



Collaborating to Compete

The Dutch flower cluster shows how much value can be found in a commoditised sector that collaborates before it competes

The flower business is an important part of the Dutch economy. Horticulture accounts for 39 percent of agricultural production in The Netherlands with the country's share of global cut flower exports at 52 percent. The Netherlands has dominated the global flower business since pioneering the industry in the 17th century and has positioned itself at the intersection of the cultivation, trade and transportation of flowers through a tight cluster of auction houses, growers, logistics providers and researchers.

Clusters matter as they improve the performance of regional and national economies by simultaneously encouraging competition, which brings efficiencies and collaboration, which opens opportunities to share best practices and spread innovation. Each time an innovation or practice is shared, all the firms in the cluster benefit, taking them up to the same level of competitiveness faster and challenging them to continue to find further efficiencies to keep the hive of activity alive. Cluster thinking also orients and attracts resources, while encouraging policymakers to find ways to build on the unique strengths exhibited by the cluster. In other words, the tighter the cluster, the stronger its competitiveness.

The Dutch have remained on top by pioneering innovations in flower production to increase

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competitiveness and productivity. Climate-controlled greenhouses were put into use in 1983 and mechanised growing and harvesting techniques were introduced in 1985, allowing for year-round production.

The trade moves fast, with flowers usually cut, packaged, sold and exported to their final destination within 24 hours. This happens largely through FloraHolland, the world's largest flower auction house, which consists of around 8,000 floriculture growers. The auction house also serves to create value and lower transaction costs as much as possible.

Cutting edge

Flowers "have a lot of volume compared to their value. So transaction cost is important" explains Dirk Hogervorst, until recently the Strategy, Marketing and Business Development Director of FloraHolland, in a recent interview with me during a visit to INSEAD.

"FloraHolland provides the marketplace, a platform to do business, but there are a lot of other services in the cluster...The greenhouses, propagation, the breeding, but also all kinds of logistic services, education and also the supply of all the things you need to grow flowers or to handle flowers. Then

there is the export side of the cluster,” he added.

Will the cluster wither?

But despite its efficiency, the industry is not immune to global pressures. The flower cluster is currently facing multiple headwinds which are depressing its already thin margins. With overall consumption decreasing in developed markets such as the US and Europe, production costs rising and emerging markets entering the production and trading of flowers, Hogervorst sees “dark clouds” on the horizon.

Low-cost cut flower exporting countries close to the equator, such as Kenya, Ethiopia, Ecuador, Colombia and Malaysia have increased their global market share at the expense of Holland’s. According to a **Rabobank report**, The Netherlands’ market share of cut flower exports has fallen from 58 percent in 2003.

Cost efficient producers in these countries are cutting their way into the industry with competitively priced flowers, and improved logistics, including transportation by sea container rather than air, which has been an important mode of transport for Dutch exporters to get products to faraway markets quickly. Typically, transport costs for flowers shipped overseas range from 60-90 percent of the total cost to produce a flower. Sea freight is half the cost of air freight and is being called an “unstoppable” mode of transport due to growing knowledge about longer-lasting flowers and increasing facilities at ports to keep flowers fresh.

Challenges are also rising at home. Growers face pressure from environmentalists to reduce their dependence on chemical agents and fertilizers and more auction clients want to use only parts of the auction system such as logistical support, removing volume from the marketplace.

Collaborative growers

But Hogervorst is optimistic. He argues that the collaboration of the cluster is a defining reason for its strength and global prominence. He explains that central to the cluster’s innovation is knowledge sharing to improve supply chain cooperation and coordinate solutions to common problems including product quality, logistics, market and pricing information and legal issues. “The cluster is about the cooperation of all the different parties, so you need them all to be able to deliver a good bunch of flowers to the consumer,” Hogervorst said.

Hogervorst points to several recent examples: Innovation in breeding and assortment with new colours, varieties and longer vase life for consumers; more energy efficient greenhouses with

solar panels to reduce costs and carbon emissions; virtual sales systems so the product no longer has to be packed off to an auction house and wheeled around, costing money and wasting precious hours; and longer trucks that can transport more product while also reducing carbon emissions.

“People in the cluster see each other first as colleagues and then as competitors. That is a unique mentality,” Hogervorst said. “The open character of the system really supports innovations made in the past but still today.”

He insists that this approach enables the cluster to stay close to consumer demands and grow a product that customers want, not just one that growers want to grow. For instance, Hogervorst said, “we heard recently that fragrance is one of the big wishes of consumers. Not all flowers are fragrant so the industry has to develop flowers that have that”.

Smelling the flowers

His arguments aren’t just optimism. Research suggests that physical proximity **still matters in trade** and the **most innovative countries** have successfully clustered important industries together. Collaborative alliance partnerships with industry peers also streamline costs, increase productivity and accelerate innovation. Hogervorst reckons the Dutch flower cluster will only continue to flourish if it continues to collaborate.

While expenditure on flowers is not expected to increase in traditional markets, growth is expected in emerging markets such as China, where, especially in the big cities, people are buying more flowers for gifts and special occasions. Being at the centre of global trading, FloraHolland is researching China closely and looking at ways to provide Beijing, Shanghai and Hong Kong with flowers from Africa, Holland or even other Asian countries.

Rabobank reckons that dedicated supply chains will become more important for large-scale growers in competitive production regions. Dealing in a business with high product diversity and perishable and delicate products will require control over the supply chain as a critical success factor. Long term partnerships will help growers and retailers control risks related to availability, quality and prices.

The clear communication and collaboration of the Dutch flower cluster will keep it competitive, reckons Hogervorst, which ensures the cluster as a whole grows, when everything, right down to the boxes used to transport the flowers, are optimised to maximise flower life and freshness. “When the open character and willingness to share information should disappear, that will be a main threat to the cluster”.

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