Design and Implementation of Flower Export Consortium in Ceará State, Brazil

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Abstract

The Brazilian presence in international commerce, despite the regional leadership in Latin America and the global importance of Brazil as an emerging economy, is quite limited, reaching only 1% of the world's total trade. Nevertheless, the agribusiness sector is responsible for half of the country's export and Brazil is the world leader in sugar, coffee, orange juice, tobacco, soybean and beef export. Export growth is considered to be a key factor for the economic development of the country and many governmental programs are being carried out. The Ministry of Agriculture, Livestock and Food Supply (MAPA), through its Cooperative Department (DENACOOP), has joined these efforts. The DENACOOP export consortia program is focused on building strategic alliance in agribusiness production chain. After successful experiences in implementing in grain and honey sector, an applied research project was set up focusing on a flower production chain in Northeast of Brazil, which has the potential to improve socio-economic indicators of a low income region. To carry out the project the Federal University of Viçosa research team has developed a design and implementation procedure, which was based on structuring and translating the requirements of organizations and producers into contract's clause. The consortium main clauses established that all the purchase and sale of agricultural inputs, the internal and external seedling market, roses, ornamental and vase flowers will be done together. The commercialization and the post-harvest activities will be done through the creation of a distribution center. Recently flower producers have signed the export consortium contract. The consortium is expected to improve the competitiveness of the flower production chain in the state of Ceará and increase the current minor importance of Brazil in the international flower trade.

Keyword: *Flower production chain, export consortium, Ceará -Brazil*

1 Introduction

The Brazilian exports represent only 1% of the world's total trade, a small figure considering the country GNP and its regional leadership and increasing global importance. Nevertheless, Brazil is the world leader in the sugar industry and the largest coffee and orange juice produce and export; it is also the main exporter of tobacco, soybean, and beef; and one of the leading exporters of shrimp, poultry, pork and ethanol. The agribusiness in Brazil is responsible for about 40% of the total exports, corresponding to approximately 30% of the Gross National Product, and employs 37% of the economically active population in the country.

The flower production in Brazil, considering the volume and value of production is not representative, but it has a huge potential in terms of production, impact on small scale farming and development of low income regions, such as the Northeast of Brazil.
In the world, the flower production occupies about 190 thousand ha and generates US$ 60 billion per year. The segment of cut flowers is the most important, followed by ornamental plants, bulbs and foliage. (Buainain & Battle, 2007).
The international flower market is highly concentrated, with the Netherlands accounting alone for just over 48% of the whole international volume. Colombia, ranked second, has over 6% of the market. (SEBRAE, 2006).
In Brazil, the most significant segment is the ornamental plants, representing 53.1% of exports, followed by the bulb (23.9%), cut flowers (13.4%) and foliage (9.6%). This market in the national context is recent, but already accounts for substantial revenues, which, according to Ibraflor apud SEBRAE / MS (2008), there are over 4,000 farmers, cultivating an area of about 5,200 hectares annually in 304 Brazilian municipalities in 12 centers of production.
An important factor that favors the expansion of agribusiness floriculture in the country is the climate conditions, which allows the cultivation of temperate and tropical flowers, meaning diversified production, and an economic viable alternative, as it may produce flowers, foliage and other plants all year round at a reduced cost.
Domestic production of flowers is concentrated in São Paulo, particularly in the municipalities of Atibaia and Holambra. However, there are production and commercial centers in various regions of the country. The growth and consolidation of important floricultural poles are occurring, as is the case of the States of Ceara, Rio Grande do Sul, Paraná, Santa Catarina, Minas Gerais, Rio de Janeiro, Goias, as well as in the Distrito Federal (District capital).
In 2009, the trade balance of Brazilian floriculture reached approximately $ 11.6 million. There was a substantial decrease in exports, mainly due to the worldwide crisis in the period 2008/2009, the main importers of Brazilian flowers stopped purchasing such products, which caused the fall.
A region that has been highlighted in the production of flowers is the Northeast, especifically the state of Ceará, which is currently the second biggest domestic exporter, staying only behind the State of São Paulo. The reason is its location which is closer to the U.S. and to Europe which are major importing destinations, and the climate conditions, which favors the cultivation of a wide diversity of species, the manpower and abundant existence of institutions of technological and managerial support.
The group of producers and the supply chain of flowers in the state are led by the Association of Producers of Flowers and Ornamental Plants in the State of Ceará, in conjunction with the Brazilian Chamber of Floriculture of the state of Ceara. That involves partners including: ADAGRI, SEBRAE / EC, EMBRAPA - Tropical Agriculture Industry and the Brazilian Post (DENACOOP in Action, 2010).

2 Objective

The objective of the project is to contribute towards the competitiveness of flower production chain in the State of Ceará, Brazil.
Especifically the Project aims to:

(1) Develop an applied procedure to design and set up a consortium in agricultural sector;
(2) Set up a consortium in the State of Ceará, Brazil;
(3) Evaluate the procedure based on the implementation process.

3 Export consortia

The United Nations Industry Development Organization (UNIDO) has defined an export consortium as …
"… a voluntary alliance of firms with the objective of promoting the export of goods and services of its members through joint actions ".
The same organization has added also that
"An export consortium is a formal organization to promote medium- to long-term strategic cooperation among firms, and it organizes joint activities to facilitate access to foreign markets. Most consortia are non-profit entities, and members retain their financial, legal, managerial, and commercial autonomy. So, despite their participation in the export consortia, member firms do not give up any control over their business to others. This is the main difference between consortia and other types of strategic alliances.
Consortia in Brazil began to emerge in 1980, when SEBRAE, through the National Program of Support to Small and Medium Enterprise Export - PRONAEX began encouraging the formation of export consortia, based on the experience of countries such as Italy and the United States.
Minervini (2008) argues that globalization requires companies to network, to increase their bargaining power to get more effectively in international markets. In this scenario, consortia appear as an appropriate solution, because their function is to represent the interests, expectations and requirements of companies in the internationalization process, promoting its development.
Within this vision, the consortia have emerged as a way to develop a network of relationships among firms and among firms and supporting institutions. The consortia are developed under a policy of government support, companies and development agencies (Lima & Lima, 2005).
Consortium set up business as a union of several companies aiming to achieve an enterprise or participate in negotiations generally larger than the capacity of each individual participant. These are associations of companies that join forces and / or establish an internal division of labor with a view to reduce costs, increase product offerings and expansion of markets (SEBRAE, 2009).
The consortium is composed based on the establishment of a contract between the companies concerned, hence the name "consortium contract." The consortium has no legal personality. However, it has judicial as well as negotiation capacity, being able to be a part on lawsuits. By not having legal personality, in general, tax issues involve the apportionment, distribution, revenue accounting, taxes, costs, expenses and results among participants. Law No. 6404, 1976, of Corporations regulates consortia in Brazil, and determines that the contracts forming consortia shall establish the criteria for the sharing of results, the contribution of each participant for common expenses, if any, and method of accounting. In addition to establishing that the failure of a business consortium does not extend to the other party, in case of bankruptcy each company will respond to their situation, not the consortium. The contract and amendments

must be filed with the commercial register of the headquarters, with publication of the certificate issued.
Minervini (2008) states that the main instruments of a consortium are the bylaws, rules and planning work.
Consortia can be classified as to the purpose and associate members:

- Procurement and import;
- Sales and export;
- Distribution and logistics;
- Service and Technical Support.

According to Minervini (2008), the consortium of sale is the most commonly formed in Latin America, while related to members, the most established is a consortium of companies in the same sector.

4 Results

Taking into consideration the importance of adopting a method for carrying out this activity, the establishment of stages was done, that is, a group of coordinated actions which would be followed by the implementation of this consortium among the flower producers in the State of Ceará. Figure 1 below shows these stages. The coordination of these actions was essential for its success during the process of the consortium implementation.

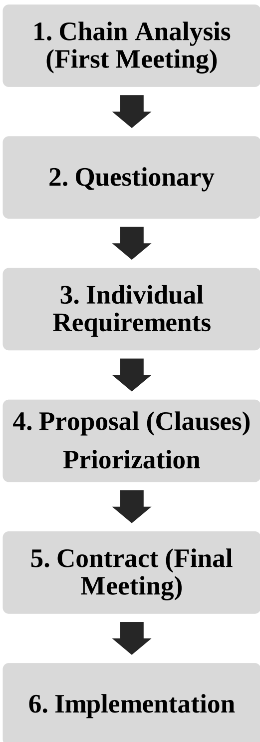

Figure 1. Procedure

The development process for this activity was divided into six stages as it can be observed. In order to establish the first contact with the party interested in participating in the consortium, the flower productive chain was analyzed through the identification of the organizations inserted in the context of the State of Ceará.

The actions started with a meeting, where the largest number of information about the interested parties was collected, giving emphasis to the important points regarding the activity being carried out. The requirements, expectations and main objectives that the interested parties wanted to achieve with the consortium formation were defined.

The second meeting took place after the preparation and sending of a questionnaire to the participants from the first meeting. The questionnaire application aimed to identify with details the individual necessities as well as interests of each of the producers. In this meeting, after the interested parties' awareness, the identification through the interest expression of those who participated of the whole consortium process conception was done. Following this action, the tabulation and analysis of the results obtained via questionnaire took place in order to have them presented and discussed.

The guidelines for the formation of this consortium were established during the third meeting, when the clauses that would make part of the base agreement were prioritized. This stage turned out to be the most complex one, for the flower chain producers from Ceará, who mobilized for the consortium achievement, have disparities regarding several items. Among these disparities we can highlight the presence of small and large size, with exportation experience and others without experience, as well as the presence of producers with high and low production capacity.

Furthermore, another obstacle presented during the articulation of those participants had to do with the cultivation of different floriculture products such as seedlings, roses, ornamental plants, Grass among others, as well as the difference among the levels of quality made available by each of the producers. Due to this, this stage was the most delicate and laborious of the whole process of organization of those producers.

During the actions, it was decided that the formation of this consortium has as motivation the increase in competitiveness by means of achievements as a team in the purchase of inputs, sales for the national and international markets, besides the creation of a distribution center for the companies through the reduction of costs, the search for new markets, thus increasing the profit margin of the participants.

The specific guidelines of each central agreement with the decision taken together by the participants of the consortium were also defined. It was decided that for the purchase, the consortium *purchase department* will buy the following agricultural inputs: packages, fertilizers, defensives, services, machines and equipments. The consortium *purchase department* will manage the transportation of the purchased inputs and the participants will deliver the yearly purchase planning with monthly actualizations. The participants agreed to acquire these supplies exclusively through the consortium, as well as hiring a team of professionals specialized in the formation of a purchase department.

The sale will take please not only in the internal market but also in the external market. It was established that the consortium *purchase and export department* will commercialize seedlings, roses, as well as vase and ornamental flowers. The sales will be done with the own companies brands, however with the identification/brand that such company belongs to the consortium. There will be the foreknowledge of the flowers volume which will be made available by the participants for the commercialization through the consortium and a minimum quality pattern for the products will be established. The consortium together with the producers will choose the clients. It will not be allowed the commercialization of flowers to companies that do not belong to the consortium. Just like the *purchase department*, for the *sales and export department* a specialized team for the sales sector will be hired.

A distribution Center, which should serve as a reference for the participants and the clients will be created. The distribution department will act in the activities of commercialization and post-harvest as well as in the storage control and flowers clearing. The distribution department will act not only in the wholesale manner but also in the retail and it will show a managerial as well as commercialization structure. The consortium will hire a third party company to take care of subjects regarding logistic, clearing, documentation, safe sea freight.

The main points mentioned among the producers and the team during the meeting for the definition of the policies were related to the warranty regarding the reinforcement of the rules, the management way and the possible availability of technical assistance. The elaboration of the base agreement was done by a legal advice firm responsible for its achievement having as foundation the definition established during the meetings. This contract was presented for final review on the fourth and last meeting held by the future participants.

The activities were concluded with the delivery of the final base agreement and the delivery of the final activities report. At the end of each stage there was the presentation of the obtained results, so that the participants were informed about the course of actions, stimulating more interaction between the team and the organizations. The evaluation of the whole execution process took place after the delivery of the mentioned documents, aiming to improve the procedure for the next projects.

5 Conclusions

The procedure developed and applied during the formation of the “Consórcio dos Produtores de Flores e Plantas Ornamentais do Ceará”- Consortium of the Flowers and Ornamental Plants from the State of Ceará has proved useful and adequate. The identification, analysis and prioritization of requirements of the participants during meetings were an essential and critical stage of the project. This step allowed the creation of an environment of trust between the team responsible for development and the participants themselves. The translation of the requirements into contract´s clauses was facilitated by the team´s experience in other similar project and acesso to DENACOOP experience.

Despite the practical results obtained , the use of tools for ranking, prioritization and group decision-making such as the AHP (analytical hierarchy process) is highly interesting. In future export consortia projects the development team intends to perform analysis based on approaches such as transaction costs and game theory.

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Annex - Questionnaire

Suppliers:

- What are the most important inputs demanded by the flower sector?
- Who are the main suppliers of these inputs?

• The structure of supply is concentrated in fewer suppliers?
• Seeds and inputs are imported, coming from the local region or another country?
• What are the volumes and amounts of purchases?
• How are the purchase?
• What are the companies that transport the raw materials?
• And the form of transport (sea / road)?
• Cost of transport is considered high and / or a risk to the thread?
• There are obstacles related to the sale or supply of raw materials?
• The inputs are standard for quality in other regions and countries?

Structure of the sector:

• Who are the main local producers of flowers and plants?
• What types and quantities of flowers produced?
• What are the quality standards imposed on business? There in the standardization of plants and flowers for sale?
• What is the structure of each company? What investments? Which areas are cultivated, the number of employees of greenhouses, refrigeration chambers?
• The current structure of business is adequate to meet local market demand, regional or export?
• Companies use the technology for production of plants and flowers, common in the business sector and equivalent to the main competitors locally, nationally and internationally?
• There are difficulties of access to technology?
• What is the destination of the products marketed from the quality standards established by the companies?
• What are the potential markets or missed completely?
• Employees are eligible to productive activity?
• How many producers have export experience? What are the regularities and export volumes?
• What flowers are exported? What values and volumes?
• What is the structure of export? What transport? Appropriate? Who makes the sale? How?
• Who completes the documentation for export? Is there any difficulty or problem that stage?
• Which companies participate in this process?

Information Related to Consortium:

• What are the objectives of each company regarding the formation of the consortium? And what are the collective goals?
• In what area of productive activity or further believes that the consortium would help?
• Who could help achieve these goals? Who are the partners that could help?
• What is the necessary structure for achieving these goals?

• Because each participant can attend or join the consortium? • What would the people who should be involved? What would be the pros defendants with the formation of the consortium? Who will participate and what benefits to participating?