North South University

SBE; Department of Marketing & INB

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**Case Study-2: Roses with altitude: why Ecuador’s flower industry stands out**

(Mick Conefrey; April 10, 2015 3:37 pm)

You might think of Ecuador as an ultimate “banana republic” by victim of being the world’s biggest exporter of bananas, but over the past two decades it has become famous for a rather more fragrant crop.

Ecuador is the world’s third-largest exporter of cut flowers, 73 per cent of which are roses. It is an industry that employed 103,000 people and generated $837m of business in 2013.

According to guidebooks, Ecuador’s success comes down to its latitude: only on the equator, so the story goes, do roses grow perfectly straight. But, attractive though it sounds, this is a myth, according to Ad van Rooijen, research and development manager at the Dutch floriculture multinational De Ruiter. “Ecuador is a great place to cultivate roses, but they are no straighter,” he says. “The real advantage is that you get natural light all year round, so you can grow in winter and don’t have to use a lot of artificial illumination.”

Most of Ecuador’s rose plantations are found in the province of Pichincha in the Andes at an altitude of between 2,800 and 3,000 metres. This too has a significant impact. “Roses grown at high altitude have a much longer growing cycle than those cultivated at sea level, up to 15 weeks as opposed to eight, so it is perfect for long-stemmed varieties with big heads,” says van Rooijen. “The cold nights mean that you get a lot of bicolours, with contrasting hues on the edges and the insides of petals, which are very sought after in certain markets.” The growth of Ecuador’s floriculture industry was kick-started in 1991 by the Andean Trade Preference Act, brought in by the US to promote legal industries such as flower growing as alternatives to drug trafficking in four Andean countries: Bolivia, Colombia, Ecuador and Peru. By the time the program expired in 2013, the industry was well-established in both Colombia and Ecuador, also aided by preferential trade agreements with the EU.

In the early years, rapid growth was accompanied by criticism of the wages and working conditions of flower workers, but after a lot of labor unrest, the industry has cleaned up its act. Regulations covering the use of chemical pesticides are much more strictly enforced and today Ecuador has one of the highest minimum wages in the region; it currently stands at $354 per month, almost $100 higher than that of Columbia, its biggest South American rival in the flower business.

In a spin-off from the improvements in working practices and conditions, Ecuadorean rose plantations have now become visitor attractions. It receives about 100 organized visits every year, ranging from parties of tourists to groups from local embassies.

Growth has been rapid. BellaRosa began commercial cultivation in 1996 with four hectares of roses. Today the plantation has 31 hectares and 320 workers. Its flowers are grown in vast, silent polytunnels, and then taken to a much noisier processing facility where they are sorted, graded and bunched before being shipped off in refrigerated trucks to destinations around the world. On average the plantation produces 90,000 roses per day, but in peak periods that number can double.

The process does involve chemical treatments, but plants are also sprayed with natural insecticides made from garlic and chilies. Rows of mint, another natural pest repellent, are planted in the growing sheds.

Like many local plantations, BellaRosa specializes in the premium long-stemmed varieties with large heads that are particularly prized in Russia. The signs dotted around the reception area are in both Spanish and Cyrillic script to guide Russian buyers and visitors around the plantation.

Traditionally, the US has been the biggest market for Ecuador’s flowers, accounting for 88 per cent of exports in 1990. Today that figure has fallen to 41 per cent and Russian exports have increased to 23 per cent. Whereas US supermarkets and their customers prefer shorter flowers, Russian consumers like large roses of between 90cm and 100cm, which can cost significantly more. Or at least, they used to.The recent economic crisis in Russia, prompted by the fall in oil prices and sanctions over Ukraine, has had a significant impact on the Ecuadorean rose industry. In the second half of 2014, exports to Russia fell 30 per cent in value, and 26 per cent by volume.

To add to Ecuador’s problems, other equatorial countries are rapidly developing their own industries. De Ruiter has plantations in both South America and Africa and, as Ad van Rooijen explains, the contrast is stark. “Africa is booming, particularly Kenya but also Zimbabwe and Uganda. In Kenya the plantations are going to higher and higher altitudes so you can grow the same long-stemmed varieties as they do in South America, and of course Africa is much closer to the big markets of Europe and Eastern Europe,” he says. Ecuadorean plantations are now attempting to re-orientate themselves to the US market and its preference for shorter, cheaper roses, but it takes time to replant.

Santiago Luzuriaga, BellaRosa’s deputy director, is confident that in the long term the industry will continue to thrive, but he is realistic about the challenges. “Ecuador’s competitive advantages are its unique climate conditions and its innovation,” he says. “With the present world situation, an important group of companies has shifted markets without having time to change product characteristics and marketing strategies, having much lower prices than expected. And it’s more likely that more Russian-oriented companies will keep changing part of their sales to destinations like the US and Europe. A complete process of change can take no less than six months.” At the moment, the lorryloads of roses are still trundling down Ecuador’s highways, but the Russian market offers little to be optimistic about. On International Women’s Day, March 8, which is traditionally the most important date in the calendar for sales to Russia, exports from Ecuador were down 16 per cent. Whether the signs on the BellaRosa plantation will soon change from Russian to English remains to be seen.

**Questions:**

1. What is the basis of Ecuador’s comparative advantage in the production of roses?
2. What is the reason behind the growth of the Ecuadorian rose industry?
3. Before Ecuadorean rose industry was more focused on United States or European markets but now they are shifting their focus on Russian market, why? Who in these countries benefits from the importation of Ecuadorian roses and how do they benefit?
4. How does the rose export industry benefit Ecuador? Who are the main competitors of this Ecuadorian rose industry? Do these benefits have any implications for the United States, Europe and Russia?