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## Business Objectives for the Flower Industry

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"Business Objectives for the Flower Industry" is particularly pertinent to management. It involves decisions that you as present or prospective owners and operators of businesses are in a position to make. Decision making is the core of the management function. A conscious appraisal and analysis of the situation in which a person finds himself is, from time to time, a sensible precaution and it can be a fruitful pause. This is particularly true of those who can redirect their efforts or those who are in a position to choose between alternative occupations. It may be particularly important, therefore, for some of us here this morning to consider where the flower industry (in Colorado) is headed.

The problems faced by management are partly economic, partly non-economic. Plant location involves economics directly in such things as accessibility to markets and raw materials, availability of suitable labor, amount of taxes or rent. Non-economic factors are involved in such things as environment. A new machine or working conditions involves human relations as well as economics.

Many of the factors with which management is concerned are within the control of management, or are at least within its influence. Many other factors on which managers must base their decisions and plans are outside of their businesses, possibly outside their control. They are,

nevertheless, factors that must be considered, that must be taken into account.

### Markets

The nature of the demand for your product is of great importance and merits serious thought and investigation. It appears that there are two distinct types of market for your flowers. The first of these you will recognize as being composed of your present sales through your present outlets. It seems to be characterized by an inelastic demand for a high quality, well advertised, well known brand of flowers - Colorful Colorado Carnations - bought particularly for special occasions. It is a restricted market. The characteristic of such a market having an inelastic demand is that if the industry attempts to sell more flowers it can only do so by reducing the price so much that the income received is actually less than before the price reduction. In consequence price tends to be kept high and the industry resorts to advertising to maintain or increase its sales.

The second type of market that we can consider may be referred to as the Mass Market. In this market, price could effect a considerable change in the quantity of flowers sold. If this were the case the l/Dr. H. J. Hudek is Associate Economist for the Colo. Agric. Exp. Station. This is a part of a talk presented at the Colorado Flower Growers' Annual Short Course - 1962.

demand would be considered elastic. That is, a decrease in price would so increase the quantity of flowers sold that total income would increase.

If, as indications tend to show, these two markets for flowers do in actuality exist there is the possibility of exploiting them by a process of differential pricing and using a differentiated product. The possibility of selling flowers through these two channels merits further consideration.

Perhaps Colorado Carnations labelled as such should be sold at still higher prices all year round with non-labelled flowers sold through mass markets at lower prices. It would appear, also, that raising prices especially during holiday seasons, could be most advantageous and at such times shifting flowers from the mass market to the class market.

I believe it may have become more important recently to develop and cultivate the mass market because of the increasing likelihood that potential mass market outlets will turn to and draw from other sources of supply. Countries in Europe and elsewhere could become sources of supply if they will adopt or develop methods of shipping. What is the possibility of their taking over the East Coast market? I don't know whether this is a possibility or not but I would want to know if I were you. Though they might not displace your present sales it could be that they will tap the mass market unless you develop it for yourselves.

Perhaps you should shun it completely and there may be a number of reasons why you should. It may not be lucrative enough. Your additional costs might be greater than your additional revenues. Sales in the mass market might cut into your other sales. On the other hand it might stimulate them, or, though they might not be lucrative, you might want them anyway to keep others out of the mass market and thereby prevent them from cutting in on your other sales. In any event you should know the situation.

### **Production efficiency**

On the demand side you will also want to consider the quality of your product. Are you keeping up or even pulling ahead in developing and growing the strains that

have the color, keeping quality and general appeal that Colorado Carnations must have to substantiate the appeal of your advertising. Good advertising can do a lot sometimes to the demand for a shoddy product, but it can do a lot more for the demand and especially the price of a high quality and exclusive product. Besides considering the demand side, economists will always tell you to consider the supply side, that is the cost side. Are you progressing in your plant efficiencies - that is, in your developing and propagating practices, and in the efficiencies with which you operate your growing facilities? Is your plant layout the most efficient one from the viewpoint of labor requirements? By redesigning or making improvements in your plant could you eliminate the work of one man? If you can, this could be equivalent to the return on an investment of \$100,000 at current rates of interest.

Under these circumstances it appears to me from the little I know of your plant operations that several lines of action should be taken by this group. I believe it would pay you very handsomely to retain someone to work with you or with a committee appointed by you to investigate and design new and modern plants. There seems to be great possibility that a number of you could improve your efficiency with new plants. It also seems feasible that these could be independently owned plants but that certain facilities such as power and heat, grading, and perhaps other facilities could be owned jointly or cooperatively.

I understand that complexes of several plants so owned and operated are being used very successfully in parts of Europe. They would have the added advantages here of incorporating the latest in cost reducing innovations and would enable some of you at least to relocate in surroundings more favorable for growing while capitalizing on your present high priced land.

You probably will want to operate your own plants independently but you can only succeed as an industry if, and only if, there are enough Colorado Carnations to keep them before the eyes of the consumer. In all other activities then, besides your plant operations, it appears to me that it is imperative that the flower growers in this area work together. That is why I think you should investigate, as a group, the optimum types and sizes of greenhouses you want to develop and their location and relationship to the wholesale houses.

## Financing

In any such endeavor considerable thought and emphasis should be given to the availability and means of financing. Considerable amounts of money could be involved in developing the industry. The availability of funds and the interest rates involved are problems that could be solved to your greater satisfaction with group effort rather than by individual effort.

Each would need to take into account the amount of capital he now has. Each of you would also want to determine the amount of additional funds that you might be able to borrow. In addition to your individual sources of capital I would like to draw to your attention two sources of financing that you might have recourse to as a group. The first of these is the Small Business Investment Corporation. The second is the formation of a Credit Union. I would strongly recommend that you investigate these two possibilities for raising additional capital.

What I am suggesting to you is that business to be successful must be dynamic; it must change according to conditions. I am also suggesting that conditions have been and are now changing rapidly while changes are not occurring in the industry to meet the changing conditions. To meet the challenge of these changed conditions requires an intelligent and informed management. The simple proposal can then be made that you must provide yourselves with the information regarding conditions that will enable you to make the most enlightened decisions. You can provide yourselves with at least various pieces of information in a number of ways.

## Research needed

It is probable that a young graduate student could carry out some research for you that would be most useful. If he were trained in some of the modern tools of economic analysis he could in the course of a year give you answers to several problems that would pay for his keep many times over. I would have him investigate your demand situation. This would be a prerequisite to a sound and profitable pricing policy.

I would, if I were you, have him investigate your cost situation, the enter-

prises you have and the combination of inputs that go into the various phases of each business. Among several possible enterprises or combinations of enterprises available to you he could perhaps indicate to you which would tend to be most profitable. Most large firms can afford and now use these techniques of analysis to their greater profit. Operating as a group you could also.

The internal economics of each plant also merit considerable attention. Could you develop a team of experts among you that would be available to any plant for consultation on problems of managing and operating the plant? This would involve not only the biological (the propagating and growing) and physical activities of your plant but also problems of planning, of budgeting, and appraising the degree of success of your operations. Better methods of bookkeeping, of accounting, can often lead to better plans for future operation and larger profits.

A conscious effort to improve the handling of your records and your business often shows up possibilities for increasing the success of your business. A specialist who concentrated in the flower industry could no doubt give especially sound advice that you could all share. The least that I would do then would be to develop a team of experts among yourselves. An improvement on this would be to hire a professional accountant that would be available to all. But I personally would recommend that you go even further and establish a paid consulting group or Service Bureau for your industry. This could do several things. It would first of all have to include the services of a top rate professional accountant, who would be available to you, if not in whole, at least as a substantial client. He would probably want to establish what may be called a joint accounting set-up.

He would give you advice on tax matters, depreciation allowances, etc. He would show you how to use breakeven charts, Profit and Loss statements, Balance Sheets, Budgets, etc. to enable each of you to do the best possible job of managing your enterprises. The services of a top rate professional accountant might cost you \$100 per day for a few days each year but when this is divided among the group it is a very small charge compared to what the ultimate benefit to each of you might be.

You already have a top rate professional advertiser who could also be considered as part of this consulting group or Service Bureau. You would probably want to expand his services and tie them in with other work and other personnel that could be of service to you. Another branch of this Bureau you already have in the professional help that you receive from the CSU Plant Scientists. These you already know well. Their further advice and assistance would be invaluable in conducting the additional research that I am proposing.

You would be helped if you could draw on the assistance of other specialists as their need arose. An architect or consulting engineer could answer some of your problems. An economist with qualifications for research could be of assistance in others. The right men would have adequate natural ability and imagination along with adequate training in their fields. The economist would need training in research if he is to conduct the research necessary to cast light on the problems that face your industry today. For example, should you expand or should you contract? Are there circumstances arising that give opportunities for profitable expansion, or should you retrench, or perhaps go out of business altogether. You are going to want to know whether or not you can compete as you now are, or what adjustments you must make if you are going to continue to compete.

### Can you compete?

If you have added competition, what markets can you profitably hold and saturate? Which should you either get out of or restrict your sales to just special occasions? Are you going to lose the East Coast to European imports or to sales from California, and should you then concentrate and saturate the Central States? Or are you going to be able to expand your sales to Europe, to Mexico or to South America? And if you are, how much and in what way should you expand?

While you are considering these things it would be well to ponder whether the situation should be examined from other points of view. Is your expansion, or your survival even, contingent upon reducing your costs of production? What would be the result of building new and efficient plants? Would this lead to

greater success or would it be money down the rat hole? Suppose France and Italy could come into the picture, should you forstall it, or should you get into the act first by establishing a broker in Europe that would then service customers for you on our Eastern seaboard with their flowers? What would be the possibility of using this source and this means (a broker) to establish mass market sales of flowers in this country as a means of circumventing the regular florist? If the potential for imports looks good perhaps you should make your investments and your expansion in Europe rather than in the Denver area. A lot of American capital has gone to Europe for just this reason.

If there are other producing areas in the U.S. such as California that have greater potential than Colorado you should want to know that too. A properly trained economist working with other qualified members of a research team and with your complete information can give you some answers to the questions I have posed.

Where you are going in your business or where you might go could represent a difference of \$5,000,000 up or down in sales each year. If I were in your position with this much at stake I would want to know some answers. I think you do too and that is why I am proposing that you establish by some means the method for finding out. You already have the bulk of the personnel necessary. The remainder could be rounded out with the outlay of far less in my estimation than they would be worth to you.

If you are in the flower industry for a livelihood and therefore the incomes that you can receive, you must have a knowledge of your markets on the one hand and a knowledge of your costs on the other. I believe you can best get this knowledge cooperatively - i.e., if you work as a group, and if you base your actions on a sound program of research that encompasses as many as possible of the factors involved.