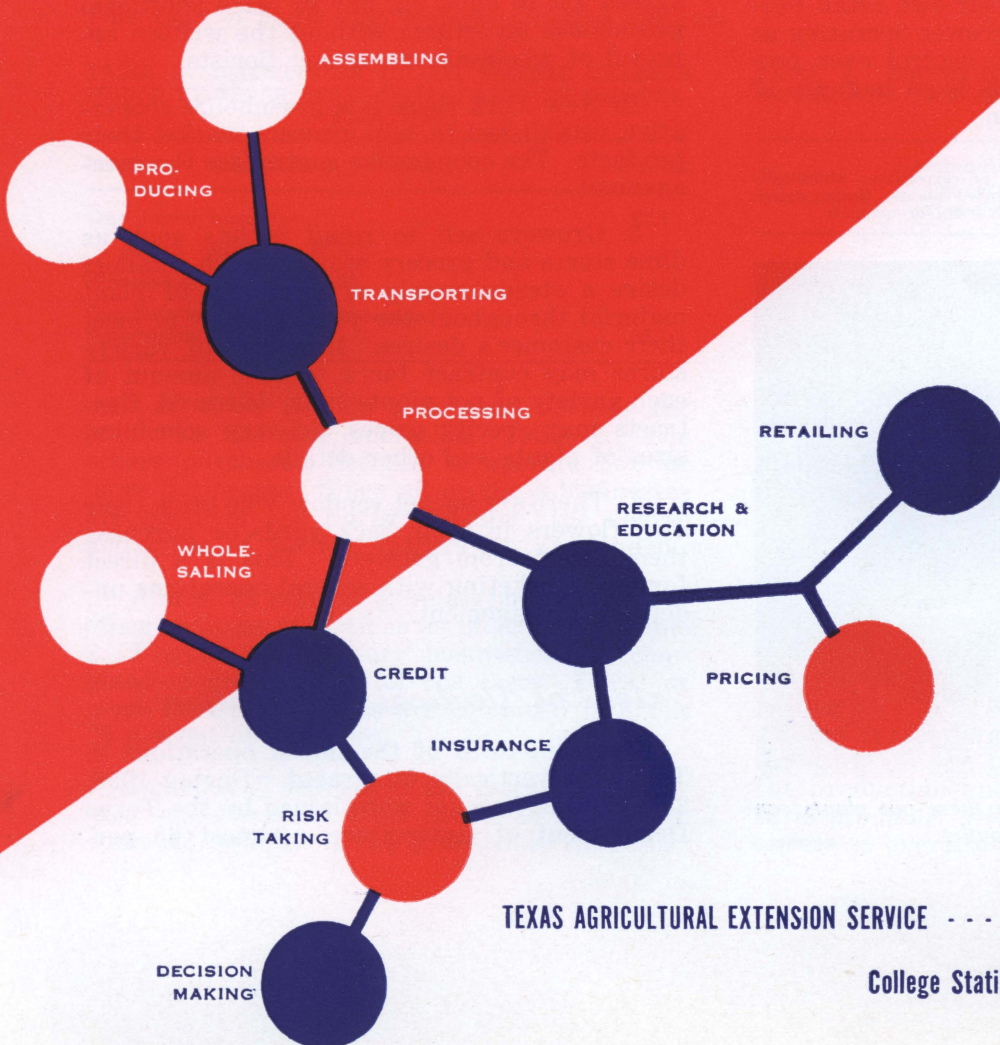


VERTICAL INTEGRATION IN TEXAS AGRICULTURE



Florist Crops

The production and marketing of florist crops has been a highly specialized agricultural business since its early beginning. Sixty years ago wholesale commission florists were almost nonexistent; few wholesale growers and practically all retail florists operated production greenhouses. The industry gradually developed and matured from the entirely integrated grower-retailer to the specialized business it is today.



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VERTICAL INTEGRATION IN TEXAS AGRICULTURE

Florist Crops

The floriculture industry is largely dependent upon the economic well being of the grower of plants and flowers. As a high degree of specialization in crop production developed during the past 50 years, the trend was away from vertical integration. The present specialized retail flower shop developed independently of production facilities and an ever-increasing emphasis is being placed on services rather than goods.

Types of Florist Integration

The florist¹ has several opportunities to specialize. Growers usually have a choice of selling (a) direct to consumers from their own retail outlets, (b) to wholesalers or jobbers directly or through consignment brokers or commission men, (c) from their own roadside stands or truck delivery routes or (d) direct to retail outlets.

Several ways in which vertical integration may be developed in the florist industry are:

1. Some growers have their own retail florist shops. In this case, the grower operating as a retailer assumes complete control over production and marketing. This is an instance of complete vertical integration.

¹Applies to any individual, partnership or corporation which may grow or sell, or both, cut flowers, potted plants, florist greens and bedding plants, regardless of the variety or quantity.



Attractive products such as these pot plants can be used for any type of florist outlet.

An analysis of marketing channels for floricultural crops by the USDA indicates that, in terms of farm and retail values, 20.5 percent of the consumer purchases are made from the retail grower, Figure 1. This is a form of vertical integration that has been carried on in the florist industry from its very beginning.

In a recent study of retail florists, 20 percent reported that they operated greenhouse facilities in connection with their retail business. It was evident that the greenhouse facilities were used for more than one type of production. In some instances the greenhouse operation was not adequate to supply the entire needs of the retail shops. In these cases, additional items were purchased from wholesale growers.

2. In Colorado, carnation growers contract with wholesale florists to produce and deliver specified types, varieties and qualities of flowers at specified times. The company agrees to sell and dispose of flowers and plants received at the best prices obtainable. The grower agrees not to build on, buy or lease additional greenhouse structures without the written approval of wholesale marketing florists.

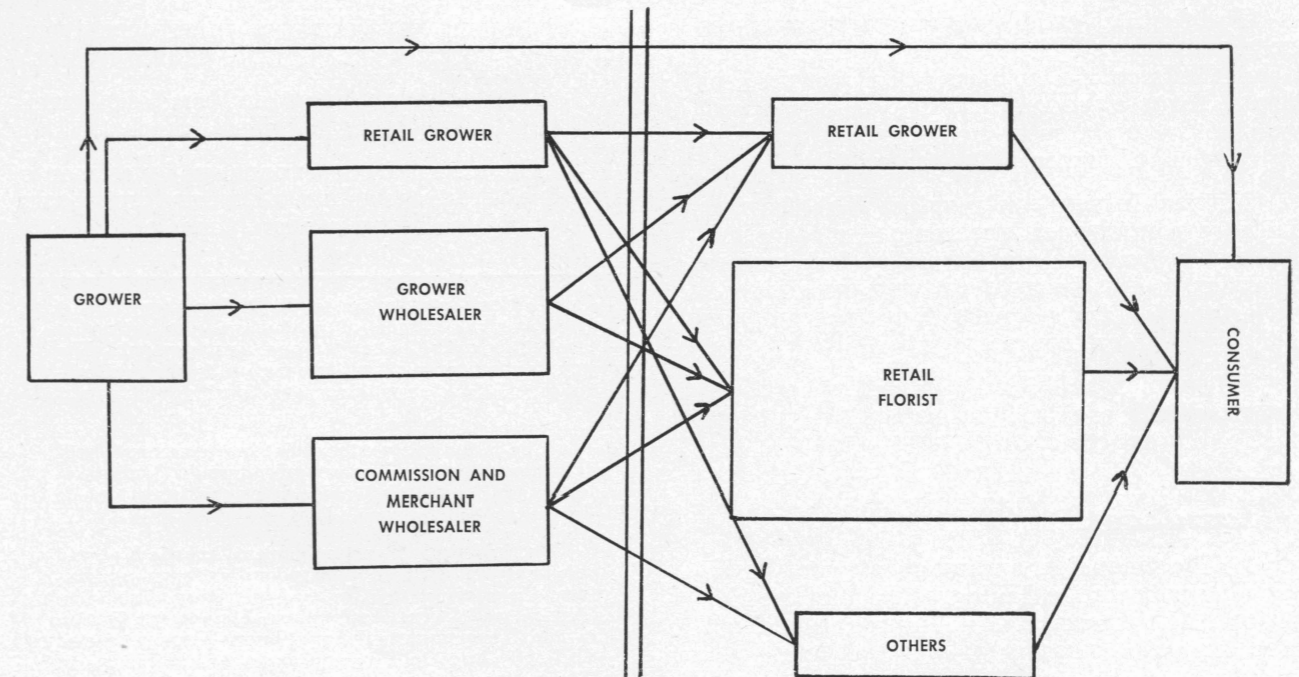
In New York there is a greenhouse cooperative, established to help growers market their products. The cooperative centralizes the management.

3. Growers sell to retail outlets such as dime stores and grocery stores. Such retailers desire a steady supply of a variety of plant material throughout the year in order to meet their customer's desires. Managers of variety stores may contract for a specific amount of each variety of pot plants to be delivered. Contracts may specify prices, delivery schedules, sizes of plants and other details.

4. There are bucket vendors who grow their own flowers in their back yards or purchase them direct from growers. This is a direct form of marketing with several operations under one management.

Extent of Vertical Integration

Over one-third of the florist operations in Texas are vertically integrated. During 1958, 2,982 florist licenses were issued by the Texas Department of Agriculture. Almost 63 per-



Flow chart of florist crops through marketing channels.

TABLE 1. DISTRIBUTION OF ALL FLORIST LICENSES ISSUED BY TEXAS STATE DEPARTMENT OF AGRICULTURE, 1958

Number of operations in business	Percent
One florist business	62.9
Retail only	60.6%
Wholesale only	2.3%
Combination of florist businesses (operations)	37.1

cent of these florists purchased licenses for only one business operation, Table 1. The others purchased licenses to operate two or more businesses. Since all of these businesses are parts of the florist industry, the degree and types of vertical integration are evident.

Almost 92 percent of retail businesses have other business operations as indicated in Table 2. Florists and nursery businesses are combined in 58.3 percent of the cases. Three or more florist businesses are combined in about 25 percent of the cases.

In about 67 percent of the cases retail business was combined with one other operation, while 42 percent of the greenhouse operators

TABLE 2. DISTRIBUTION TEXAS FLORIST LICENSES ISSUED FOR TWO OR MORE TYPES OF BUSINESSES, 1958

Types of businesses	Combination of several operations	Percent	
		Combined with only one other business	Percent
Retail	91.5	66.7	
Wholesale	59.3	34.7	
Greenhouse	66.7	42.4	
Grower	7.1	6.6	
Florist and nursery	58.3		

and about 35 percent of the wholesale operators are combined with only one other business.

Management Practices

Under the contract system of production, many management decisions are shifted to someone other than the grower. For example, in the marketing of Colorado carnations, the grower agrees to comply with the policies and directives of the company as they pertain to the production and marketing of all floricultural products. At the same time the company agrees to exercise every effort to sell and dis-

pose of flowers and plants at the best prices obtainable, and to render a monthly account of such sales to the growers.

Cautions and Opportunities

The florist should study carefully any proposals involving integration to determine probable effects on his business. A florist in joining a cooperative or private venture should realize that he is entering into a business contract of significance to his operation.

Vertical integration requires that the florist keep accurate cost records on both the production and marketing phases of his business in order to see the need for and make proper adjustments. In the past, most florists kept only limited cost records.

Integration will be attempted where producer efforts can be obtained by the integrators at lowest costs.

Advantages

1. The financing arrangements usually associated with vertical integration help the florist to obtain more capital, improve his facilities, expand his operation and reduce risks.

2. Vertical integration may include technical assistance and advice that is beneficial to the florist.

3. Vertical integration may reduce the market risk of individual growers.

4. Vertical integration forces the producer to maintain accurate and timely cost records.

Disadvantages

1. Unless the florist personally integrates his operation, any increases in returns from increased efficiency may not be shared by him.

2. The individual operator loses his chances of taking advantage of a seller's market.

3. The risks from expansion investments (greenhouses) are figured on longtime basis and contracts are for a short time.

Vertical integration is the linking together of two or more stages of production, processing or marketing activities under one management. The key feature of vertical integration is the centralization of decision-making, risk-bearing and supervision.

This is the thirteenth leaflet in the series "Vertical Integration in Texas Agriculture." Similar releases on crops and other livestock important to the Texas economy will follow.

By bringing together current knowledge and practices on vertical integration in Texas agriculture, the staff of the Texas Agricultural Extension Service and Texas Agricultural Experiment Station in the Department of Agricultural Economics and Sociology hope to help you make wise decisions in this matter.

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