250 acres would be allocated and given on lease, infrastructure development with government institutions, and attraction of foreign investment as joint investments.

Furthermore, new policy framework should be innovated by Department of Agriculture, Export Development Board to initiate long term Floriculture Research and Development programme. As foliage industry requires trained personnel at each level of production education programmes from schools up to university level and training institutes to conduct courses on high – tech practical skills are essential.

CONCLUSIONS

Operating costs, demand, own managerial expertise, investment of funds, and environmental regulations are the most important factors which have impacts on cut foliage business.

The important determinants on price of export cut foliage industry are cost of production, grade of plants, demand and product uniqueness.

Significant constraints for expansion of the industry are high cost of air cargo, lack of investment funds, inconvenience and expensive phytosanitary clearance and lack of trained personnel.

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