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An assessment of market dynamics in relation to rose flower export market in Ethiopia

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Declaration

This thesis is my original work and has not been presented in any other university or college. All sources and material are acknowledged.

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Approval

The thesis entitled “An assessment of market dynamics in relation to rose flower export market in Ethiopia” is approved for the masters of art in Business Administration

As a member of the board of examiners of the MBA thesis open defense examination, we certify that we have read and evaluated the thesis prepared by Ermias Zewdenh Tilahun and examined the candidate. We recommend that the thesis be accepted as fulfilling the thesis requirement for the Master’s Degree of Arts in Business Administration.

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List of Abbreviations

DBE - Development Bank of Ethiopia

DID---Department for International Development

EAL - Ethiopian Airlines

ECuA - Ethiopian Customs Authority

EEPA - Ethiopian Export Promotion Agency

EHPEA - Ethiopian Horticulture Producers and Exporters Association

EHDA-Ethiopian Horticulture Development Agency

EIA - Ethiopian Investment Agency

GNP - Gross National Product

HOBS - Home Banking System

IPM - Integrated Pest Management

NBE - National Bank of Ethiopia

QSAE - Quality and Standards Authority of Ethiopia

SNNPRS - Southern Nations Nationalities and People's Regional State

USD - United States Dollar

WB - World BANK

BSI- Rose flower agent in Netherland

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Abstract

Floriculture is the newest of Ethiopia's export industries, having grown very rapidly over the past years to become the country's fourth largest export industry. Flower industry which dealing with several problems resulting in its perishability and dynamic in its market nature. Hence, the main objective of this study is to assess the market dynamics in relation to rose flower export market in Ethiopia. To achieve this objective, both quantitative and qualitative research approaches(descriptive research methods) were used through triangulation. The researcher used both primary and secondary sources of data. Primary data were collected through questionnaires while secondary data were collected from the horticulture office reports or other documents related to the study. The primary data were collected from 32 respondents including both employees (owners) and buyers of which 31 were collected through distributing self-administered questionnaires. With regard to an assessment of market dynamics in relation to rose flower export market in Ethiopia, the finding of the study showed that poor marketing management and quality control, lack of quality packing materials, lack of efficient cargo freight and high transportation cost. Finally, the paper suggests a series of measures, which could be taken by both Ethiopian flower grower and exporters and the government in general and flower industry in particular.

Key words: Market information, customer relation management, and Quality control and Marketing hub.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Cut flowers are one of the major globally commercial mass production items (Holzer, 2001). In the early 20th century, especially after the Second World War II, Cut flower production in the world gained acceptance. Due to this, fast growth and changes have occurred in the cut flower production, storage, classification and marketing. As a result of this change, new techniques and technologies are used in the cut flower industry from production to consumption (Abas,2014). According to Rikken, (2011) at present flower industry is changing a faster rate and has become a highly worldwide industry. In the past few decades, significant growth rates have been achieved and the leading flower exporting countries have been the Holland, Israel, Colombia, Ecuador and Kenya, The Dutch floriculture industry is generally known as the leading industry in the world. The country exported 639,000 tons of 3,151 billion Euros with area harvesting of 5331 hectare.

In case of Africa, there are many countries which export flower to the rest of the world. Among these Kenya has been one of the largest cut flower exporters in Africa, and takes the 4th rank next to Holland, Colombia and Ecuador. There are about 3,400 hectares of flowers with 117,000 tons of flowers with the income of 500 million euro (EHPEA, 2014).

Ethiopian export countries, is dominated by some agricultural related products such as coffee, chat and other. Due to this, the country economic performance corresponds to the fluctuation of income earned from these few exports. To this effect, Ethiopia is expected to diversify its export products. Among the most export products, Ethiopia export flower to the international market. The cut-flower industry is, without doubt, Ethiopia's most important success story. It is probably the country's best example of identifying globally competitive natural resources for product diversification, generating employment and attracting foreign direct investment (Code of Practice for Sustainable Flower Production, 2011)

Ethiopia is the second largest cut flower exporters in Africa next to Kenya. There was no significant flower industry in the country until 2004. After Seven years, Ethiopian Horticulture Producers and Manufacturers Association (EHPEA), there are 100 flower growers on 1,700 hectares of which the lion's share is taken up by rose farms with exporting of 50000 tons of flowers and earns 146 million Euros. Floriculture has now become one of Ethiopia's main export sectors. According to Ethiopian Horticulture Producers and Manufacturers Association Ethiopia garnered USD 250 million from

horticulture export in 2014. The revenue is expected to rise the current year as a result of expansion of horticulture farms. The country is going to grow 3,000 in the coming five years to garner revenue of USD 550 million from export at the end of 2016. Innovation in the flower industry is largely driven by foreign investors. The floriculture industry of Ethiopia is one of the fastest growing flower industries in the sub-Saharan Africa.

Ethiopia grows different flowers like Roses, Carnations, Carthamums and Satice. The flower sector create employment for over 50,000 persons (permanent and temporary), and one of top five products that enable the country to earn foreign exchange. The Ethiopian flower industry is an export-oriented industry. About 40 percent of the farms are fully foreign owned, 23 percent are joint ventures, and 36 percent are fully domestic owned (WB, 2010).

The country has many comparative advantages than other African countries in the floriculture industry. These includes the following: Proximity to the major global markets, Suitable agro-climatic conditions and ample natural resources, Abundant, inexpensive, cultured/disciplined, competitive and easily trainable labor force, High level of security to investors/individuals and property, High level of support by the government with alluring incentive and the government has allocated a substantial amount of finance for investors. However there are also some challenges that hinder the growth of these industries which includes the impact of global economic crisis, the impact of Climate change, the challenge related to Agro-bacterium, environment concerns on the horticultural sub-sector and others.

Ethiopia's vast land, favorable climate, and water and land resources combine to make it an incredible hub for investment. Located in the Horn of Africa, Ethiopia is at the crossroads between Africa, the Middle East and Europe. Ethiopia is close to its traditional markets for export products—the Middle East and Europe. This geographical proximity provides the major exporters in the world unparalleled access to the Ethiopian floricultural market.

Diverse agro-climatic conditions in the highlands and lowlands of Ethiopia make it a suitable place for the production of a wide range of flowering plants, making cut flower production a fast-growing export business. Ethiopia has 12 river basins, 18 natural lakes (including the Rift Valley lakes) and a potential of 3.7 million hectares of irrigable land. About 80-90% of these resources are located in the west and south-west of the country, which is home to 40% of the population. Temperatures are conducive to floriculture and there are long hours of sunshine - usually more than 11 hours a day. Water for irrigation is available in ample quantity and the well-drained soil in Ethiopia is suitable for growing horticultural products.

Ethiopia also has globally competitive advantages for quality produce, cost of freight, cost of production and proximity to markets. Labor costs are cheaper than many African countries already involved in floriculture export. Investments by floricultural companies have created employment opportunities. The labor intensive process required for seeding, cultivating, packing and exporting makes the floriculture sector unique in absorbing a huge labor force, especially for women workers.

New incentives have been offered to investors since Ethiopia's investment code was revised in May 2002. The floricultural sector in particular has strong backing from the Government. Incentives such as a five-year tax holiday, duty-free imports of machinery and easy access to bank loans and land have attracted investors. As a result of these and other incentives, Ethiopia's flower business is booming and could potentially overtake coffee as the country's main export commodity.

The market for Rose flowers is changing from time to time specially in the international market. It is so dynamic in nature. Besides, in the international market the demand for cut flowers is affected by several factors. In this study the researcher will assess the market dynamics in relation to rose flower export performance market and the reason for market dynamism will be assessed in the international market mainly in the Netherlands.

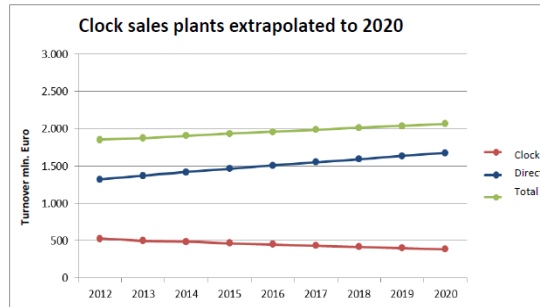
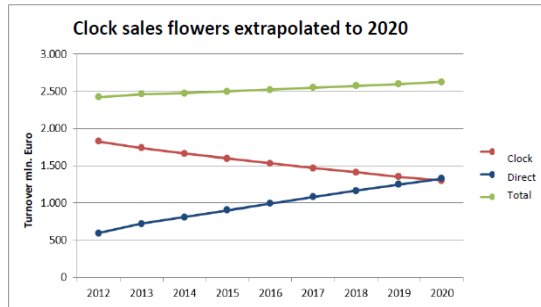
1.2. Statement of the Problem

The floriculture sector has become very promising and attractive business in many countries globally and in countries like Kenya, Zimbabwe and Zambia in east Africa. Later Ethiopia has entered into the global floriculture market. Within short period of time flower industry in booming in a large scale; as a result, it is now becoming the fourth foreign-currency generator of the country next to the top three: coffee, oilseeds and cereals. In addition to the positive impacts in terms of foreign exchange, economic development and creating employment, the floriculture sector provides an inspiring example of a successful introduction of advanced labor-intensive production technology specially 80% of the labor forces it demand woman's(EHDP 2014 annual report);

Even if the Ethiopian government has created a very conducive environment in the floricultural sector, for the last three years three flower farms are closed and bankrupt, five farms are change their ownership title (DBE and Zemen bank), from the total Ethiopian rose flowers export 75% will exported to the Netherland auction center on the contrary, based on flora Holland auction center strategy plan for 2020 indication study shown that the auction sales revenue will declined every year by 5%.

Flora Holland sales forecast until 2020

Turnover of direct sales will increase



Assumption: clock revenue decreases annually with 5%

Generally the value of stems of flowers sold in the international market is declining from time to time. For instant, as according to annual reports of Ethiopian horticulture Development agency (EHDA) and flora Holland auction center presented the decline of value of demand for flowers in the international market and the amount of stems of flowers sold and its values in the international market is declining from time to time. Due to market dynamics nature and other factors in relation to rose flowers export performance. Additionally, this study unique because there is no studies have been carried out on this topic in Ethiopia so the researcher topic first in kind. For this reason, the study aimed to assess market dynamics in relation to rose flowers market in Ethiopia with a particular emphasis on Netherland’s market.

1.3. Research Questions

What is the trend of rose flower export of Ethiopia looks like?

How does the rose flower market perform in the international markets?

What are the factors that affect the demand of rose flowers in the international markets?

1.4. Objective of the Research

1.4.1. General Objective

An assessment of market dynamics in relation to rose flower export market in Ethiopia

1.4.2. Specific Objective

1) To assess the trend of export performance of rose flowers in the country.

- 2) To identify the market dynamic factors of rose flower of Ethiopia in the international market.
- 3) To give some recommendations for flower producer of the country and to other stockholders based on the finding of the study.

1.5. Significance of the Study

This research study will assess the market dynamics in relation to rose flower export market in Ethiopia. It will have its own contribution for the future development of the sector. First, it will show the key factors that affects the market dynamics nature of cut rose flowers of Ethiopia in the international market. This will help the flower producers in the country to know more about the issue and to respond accordingly. To this end they may compete in the international market more aggressively than ever. Second, the study will have its own contribution on increasing the foreign earning of the country in general and the flower produce in particular by showing the factors and possible solutions for the determinates of the demand of the rose flower in the international market. Third, it will provide policy recommendations to strengthen the sector in general and to enhance the export performance of rose flowers in particular. Fourth, the result of the study will also give an opportunity for the flower producer to know the factors that affect other types of flowers that they exports through inferring from the rose flowers market dynamics factors. Finally, for those who are interested to make further study on the related issue, it may also be used as an indication

1.6. Scope of the Study

There are many flower industries in our country which produces different types of flowers to the international market. There are also many countries around the globe which imports different types of flowers from our country. But this research is confined to assess the market dynamics factors affecting rose flower export in Ethiopia only. The research also focuses only on the Netherland rose flower importer auction center in flora Holland Aalsmeer (The largest trading center for flower & plant auction in the world.

1.7 Limitation of the Study

It is believed that the findings of this study would have been more productive if it has been conducted on all flowers growers in Ethiopia and also all flower destination areas (all buyers). Due to various reasons including time and financial constraints it is out the reach of the researcher to incorporate all in this study. Additionally, the availability of relevant data was also influence the study.

1.8 Organization of the Paper

The study was organized into five chapters. The first chapter consists of the introduction (i.e background of the study, a statement of the problems, objectives of the study, research questions, and scope of the study, limitation of the study, the significance of the study and organization of the study). The second chapter discussed the review of related literatures about the subject matter. The third chapter dealt with methodology of the study. The fourth chapter devoted to the data presentation and analysis of the results/ findings. Finally, chapter five has covered the conclusions and recommendations based findings.

CHAPTER TWO

2. REVIEW OF RELATED LITRATURE

The researcher review different related literature written by different scholars. The researcher will use secondary data sources such as: books, journals, research or working papers and internets websites and as a result its support for researchers to assess the market dynamic and demand factors of rose flower of Ethiopia in the international market and get the relevant source to get the findings.

2.1. Development of the Flower Industry in Ethiopia

Although flower production as a commercial undertaking is relatively new to Ethiopia's economy, within a short period of time it emerged as one of the main sources of foreign exchange for the country. The origin of the sector in Ethiopia can be traced back to the military government. In 1980, the military government established the Horticulture Development Corporation with the primary objective of generating foreign exchange earnings. The corporation had the mandate to coordinate production and marketing of horticultural products including flowers. In line with this, production and export of summer flowers was started for the first time in 1981/82 on state farms with high subsidy from the government. However, the inefficient production did not stay long (Joosten, 2007). After the fall of the Derg regime, the industry re-emerged in the mid-1990s as a result of private initiative. Two local companies named Ethioflora and Meskel Flower pioneered production (open field) of summer flower. The two companies were able to export flowers. However, they were not as such successful mainly due to the unfavorable investment climate, their limited experience and knowledge about the business (Gebreeyesus&Iizuka, 2010).

However, the embryonic effort of the two companies was able to attract attention from international actors such as the EU, the UK and the Netherlands who saw the flower industry as a potential sector to be nurtured. The EU collaborated with the Ethiopian government to commission preliminary production in the late 1990s on half a hectare of land. The objective was to investigate the available inputs and climatic conditions and thereby develop marketing strategies for large scale commercial undertakings. In the same way, the UK's Department for International Development (DfID) conducted a number of feasibility studies aimed at locating potential flower production areas to supply to the UKs' supermarket chains. Similarly, a business delegation from the Netherlands visited Ethiopia to examine the potential of growing flowers that would be supplied through the Dutch auction system to the European market (Taylor, 2011). The involvement of these foreign governments contributed to the international awareness of the Ethiopian flower industry. Subsequently, a number of foreign investors began to set up flower farms in Ethiopia. Golden Roses, a subsidiary of Investment - an Indian family business based in the UK, is the first foreign firm to enter Ethiopia in 1999. It was able to produce roses for export under wooden greenhouses the same year and by 2000, it expanded its production scale using modern greenhouse technology (Taylor, 2011). In spite of the effort by the pioneering Meskel Flower and Ethio-Flora to lay the foundations for flower production in Ethiopia, Golden Rose is considered as pioneer within the Ethiopian flower industry by many industry players, mainly because it introduced modern technology such as steel greenhouses (Gebreeyesus&Iizuka, 2010).

In 2002, after years of struggle, the Ethiopian Horticultural Producers and Exporters Association (EHPEA) was formed as a non-profit organization representing growers. The association was instrumental in lobbying for government support in terms of infrastructure, loan and logistics services for the industry (EHPEA, 2014). Despite the early efforts of the association, the government's role was limited until the mid-2000s. Indeed, the government was unaware of the sector's potential and thus, it did not mention the flower industry among the extended list of priority sectors in the export promotion strategy it adopted in 1998 (Gebreeyesus&Sonobe, 2011). Following the recommendation of the EU and other international consultants, the government started to make efforts ranging from creating conducive investment environments to granting incentives to attract foreign investors. In addition, the government also enhanced its effort to initiate international cooperation in matters relating to the flower industry (Taylor, 2011).

2.2. Theoretical Framework of the Research

Taking into consideration accomplishments of the previous researches and the insights from empirical findings, following theoretical framework will be applied for this study:

Theory of the global value chains: The value chain theory highlights that for many industries access to international markets is gained merely not through the designing, producing and marketing of the new products, but through the entry into international design, production and marketing networks. This is particularly the case with global floriculture industry where the new emerging hubs (developing countries) acquired new production capabilities and gained access not only to the new markets, but to the new marketing channels. The supply-buyer interactions foster the learning effects in this global value chain as well. Gereffi et al. (1994) introduced the framework of ‘global commodity chains’, where the role of new emerging production hubs and the importance of new global buyers in the global value chains were emphasized. Regional development here is “a dynamic outcome of the complex interaction between territorialized relational networks and global production networks within the context of changing regional governance.” (Coe et al., 2004: 469)

Institutional and transaction cost theory: Two main conceptual insights provided by the transaction cost theory are the governance of exchange between the economic actors is costly and the governance form can facilitate the exchange depending on the characteristics of the transaction environment. The management choice of governance form in the supply chains affects the costs of monitoring and administration (Glenn, 2007). As producers in the developing countries are expected to meet requirements that frequently do not yet apply to their domestic market. This creates gap between the market capabilities and raises the need for monitoring and control required by buyers. (ibid)

Strategic management and competitiveness theory: Competitiveness theory stated that floriculture business is very diverse and highly competitive the strategic management and competitiveness framework is required to be able to make the judgements on general success factors of the industry actors. Particularly, to address the success of Netherlands as a main floriculture industry value chain hub and the perspectives for the Ethiopia companies in this business as a final consumption hub.

2.3. Marketing Dynamic

Marketing function is a fundamental or basic physical process or service required to give a product form, time, place, and possession utility a consumer desires. According to Saccomandi (1998), functions can be classified based on objectives: logistical, marketing and economic functions. Logistical functions are related to the concentration, transport and preservation of products. Marketing functions are dedicated to classification, packaging, development of demand and market information. Economic functions include financing, risk bearing and facilitation of exchange. The most important characteristics of a marketing function is that it is a physical process or facilitating service which must be performed one or more times within the marketing system. Eight general accepted functions are

assembling, grading, storing, processing, packaging, storing processed products, distributing and transporting. Marketing functions can be seen as essential link between producers and consumers in two different and yet simultaneous and connected ways. First, the marketing agents link producers and consumers physically, by actually buying, storing, transporting, processing, and selling commodities. Simultaneously, however, because exchange of commodities is taking place, open or implicit price signals are being generated and transmitted to the active economic agents in the food system, influencing their production and consumption decisions (Timmer et al., 1983). Goetz and Weber (1986) stated dimensions before a commodity be available to the urban consumer to include: the temporal, spatial and form dimensions. The temporal dimension is regarding the storage and providing reliable supply, the spatial dimension regards the transport of the produce from point of production to urban centers, and the form dimension discloses the processing, labeling, packaging, sorting and cleaning activities before the product arrive at the final consumer. The level of functions could differ from product to product. A clear understanding of marketing function with an exploration of strengths and weakness help where to improve the marketing system. This affects the marketability of the product as consumers will not engage in repeated buying behaviors following low quality. Storage also facilitates the adjustment of product supplies to its demand and reduces price fluctuations as the product can be kept for some period of time and supply can be evened out, respectively.

2.4. Trends of Floriculture Marketing In Ethiopia

In Ethiopia, the main market of flower production is export. Export accounts for about 97% of total sales revenue of the sector in 2007. The domestic market is more or less residual market for the exporters. For example, in 2007 only 11 firms sold no more than 10% of their products in domestic market, with the exception of one cutting farm that sold 100% of its product in the domestic market. Cut-flower exports to the EU market are made in two ways: auction and direct sales to supermarkets and other retailers. The relative ease of accessing the auction market means that new entrants tend to begin exporting through this channel. However, at the initial stage, the lack of marketing knowledge created a lot of uncertainties for firms. Even the foreign-owned firms among the early entrants, such as Golden Rose, had no any prior experience in the flower business and had to pass through a difficult learning curve. Foreign investors that were established players in the cut flower international market and which had broad connections, such as Sher-Holland, only came to Ethiopia later, after 2003. The auction market still remains an important entry point into the EU export market for the Ethiopian industry. About 62% of firms started exporting through Dutch auction as their major marketing channel (70% or more) and continue to export this way. Flower export is highly time and process dependent. It requires improved infrastructure and logistical capabilities including air transport, post-harvest cold

chain facilities, forwarding and handling services, packaging materials, information and communication technology (ICT), and quality control and certification services. Some of these capabilities are national or sectorial in nature and cannot be built or possessed by each firm or bought from the market, and thus require coordination.

2.5. Marketing Agents/Actors of Floriculture in Ethiopia

Marketing agents of floriculture marketing in Ethiopia includes producers, exporters and facilitative organizations such as transporters, oversea agent EHDA, EHPAE, Ethiopian Customs Authority, insurers. At present, there are around forty major rose farms that are producing and exporting roses to Europe and other markets. These rose farms are majorly located in Oromia National Regional state and few of them are also located in SNNP and Amara National Regional states and production is undertaken on commercial farms. The farms generally employ both permanent and temporary labor and operate year-round, with trained supervisors who are agricultural college graduates and at least one expatriate manager. In terms of production, the yield per square meter is roughly similar, ranging from 120 to 180 stems per square meter, which converts to roughly 1.5 million stems per year per hectare. In dollar terms, Ethiopia's roses obtain roughly \$0.18 per stem at the European market on normal season and \$0.25-0.45 during the time of holidays like Valentine day, Mother's day, and etc.

2.6. Factors Affecting Flower Export Performance

Ethiopians' Flowers are mainly exported to Europe; but Holland takes the lead by importing 141 million dollars' worth of flowers (Access Capital, 2011). According to Ministry of Agriculture (2011), Ethiopia had planned to collect 156 million US dollars from flowers, vegetables and fruits but only 91.3 million US dollar collected from the mentioned sector. So that, the overall export performance of the sector is far below expectations in generating foreign currency. Even though Floriculture is now one of Ethiopia's main export sectors, and is contributing a lot to the country's economic development, some flower companies becoming out of market. This shows that there might be different factors that contributed for the closure of these companies like internal and external factors.

Obviously there are different specific factors that affect the export performance of flower industry which varies from one nation to the other nation. According to Bacchetta (2007), a country's flower export performances are determined by two critical factors. These are internal and external environment conditions. Actually there are a lot of factors which are grouped under both internal and external factors. But, due to the scope of the study, the researcher emphasis only on some internal factors and external factors that affect the rose flower export performance.

2.6.1. Internal Environment

It involves different elements or variables that are found inside of the organization and that affect the export performance of flowers. These are: The management related factors include operational financial management, marketing management, good leadership and human resources related factors. (CBI, 2013)

2.6.1.1. Financial Management and Export Performance

According to Bolo *et al.* (2006), the vital mechanism in minimizing the cost of operation is to find different ways to put together both small– medium scale growers into large scale producer’s supply chains and continuing to integrate technology and tough environmental standards into production activities. In order to cover this cost, the industry must get financial accessibility from different institution. According to Dodd (2010), some banks believe that lending money for flower industry is risky due to the characteristics of the industry like takes long life of production cycle compared to manufacturing industry i.e. nearly three years for the flower industry compared to just 210 days for the manufacturing industry, dependency on customer tastes / trends in the end market, perish ability of flower ; needs constant water supply; inadequate industry knowledge within the industry and knowledge within the banking industry; market issues such as airfreight cost versus competition. To expand the current operations, considerable financing is required, but in Ethiopian flower industry is not the priority sector for banking even if it is the fourth foreign currency earnings for the country. Finance is the main cause of business success. Most works, however, use finance as predictor of potential business failure (bankruptcy) and it is suggested that weak cash flow is due to business-related causes rather than being the cause of business failure itself(Taylor,2011).

2.6.1.2. Production Management

In order to make the research findings to be use full, it must focus on the needs of local communities and other stake holders. The research that emphasis on flower industry, farmers and exporters are the main stakeholders and their ideas can help to inform research decision. These are vital in developing or improving the performance of the floriculture industry. The issues raised would be like: quality of inputs; post-harvest handling and marketing (Taylor,2011).

According to Taylor (2007), the Innovations Systems stand point integrates both the market-based association along the value chain and other horizontal linkages needed for innovation and capacity building

2.6.1.3. Suitable Packaging and Export Performance

According to Prahalathan *et al.* (2003) the overall quality of flowers being exported is reduced by the low quality of packaging. High weights of the packaging materials raise the transportation cost of the exported flowers, which in turn reduces their price competitiveness abroad. Furthermore the use of innovative packaging techniques, moving to the protection requirements of the international markets, which are environmentally responsive, are other mechanism of gaining competitive advantage in the international flower markets. There are a lot of shapes of packing containers for cut flowers, but many of them are long and flat, and a full telescoping design (top completely overlaps the bottom). This design limits the depth of the flowers in the box, which minimizes the physical damage of the flowers. Additionally, flower heads can be located at both ends of the container for appropriate use of space. Whole layers of papers have often been used to avoid the layers of flowers from damaging each other. The use of small pieces of paper to protect only the flower heads, however, is a better activity, since it allows for more efficient cooling of flowers after packing. It is vitally important that containers be packed in such a way that transport damage is reduced. Kenyan floriculture gets benefits from the local private provision of packaging materials. The state in turn, gives human resources through the education system and relatively efficient infrastructural and cargo handling services (Taylor,2011).

2.6.1.4. Production Technology and Export Performance

According to Taylor (2011), one of the key challenges of production technology in the flower industry is access to improved planting materials and adaptation to local conditions. Differentiation in the flower industry is mainly achieved through increasing or changing the flower varieties as per the market demand.

2.6.1.5. Quality Control

Due to the quality pressures from the West and to the demanding and ever changing safety and environmental standards needed, the industry should presents a unique opportunity to be a leader in social change in these exporting countries. According to Dickey, (2011), the quality of cut flowers are determined by like cutting stems under water, absorption of water by cut flowers stems, use of chemicals and use of cold storage. There are few official grade standards for cut flowers. Some marketing channels, for example the British mass market chains and the Dutch auctions, have internal quality control systems that provide a check on quality of flowers. The most important quality parameter is "freshness" or vase life. This parameter is difficult to assess visually, but because of its importance, producers and receivers should set up a "quality control" program that would involve evaluation of the vase life of representative flowers on a continuing basis .

2.6.1.6. Postharvest Management Techniques

According to Taylor (2011) once harvested, there are interlinked tasks are done to prepare the flowers for market. These are collectively called post handling. These handling steps include Grading, Leaf Removal, Bunching, Re cutting, Hydration, Special Treatments, Packing, Pre cooling, Cold Storage and Delivery to Market. Similar to the above, BinyamZewdie(2007)) has also list about post-harvest management of cut flowers like: Sort the flowers according to the following: cultivate, stage of maturity, extent of damage due to diseases, mechanical damage, abnormal flower parts and defects of color, grade according to stem length or size, bunch flowers according to cost, amount, exposure to injury, and exhibit quality of individual flower heads, tie bunches below the head of flower, and about two inches from the cut flower stem ends. Tying must not be too loose and too tight rubber bands are best, because they can hold bunches securely. Do not close the top of the sleeve, arrange in layers according to type and use a technical of tracking and tracing system to find the post-harvest problem.

2.6.1.7. Skilled Manpower and Training

According to WBO (2007), growing cut flowers need highly specialized skills that can only be obtained after several years of training and practicing. Necessary managerial skills to guide cut flower firms to success are another significant key prerequisite (Emmanuel, 2011). As Whitaker *et al.* (2004) mention, it is possible to gain skills through the use of foreign intermediaries like wholesalers, consultants and others and the number of floriculture expatriate specialists and expertise with technical or management skills in the Kenyan cut flower industry is rather few in number compared to the large number of semi-skilled women and casual employees involved in this industry. Zimbabwean growers of flowers have utilized Dutch and Israeli consultants to develop their cut flower industry (*Hall al., 2007*). These experts can be specialists or sales people who have the important information of the export markets. Intermediaries can also give the necessary finance to the local entrepreneurs. In the 1960s during beginning of the Columbia cut flower industry, wage differentials between Colombia and the USA gave Columbia a 41% lower or reduced production (Collinson, 2001)

2.6.1.8. Marketing Management Functions

The accessibility of relevant information and on time dissemination is a vital for the success of flower business. The raise of coordination and harmony by supermarkets for supply logistics, such as, track ordering and sales, and recognition of their customer base; and arranging storage, delivery and transport; have an implications on the development of IT systems at the supply base . The other main factor that affects export performance of a country is deals with the external market access conditions for its exports (Collinson, 2001) External market access both interventions by trading partners, and the

measures implemented by the exporting country to provide its exportable with a price advantage need a great concern (*Hall et al., 2007*).

Obviously strategies are formulated in order to provide superior customer value. While formulating marketing strategies, the 4-ps are directed toward the target market like Product, Price, Distribution, (Place), Promotion and Service (Kotler, 2004). Due to the highly perishable nature of their product, fresh cut rose flower growers must develop an intensive marketing strategy (*JETRO, 2011*)

2.6.1.9. Customer Relation Management

Customer satisfaction is a central element in the marketing exchange process, because it undoubtedly contributes to the success of service providers (Darian et al., 2001). Furthermore, satisfaction is one of the essential factors to predict consumer behavior and, more specifically, purchase repetition. Oliver (1997) defines loyalty as a deeply held commitment to repeat purchases of a preferred product or service consistently in the future, despite situational influences and marketing efforts (e.g. pricing policies) having the potential to bring out change.

2.6.1.10. Transportation Cost (Airfreight Cost and Capacity)

The existing major cargo transport service provider for floricultural products is Ethiopian Airlines. Other airlines like Lufthansa operate in transporting cargo to European markets. Ethiopian is operating two direct flights a week to Amsterdam (The Netherlands) where significant proportion of flowers of UAAIE, HDE and Ethioflora are sold through auction. Cost of airfreight for the producers takes up major portion of the cost of producing and exporting flowers. The producers use mainly Ethiopian Airlines (EAL) as a carrier of the flower exported to the world market. Ethio-Horti Share Company charters a plane for its members to ship flowers abroad to the world flower market. Some producers find it difficult to predict the exact cartons of flowers for export. There arise situations when flowers for export become more than anticipated but, with the booking already made, it becomes difficult to export the excess. The producers explained that off-load occasionally occurs due to continuous growth of floriculture industry and increasing number of flower exporters. Based on the Tinaw business s.co annual report for year 2015 EC cost percentage classification production cost is 45%, air freight is 34%, oversea cost is 15% and bank loan is 5% .this shows transportation cost is expensive

2.6.1.11 Product life cycle

The product life cycle is the period of time over which an item is developed, brought to market and eventually removed from the market. First, the idea for a product undergoes research and development. If the idea is determined to be feasible and potentially profitable, the product will be produced, marketed and rolled out. Assuming the product becomes successful; its production will grow until the

product becomes widely available. Eventually, demand for the product will decline and it will become obsolete.

Product life cycle is the period of time during which a product is conceived and developed, brought to market and eventually removed from the market.

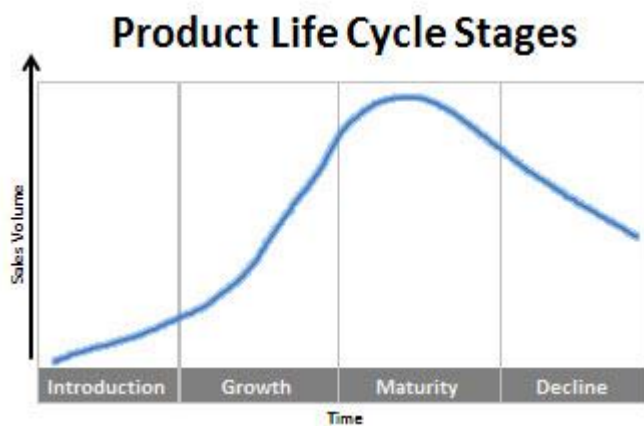
Once it's widely available, the product needs to be differentiated from its competitors because competition is at its fiercest. This is when sales growth peaks.

Eventually, sales decline due to changes in consumer tastes and newer technologies until production is no longer profitable.

The stage of the product's life cycle determines its marketing, financing, and manufacturing strategies.

Marginal cost of production is an economics term that refers to the change in production costs resulting from producing one more unit.

There are four stages in the product life cycle: introduction, growth, maturity, and decline.



2.6.2. External Factors

2.6.2.1. Government Incentives / Initiatives

According to the research conducted in East Africa, the authorities are not able to provide adequate education, health and housing facilities due to the massive population increase. Attempts to introduce or increase levies are met with stiff resistance from the flower lobbies with threats to relocate. In any case, the local authorities are also bound by laws that protect foreign direct investments from such taxation. The situation results in a contradiction – the flower farms are always complaining of the poor infrastructure and road systems and calling on the governments to improve this while at the same time threatening to relocate if the local authorities make them pay levies (Mosioma, 2010). However as

research conducted in India, various incentives are being offered by the Government of India, which have enabled the setting up of a number of floriculture units for producing and exporting flowers. Tax benefits are offered to new export oriented floriculture companies in the form of income-tax holidays and exemption from certain import duties. Duties have been reduced for import of flower seeds and tissue-cultured plants. Financial support is provided for setting up of pre-cooling and cold storage units (Prahalthan *et al.*, 2003). In case of Ecuador, the cut flower sector does not receive any export subsidies or benefits from the government. Most assistance comes from the sector itself, provided through the various associations that exist, and in particular. Its main objective is to promote and strengthen the prestige of the Ecuadorian flower producing sector at the national and international levels, in terms of human, ecological, commercial, logistics and technological development whilst conserving the environment (BinyamZewdie, 2007)

2.6.2.2. Ethiopian Horticulture Producers and Export Associations

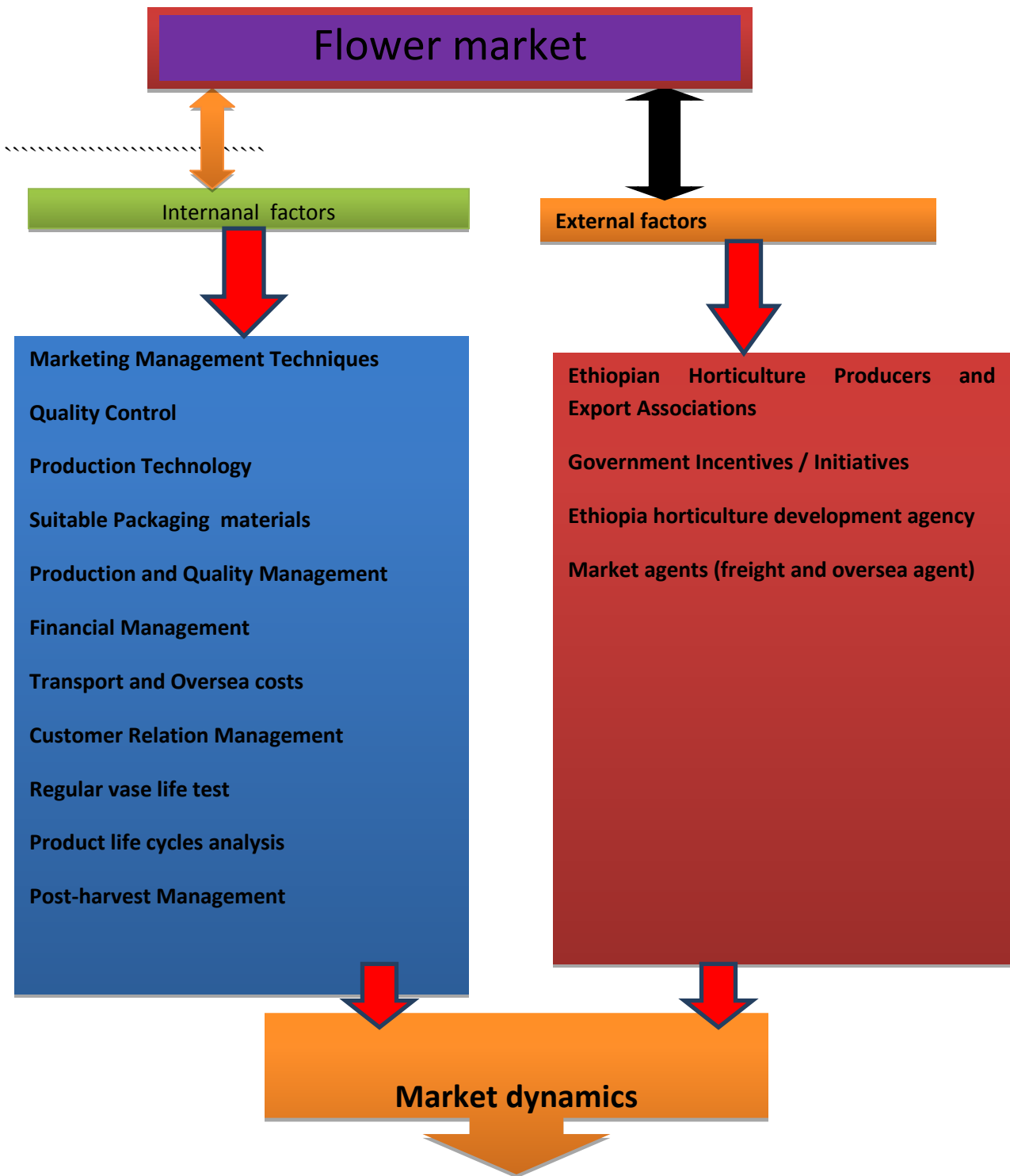
The objective of the EHPEA is to provide a mechanism that enables the Ethiopian floriculture sector to achieve the highest performance standards by continuous improvement and sustainable development and thereby improving the farm overall performance and competitive position in the market. (EHPEA Code of Practice, 2011)

2.6.2.3. Ethiopian Horticulture Development Agency (EHDA)

Ethiopia is planning to increase the number of cargo flights and destinations of its main horticultural products such as fruits, flowers and vegetables according to Alem Weldegrima, Director General of the Ethiopian Horticulture Development Agency.

2.7. Causes of Business Success

According to Zahra(2011), the causes of business failures are like lack of financial support from banks and financial institutions, inaccurate evaluation of project, unclear determination of business sector, inconsideration of market issues problems in product or service, supply lack of related expertise, experience and good work relationships management deficiency, cheating and fraud, substituted product or service and insufficient government policies. On the other hand, according to Eccoggin(2010), has identified different factors that contribute for the success and failures of business these are empowering leadership, well-defined vision, and relevant knowledge of the business market, detailed business plan, availability of financing, solid customer relations management, well managed supply chain, proper timing and well-devised decision making system.



2.8 Conceptual Frame Work on market dynamics in relation to rose flowers export market in Ethiopia

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that is used in conducting this research and provides a justification for methods used. It includes research design, research approach, sources of data, data collection techniques, sample design including population, sampling technique and sample size, method of data analysis, ethical consideration were discussed very well.

3.2. Research Design

A case study research design was employed in this study by using both qualitative and quantitative method to assess market dynamics in relation to rose flower export market in Ethiopia. The rationale for selecting these types of research designs is to properly analyze and interpret data through triangulation and reach at finding with adequate and accurate information.

3.3. Research Approach

In order to achieve the objective of this study, the researcher employed both quantitative and qualitative research approaches. Qualitative approach is concerned with subjective assessment of attitudes and opinions. On the other hand, quantitative approaches involve in the generalization of data in quantitative from which can be subject to rigorous quantitative analysis. The reason for using qualitative research approach in this study is that it's more open to change and refinement of research ideas as the study progress or because it is highly flexible. The rationale researcher opted to integrate the quantitative research approach is that it enables to assess the market dynamics and factors that affect the demand rose flowers' of Ethiopia in the international market.

3.4. Data Type and Sources of Data

This study was employed both quantitative and qualitative types of data that were gathered from primary and secondary data sources. Because, in the case of qualitative type, the researchers were have an open ended questions to look for in depth information about the market dynamics and factors that affect the demand of Rose flowers in the international market specially companies in the Netherlands market. The primary sources of data were collected from relevant respondents of local flower producers, foreign flower buyers. In addition to this, for background discussion and theoretical explanation, the researchers were depending on secondary source of data. Secondary sources of data were obtained from Central Statistics Agency, Ethiopian horticulture development agency and also

from flora Holland Alsemeer auction center. In case of quantitative, the researcher was collected different data regarding amount of rose exported to the international market and amount of foreign currency that was generated by flower farms of the country for analyzing the table by using descriptive statics such as percentages, frequency and mean.

3.5. Sample Design

In order to select the appropriate representative of the total population and to make the research findings more relevant and accurate, the sample design would be well structured. So, the researcher designed the sample as follows.

3.5.1. Population

The target populations of this study are the Ethiopian rose flower growers and exporter and the Netherlands flower buyers in Alesmeer auction center. The sampling unit extends from Ethiopian rose flower growers and the Netherlands top rose flower buyers who were 30 and 20 in number respectively.

3.5.2. Sample Size and Sampling Technique

The researcher uses non-probability sampling techniques. From non-probability sampling technique, purposive sampling method was employed to select respondents from the Ethiopian flower growers (such as Ziway, Holleta, Bishoftu and Wolkite) and the Netherlands flower buyers in the Alesmeer auction center for survey questionnaire. The reasons for selection of Bishoftu area is there are many rose flower farms, which is the greatest from different location of the country. Farms around Ziway town are currently sharing 32% of the country's flower export. farm located in Holleta area also the only location produce in high altitude. The researcher is working in a farm located around Wolkite town. Therefore, it is reasonable to take samples from these locations since there is lack of resource and time; it is not possible to take the whole flower producer in the country. The reason to select Netherlands is they are the top buyer or chief importer of Ethiopian rose flowers and they have good data base for flower market information and second it is not possible to collect data from the whole buyers in the international market.

In general in this as a result of time and financial constraints the researcher considers only 70% of the growers and exporters and 60% of buyers consider as a sample base. Therefore, 20 local flower producers and exporters, 12 foreign flower buyers consider as respondent of this research.

3.6. Method of Data Collection

In this study, the researcher was used both semi structured questionnaire and unstructured interview methods of data collection. The questionnaire was used because it has the advantage of participating large respondents over other data gathering techniques; it limits inconsistency and also saves time.

Beside it can be easily mailed to foreign respondents. The questionnaires questions were in English language. . Most of the closed ended questions are designed with an ordinal level of measurement basics and others are designed as “yes and “No” questions and used a Likert-type scale (I.e. strongly agree up to strongly disagree). The secondary data were collected from annual report and unpublished documents of the organization.

In order to test the validity of the questionnaire use for the study, the researcher tested questionnaire to six (10% of the sample) respondents. These respondents as well as their answer not part of the actual study process and only use for testing purposes. After the questions have been answered, the researcher asked the respondents for any suggestion or any necessary correction to ensure validity of the instrument. The researcher revised the survey questionnaire based on the suggestion of the respondents.

3.7. Method of Data Analysis

Depending on the types of basic questions and nature of the data, descriptive method of data analysis (descriptive statics) such as frequencies and percentage were used. In addition to this, the data were analyzed with the help of MS-Excel. The data were presented with the help of figures and tables, followed by a narrative discussion to help the reader understand the data in the proper perspectives related to the findings. Finally, data analysis and interpretation were based on the results obtained and literature guide.

3.8. Ethical Consideration

To undertake the study ethical clearances and approval was obtained from the St Mary’s University. A covering letter was attached to the questionnaire ensuring respondents anonymity and confidentiality that information obtained from them will not be disclosed to the third party. Hence, the purpose of the study was explained to the study subjects (both respondents and key informants). In addition, confidentiality and privacy are ensured by not write name on the questionnaire and assuring that the information given by each respondent is kept confidential. Finally, the researcher has consulted numerous works of others and appropriately acknowledges and declared that this study is his original work.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The central focus of this study is to address Market dynamic & demand factors on rose flower of Ethiopia in the international market on flora Holland Alsemeer Auction center. Thus, in this chapter the response for the questionnaire by Ethiopian rose flower growers and the Netherlands flower buyers are presented, analyzed and interpreted in their respective. The data were analyzed using descriptive statistics such as frequencies and percentage and presented with the help of figures, pie charts and tables. In addition, opinion remarked by respondents that collected through open ended questions is included. Finally, this chapter identified its finding and gives with literature review found from various studies, books, journals and others taken into consideration.

To collect the data through questionnaire, 20 questionnaires were distributed for Ethiopian rose flower growers and 12 questionnaires were distributed for the Netherlands flower buyers at Alesemeer auction center. The field survey result indicates that from 20 questionnaires distributed to Ethiopian rose flower growers 19 were returned representing 95 percent response rate and from 12 questionnaires distributed to the Netherlands flower buyers, all were returned representing 100 percent response rate.

Table 4.1: Respondents Response Rate

S.N	Categories	Number questionnaire distributed	Response rate in numbers	Response rate in percentage
1	Ethiopian rose flower growers	20	19	95
2	Netherlands flower buyers	12	12	100
	Total	32	31	97.5

Sources: Field Survey, 2016

4.2 Respondents Profile

This section describes respondents' demographic background including age, gender, educational levels of respondents.

4.2.1 Sex of Ethiopian Rose Flower Growers and the Netherlands Flower Buyers Respondents

Like other country, in Ethiopia also both females and males are operating in the business activity and working in the government offices at different position as owners, managers or other staff. However, the percentage of their involvement in such working environment is not equal.

Figure 4.1: Sex of Survey Respondents



Sources: Field Survey, 2016

As it is clearly indicated in Figure 4.1, 60% of the Ethiopian rose Flower Growers are males and the rest 40% of the respondents are females. Similarly, 85% of the Netherlands Flower Buyers respondents are males and the rest 15% of the respondents are females. This shows that the numbers of male respondents were higher than female in both cases.

4.2.2 Age of Ethiopian Rose Flower Growers and the Netherlands Flower Buyers Respondents

Different individuals with different age category that can join similar work environment. Concerning this idea, the age of Ethiopian rose flower growers and the Netherlands Flower Buyers Respondents are not much far from this truth in which different age category individuals that can involve in similar working environments. The researcher was divided age of respondents (both Ethiopian Rose Flower Growers and the Netherlands Flower Buyers Respondents) into three age category in such away below 35yaers, 36-50 years and above 50 years.

Figure 4.2: Age of Ethiopian Rose Flower Growers and the Netherlands Flower Buyers



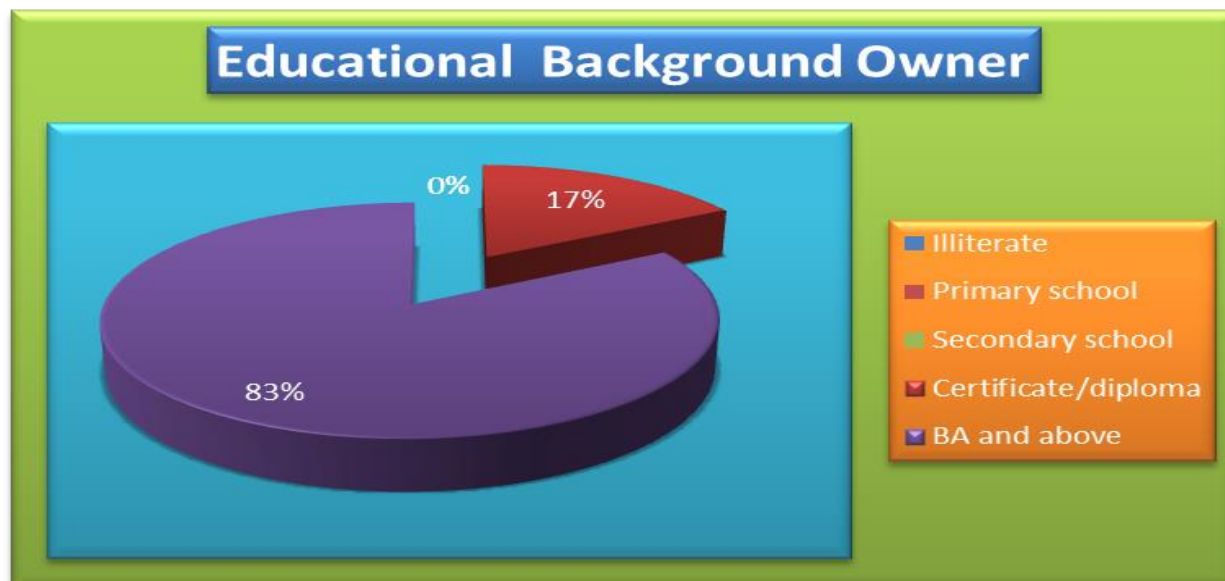
Sources: Field Survey, 2016

As it is clearly shown in figure 4.2, 61% of the Ethiopian Rose Flower Growers respondents fall below 35 years, 33% of the respondents' age is between 36-50 years and the remaining 6 percent respondents were above 50 years. Similarly, according to the Netherlands Flower Buyers Respondents' responses, 49% of the respondents fall below 35 years old, 30% of the respondents is between 36-50 years and the rest 21% of the respondents were above 50 years. This shows the majority of respondents (both Ethiopian Rose Flower Growers and the Netherlands Flower Buyers) are below ages of 35 years in which they are active work force and have many responsibilities in the future.

4.2.3 Educational Background of Ethiopian Rose Flower Growers Respondents

As it is indicated in Figure 4.3, 0% of the respondents were illiterate, 17% of them have college certificate or diploma, 83% respondents have first degree and no respondent that are illiterate, primary school, and secondary school, (See, figure 4.3 below).

Figure 4.3: Ethiopian Rose Flower Growers Respondents Educational Background

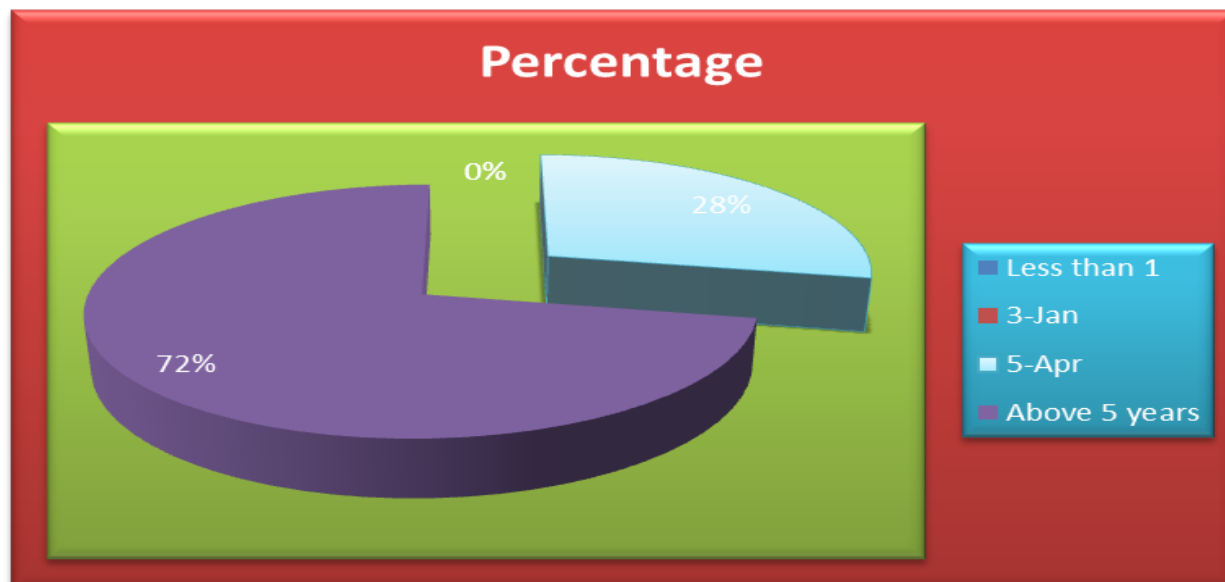


Sources: Field Survey, 2016

4.2.4 Respondents' Working Experience in flower industry

The number of years one has been in business has an influence on Respondents' Working Experience on flower industry. For those who have done business for long implies they are used with the routine practices of knows the problem of market dynamic nature.

Figure 4.4: Respondents' Working Experience in flower industry



Sources: Field Survey, 2016

Accordingly, the respondents were required to indicate their working experience related flower industry issue and findings of the survey shows that more than half of the respondents 72% indicated that they had above five years of experiences in business, 28% of the survey respondents indicated that they had 4 to 5 years of work experience. Therefore, it can be said that the owners (employees) of flower industry had relatively average experience.

4.3 Marketing Dynamic

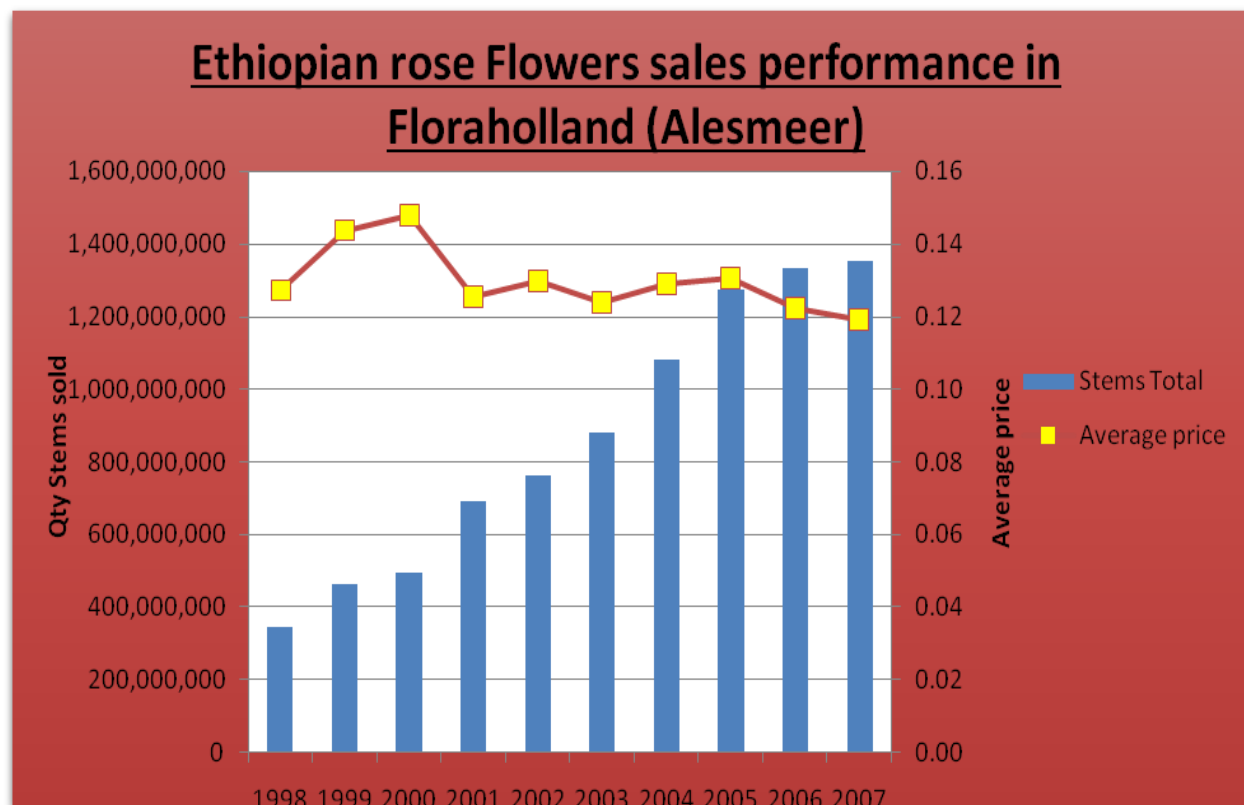
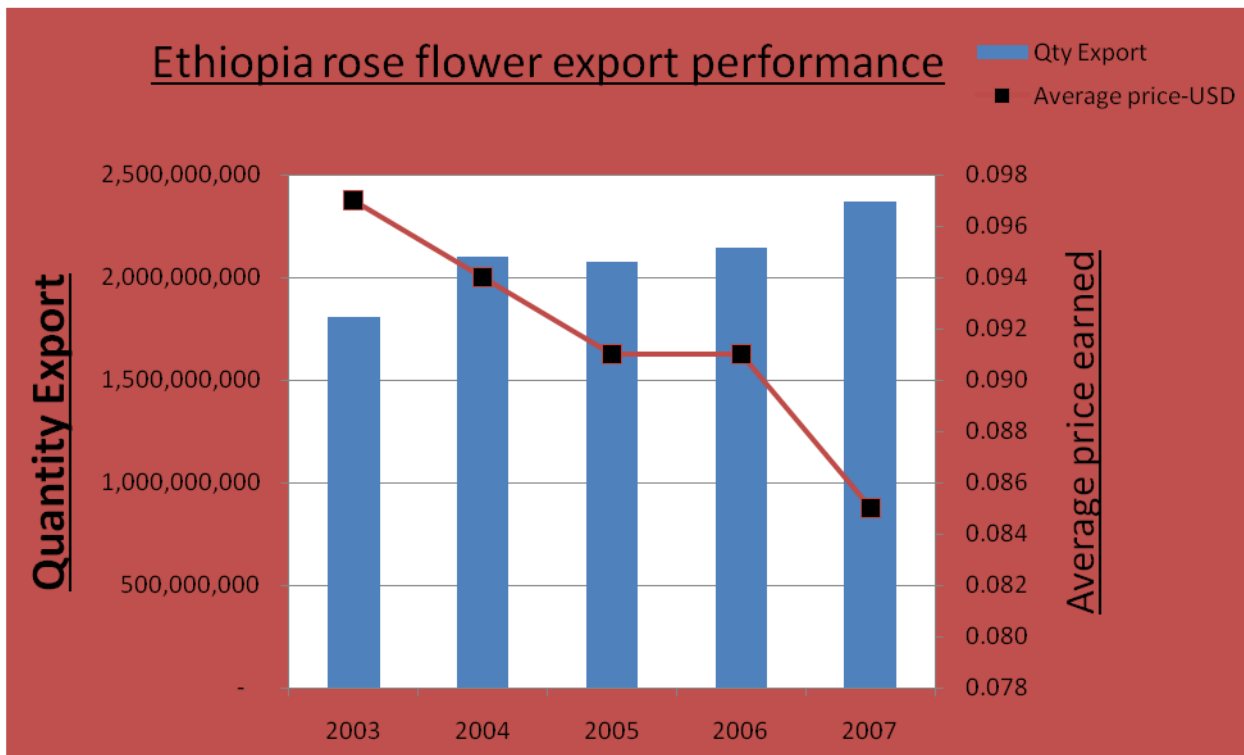
A clear understanding of marketing function with an exploration of strengths and weakness help where to improve the marketing system. This affects the marketability of the product as consumers will not engage in repeated buying behaviors following low quality. Storage also facilitates the adjustment of product supplies to its demand and reduces price fluctuations as the product can be kept for some period of time and supply can be evened out, respectively.

The actual Yearly flower Export quantity Performance in Ethiopia of Ethiopia Horticulture development agency has increased trend as shown in annual revenue collection report for past five years. As seen in the table 4.2 that presented below, the performances of export of flower Ethiopia Horticulture development agency viewed as growth of actual revenue collection from 2003 E.C to 2007 E.C. But, the actual data results shows, the increases revenue collection due to increase quantity of product but still price of the flower decline through the years.

Table4.2 : Yearly flower Export Performance in Ethiopia

<u>Budget year</u>	<u>Category</u>	<u>Total Quantity(Stem) Exported</u>	<u>Total Value in-USD</u>	<u>Average Unit Price</u>
2003	Flower	1,804,692,122.00	175,284,917.10	0.097
2004	Flower	2,102,931,011.00	196,965,603.42	0.094
2005	Flower	2,072,314,381.00	188,001,453.38	0.091
2006	Flower	2,140,828,944.00	195,032,601.97	0.091
2007	Flower	2,367,518,075.65	201,239,036.43	0.085

Figure 4.5: Yearly Ethiopia flower Export and sales Performance in Netherland.



Sources: Flora Holland ten years report, 2016

Even if the Ethiopian government has created a very conducive environment in the floricultural sector, the value of stems of flowers sold in the international market is declining from time to time. For instant, as it is evidenced in the figure 4.5 above, even if the total value earned from export increasing the average price per units declined every year. In addition production area or expansion increased and quantity of stems production increasing selling price declined and the amount of stems of flowers sold in the international market is declining from time to time due to market dynamics in nature of international markets. To indicate the level of international demand progress owner (employees) respondents were asked different questions. Accordingly, they were also forwarded extent of their attitude and the existing facts regarding the level international demand progress and their response were analyzed.

Table 4.3: Response of Owners (Employees) Estimated Demand of International Flower Market

Questions		Very high	High	Moderate	Low	very low
How to estimate demand of your flower in current international market?	Frequency	2	0	4	32	27
	Percentage	12	0	13	30	25
How would you describe the level of International competition?	Frequency	10	2	4	2	0
	Percentage	55	12	21	12	

Sources: Field Survey, 2016

As it is clearly shown in table 4.3, 12 percent, 0% percent, 13 percent ,30percent and 25 percent of the owners(employees) respondents were estimating that the numbers estimate demand of his/her flower in current international market would be very high, high, moderate low and very low respectively. In line with this question, another questions forwarded to owners respondent regarding the level of international competition and accordingly they replied that 55percent, 12percent, 21percent, 12percent of respondents estimated the level of international competition would be very high, high, moderate and low respectively. From these responses, it is clear that there are small numbers of demands because high competition of flower market international level. This result has been supplemented by Labaste (2005), who states that the Ethiopian flower market is at a stage of what call ‘immature’ because it is not sufficiently sophisticated to help Ethiopian flower growers achieve competitive advantages.

4.3 Factors Affecting Flower Export Performance

Ethiopians' Flowers are mainly exported to Europe; but Holland takes the lead by importing 141 million dollars' worth of flower (Access Capital, 2011). Even though Floriculture is now one of Ethiopia's main export sectors, and is contributing a lot to the country's economic development, some flower companies becoming out of market. This shows that there might be different factors that contributed for the closure of these companies like internal and external factors.

4.3.1 Marketing Related Factors of Floriculture Market Dynamics in Ethiopia

The relative ease of accessing the auction market means that new entrants tend to begin exporting through this channel. However, at the initial stage, the lack of marketing knowledge created a lot of uncertainties for firms. Even the foreign-owned firms among the early entrants, such as Golden Rose, had no any prior experience in the flower business and had to pass through a difficult learning curve. The auction market still remains an important entry point into the EU export market for the Ethiopian industry. Flower export is highly time and process dependent. It requires improved infrastructure and logistical capabilities including air transport, post-harvest cold chain facilities, forwarding and handling services, packaging materials, information and communication technology (ICT), and quality control and certification services.

Table 4.4: Marketing Related Factors of Floriculture Market Dynamics in Ethiopia

Statements		Strongly disagreed	Disagreed	Neutral	Agreed	Strongly agreed
Insufficient Linkage Capabilities	Frequency	1	1	1	8	7
	Percentage	6	6	6	44	38
Inadequate Access to Market Information on Market Demand	Frequency	0	1	2	9	6
	Percentage	0	6	11	50	33
Low traceability of top buyer in flora Holland market	Frequency	0	3	5	7	3
	Percentage	0	17	27	39	17
High Cost of input and Packaging Materials	Frequency	1	0	1	11	5
	Percentage	6	0	6	61	27

From the same table it is visible that, 82% of the respondents were strongly agreed and agreed that with the expectation “Insufficient market Linkage Capabilities”. The remaining 6% of them were strongly disagreed and dis agreed with this statement and 6% of the respondents were neutral on this view. This indicates that the majority the respondents have been agreed with the statement Insufficient Linkage Capabilities. In line with the above, another question was forwarded to respondents to know whether they were Inadequate Access to Market Information on Market Demand and accordingly they replied that 83% of the respondents were strongly agreed and agreed that they Inadequate Access to Market Information on Market Demand. The remaining 6% of the respondents were agreed that they Inadequate Access to Market Information on Market Demand and 11 % of the respondents were neutral on this view.

As it is clearly shown in table 4.4, respondents were also asked whether Low traceability of top buyer in flora Holland market and accordingly they replied that 56% of the respondents were strongly agreed and agreed that Low traceability of top buyer in flora Holland market. The remaining 17% of the respondents were disagreed that their traceability of top buyer in flora Holland market and 27% of the respondents were neutral on this view.

From table 4.4, it is clearly visible that the majorities of the flower grower respondents (88%) were strongly agreed and agreed that with the statements “High Cost of Packaging Materials”. Whereas, the remaining 6% of the respondents were strongly disagreed and disagreed with this statement and 6% of the respondents were neutral on this view. Parallel to this question, another question was forwarded to the flowers growers respondents to identify factors or causes related to market flower decline from time to time majority of respondents wrote on open ended question economic crises ,high input cost, high freight cost & problem on post harvest management are major factors that led market dynamic. From this it is possible to conclude that, the cost of input and packaging material are high. This result has been supplemented by Labaste (2005), who states that the competitiveness of Ethiopia’s product in export markets is highly dependent on the quality of packing materials, specifically the corrugated boxes tailored to different stem lengths. At present, given the weakness of the domestic carton industry, one of the rose farms, Golden Rose, has entered into the business of carton assembly and is distributing to other exporters. The absence of an independent and larger-scale carton industry constitutes a constraint on future industry expansion.

4.3.2 Finance Related Factors of Floriculture Market dynamics in Ethiopia

According to Bolo *et al.* (2006), the vital mechanism in minimizing the cost of operation is to find different ways to put together both small– medium scale growers into large scale producer’s supply chains and continuing to integrate technology and tough environmental standards into production activities. In order to cover this cost, the industry must get financial accessibility from different institution. According to Dodd (2010), some banks believe that lending money for flower industry is risky due to the characteristics of the industry like takes long life of production cycle compared to manufacturing industry. To expand the current operations, considerable financing is required, but in Ethiopian flower industry is not the priority sector for banking even if it is the fourth foreign currency earnings for the country. Finance is the main cause of business success. According to flower grower respondents, the bottlenecking bureaucracy along with the inexperience of the bank with flower business affected the development of the industry. This view has also been evidenced in the questionnaire respondents’ rating as shown in Table 4.5.

Table 4.5: Finance Related Factors of rose flowers market dynamics in Ethiopia

Statements		Strongly disagreed	Disagreed	Neutral	Agreed	Strongly agreed
High Interest rates of banks and lending companies	Frequency	0	1	4	7	6
	Percentage	0	6	22	39	33
Flower industry is priority sectors for your agent banks	Frequency	4	7	5	2	0
	Percentage	22	39	28	11	0
Lack of capital for expansion	Frequency	0	2	1	10	5
	Percentage	0	11	6	55	28

Sources: Field Survey, 2016

As it is clearly shown in table 4.5, 72% of the flower grower’s respondents were strongly agreed and agreed that with the statements “High Interest rates of banks and lending companies”. The remaining 6% of them were strongly disagreed and disagreed with this statement and 22% of the respondents were neutral on this view. In line with this result, the majorities of respondents (83%) were strongly agreed

and agreed that with flowers Lack of capital for expansion of industry. Whereas, the remaining 11% of them were strongly disagreed and disagreed with the statement and 6% of the respondents were neutral on the issue.

From the same table it is visible that, 61% of the flower grower's respondents were strongly disagreed and disagreed that with the statements "Flower industry is priority sectors for your agent banks". The remaining 28% of them were strongly disagreed and disagreed with this statement and 11% of the respondents were neutral on this view. In line with the above findings majority of flower grower respondents wrote on the open ended question lack of sufficient capital and support financial institution (especially agent banks) are major problem that the flower grower faced. In addition they wrote on open ended question Ethiopian flower industry is not the priority sector for banking even if it is the fourth foreign currency earnings for the country. Finance is the main cause of business success. Most works, however, use finance as predictor of potential business failure (bankruptcy) and it is suggested that weak cash flow is due to business-related causes rather than being the cause of business failure itself. This indicates that lack sufficient capital and absence of financial support from agent banks are the major factors lead market dynamic. In Line With Findings the respondent wrote on open ended question the cut-flower industry is highly capital intensive that needs a huge amount of money for the start of the business. Nevertheless, the financial institutions in the country are not priorities flower industry unlike others sector in the country to meet the capital needs of cut-flower exports.

This result has been supported by Labaste(2005), who stated that to expand the current operations, considerable financing is required, but in Ethiopian flower industry is not the priority sector for banking even if it is the fourth foreign currency earnings for the country. Furthermore, World Bank (2014) states that the presence of an efficient financial sector enhances the competitiveness of an economy by ensuring efficient allocation of resources to their most productive uses.

4.3.3 Transportation cost

The long distances over which a produce are transported often results in relatively high transportation costs, and potentially lower quality, due to the damage during transport if the products are not properly packed. One of the issues for the floriculture industry in Ethiopia is the weakness of the international market. This suggests that, while costs may be lower in the Ethiopian rose industry, constraints to competitiveness are due to the inadequacy of freight handling and logistics, the availability and coordination of cargo space, in particular. The peculiar product and production characteristics of flowers necessitate not only efficient organization and management of the value chain but also speedy distribution channels.

Table 4.6: Respondents Response on Transportation cost

Statements		Strongly disagreed	Disagreed	Neutral	Agreed	Strongly agreed
High transport air freight cost	Frequency	0	1	4	6	7
	Percentage	0	6	22	33	39
High overseas cost	Frequency	1	0	5	7	5
	Percentage	6	0	28	38	28

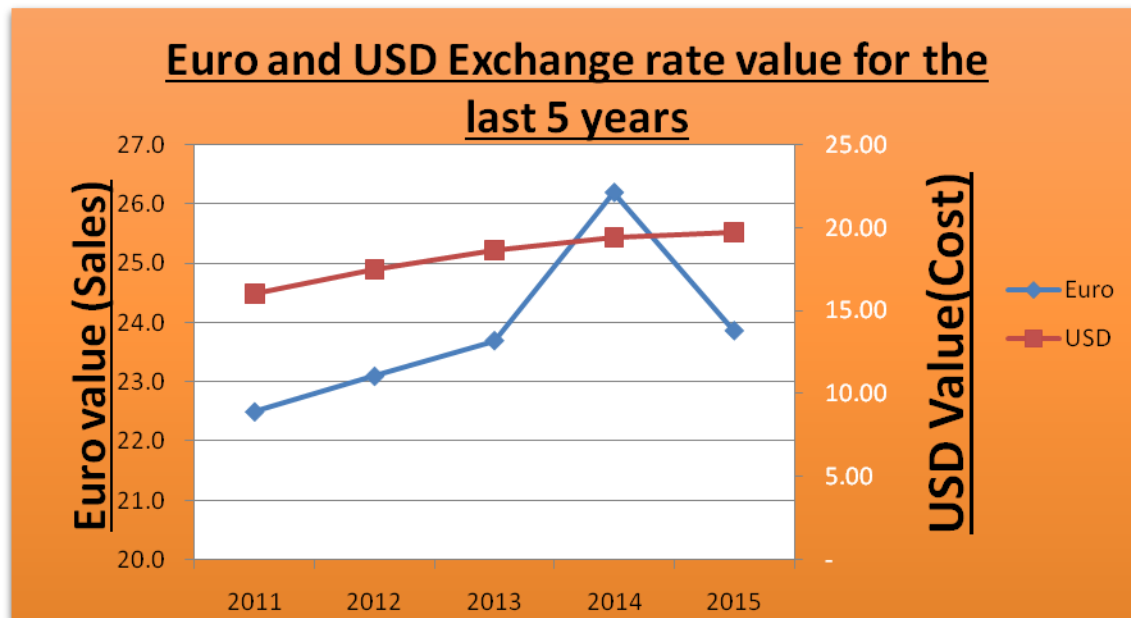
Sources: Field Survey, 2016

As it is depicted in Table 4.6, 72% of the flower grower's respondents were strongly agreed and agreed that with the statements "High transport air freight cost". The remaining 6% of them were strongly disagreed and disagreed with this statement and 22% of the respondents were neutral on this view. From table, it is clearly visible that the majorities of the flower grower respondents (66%) were strongly agreed and agreed that with the statements "High overseas cost". Whereas, the remaining 6% of the respondents were strongly disagreed and disagreed with this statement and 28 % of the respondents were neutral on this view. In line with the above findings majority of flower grower respondents wrote on the open ended question high freight cost and monopoly nature of Ethiopian air lines and high overseas costs(unpacker or agent, auction and logistics) cost are major factors that led market dynamics. This result has been supported by Porter(1990) ,who stated that the presence of good infrastructure enhances the competitiveness of the sector. It enables firms not only to connect with their customers and suppliers efficiently but also use production technologies effectively. On the other hand, infrastructural deficiency not only limits productive opportunities but also increases costs.

In addition to the quality and speedy distribution channels concerning the air transportation, logistics and cargo service as we incorporated on the literature review part, the Ethiopian growers and exporter general operational cost classified as 60% of its cost consumed on air cargo transportation and overseas costs. This indicated that the growers and exporters might not control more than 50% of their costs. And also from the above percentage 34% of their cost is air transport which is paid in USD, but their 75% sales proceeds received in Euro. This also directed that the trained between Euro and USD currency change for the last five years point out on the underneath chart that USD which is exporters

cost constantly growing on the contrary Euro which is exporter sales fluctuated through the last five years period.

Figure 4.6: Foreign currency exchange rate performance trend (Euro Vs USD)



Sources: CBE

4.3.4 Postharvest Management Techniques

According to Glenn(2010), once harvested, there are interlinked tasks are done to prepare the flowers for market. These are collectively called post-harvest handling. These handling steps include Grading, Leaf Removal, Bunching, Re cutting, Hydration, Special Treatments, Packing, Pre cooling, Cold Storage and Delivery to Market.

Table 4.7: Respondents Response on Postharvest Management Techniques

Statements		Strongly	dis	Disagreed	Neutral	Agreed	Strongly
		disagreed	Disagreed	Neutral	Agreed	Strongly agreed	
Lack of growing technical know how	Frequency	5	3	4	3	3	
	Percentage	27	17	22	17	17	
Limited propagation know how	Frequency	4	5	3	5	1	
	Percentage	22	27	17	27	7	

Inefficient knowledge on post-harvest techniques	Frequency	3	6	4	5	0
	Percentage	17	34	22	27	0

Sources: Field Survey, 2016

From table 4.7 it is clearly visible that, the majorities of owners (employees) respondents (44%) were strongly disagreed and disagree with statement that Lack of growing technical know-how. While the rest 34% of the respondents were strongly agreed and agreed with statement and 22 % of them neutral on this view. In line with this finding, the majorities of owners (employees) respondents (49%) were strongly disagreed and disagrees with statement that Limited propagation knows how. While the rest 34% of the respondents were strongly agreed and agreed with statement and 17 % of them neutral on this view.

From the above table 4.7 it clearly shown that, the majorities of owners (employees) respondents (51%) were strongly disagreed and disagree with statement that inefficient knowledge on post-harvest techniques. While the rest 27% of the respondents were strongly agreed and agreed with statement and 22 % of them neutral on this view. In line with this finding the respondent wrote on open ended questionnaire one of the key challenges of production technology in the flowers industry is high cost of planting material (propagation units).

According to EHPEA 2012 annual report in Ethiopia flowers industry the farm which has having propagation units are few in numbers. And also for one hectars farm propagation cost will be $7 * 10000 * .35 = 24,500$ Euro.

4.3.5. Quality Control

According to Dickey (2011), the quality of cut flowers are determined by like cutting stems under water, absorption of water by cut flowers stems, use of chemicals and use of cold storage. There are few official grade standards for cut flowers. Some marketing channels, for example the British mass market chains and the Dutch auctions, have internal quality control systems that provide a check on quality of flowers. The most important quality parameter is "freshness" or vase life. This parameter is difficult to assess visually, but because of its importance, producers and receivers should set up a "quality control" program that would involve evaluation of the vase life of representative flowers on a continuing basis (USITC, 2003)

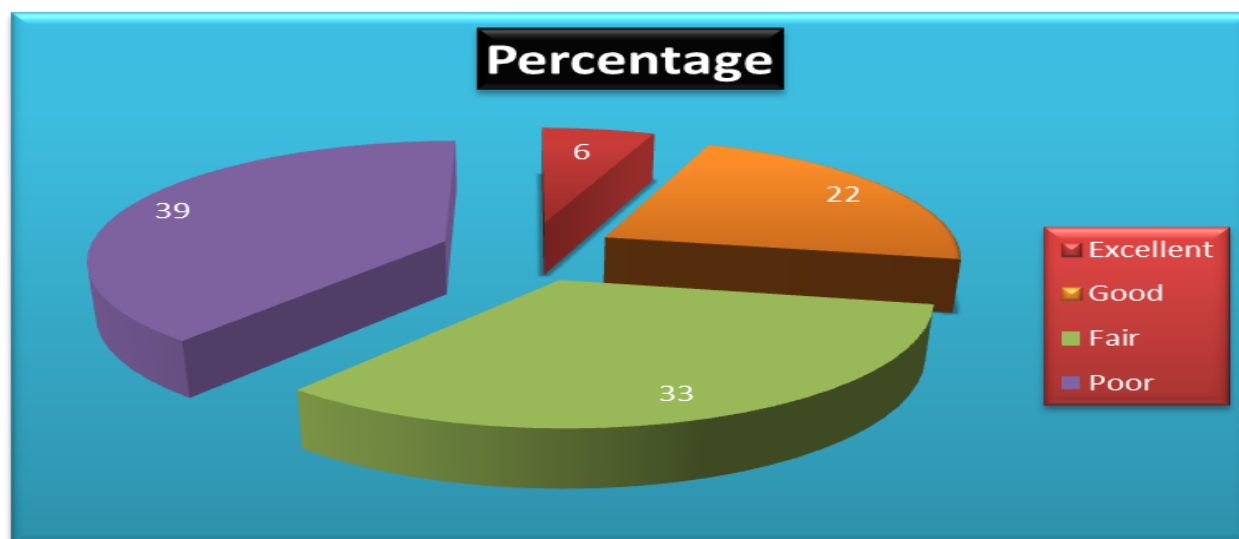
Table 4.8: Response of Respondents on Quality Control System

Statements		Strongly disagreed	Disagreed	Neutral	Agreed	Strongly agreed
Regular vase life testing	Frequency	2	8	4	4	0
	Percentage	11	42	22	22	0

Sources: Field Survey, 2016

From table 4.8 it is clearly visible that, the majorities of owners (employees) respondents (23%) were strongly agreed and agree with statement that Regular vase life testing. While the rest 53% of the respondents were strongly disagreed and disagreed with statement and 22 % of them neutral on this view.

Figures 4.6: Response of Buyers Respondents Evaluation of Quality Flower



Sources: Field Survey, 2016

According to the response of the buyer respondents with respect to the evaluation of quality flower, 11% of the respondents said that it is excellent, 12% of the respondents said that it is good, 26% of the respondents said that it is fair and the rest 51% of them said that it is poor. This indicated that majority of the respondents rated the quality of rose flower product in Ethiopia is poor and fair when compared with others country. Parallel to this question, another question was forwarded to the flowers buyer’s respondents whether availability of international quality certificate affects demand of cut flower and

accordingly 92% of the flower buyer's respondents agreed that availability of international quality certificate affects demand of cut flower and only 8% respondents with the question. See table below

Table 4.9: Response of Buyers availability of international quality certificate

Question		Yes	No
Does availability of international certification affects demand of cut flower?	Frequency	11	1
	Percentage	92	8

Sources: Field Survey, 2016

4.3.6 Government Policy

Indeed, the government was unaware of the sector's potential and thus, it did not mention the flower industry among the extended list of priority sectors in the export promotion strategy it adopted in 1998 (Gebreyesus & Sonobe, 2011). Once it became aware of the sector's potential, the government has been decisive in promoting the sector's growth by taking proactive efforts ranging from creating conducive environment to granting incentives to attract local and foreign investors. Curtsey to the government's exemption of flower producers from the payment of custom duties and taxes exemption on imports of capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion of an existing enterprise, the start-up costs and business risks for investors in the sector has been reduced remarkably. In addition, flower producers that suffer losses during the tax holiday period can carry forward their initial operating losses. This has been evidenced by the better position Ethiopia has in the World Bank's Doing Business ranking when compared with other major horticultural exporters such as its arch rival Kenya (World Bank, 2015).

Table 4.10 Evaluation of the Government Policy by Owners(Employee)Respondent

Statements		Excellent	Good	Fair	Poor
Government policy on air freight	Frequency	1	2	6	9

	Percentage	6	11	33	50
Government policy on taxes and incentive	Frequency	3	6	5	4
	Percentage	17	33	28	22

Sources: Field Survey, 2016

According to the response of the owner's (employee's) respondents with respect to the Government policy on air freight, 6% of the respondents said that it is excellent, 11% of the respondents said that it is good, 33% of the respondents said that it is fair and the rest 50% of them said that it is poor.

From the same table another question forwarded to owners respondents with respect to Government policy on taxes and incentive, 17% of the respondents said that it is excellent, 33% of the respondents said that it is good, 28% of the respondents said that it is fair and the rest 22% of them said that it is poor. In line with this finding respondent wrote on open ended question even though there are some incentives that are given to cut-flower producers by the government, there is still a need to improve these incentives more and provide other incentives which were not provided before to attract more investors to the sector e.g. extending the tax exemption period. in addition to the above incentive skim, the respondent qualified on the open questions the process for import on duty free is very lengthy it affect the operation significantly.

Table 4.11 Evaluation of the Government Policy on Marketing hub and Integration

Statements		Excellent	Good	Fair	Poor
Government policy on creating Marketing Hub	Frequency	0	1	6	12
	Percentage	0	5	32	63
Government policy on Marketing integration	Frequency	1	3	7	8
	Percentage	5	16	37	42

According to the response of the owner's (employee's) respondents with respect to the Government policy on Creating marketing Hub, 0% of the respondents said that it is excellent, 5% of the respondents said that it is good, 32% of the respondents said that it is fair and the rest 63% of them said that it is poor.

From the same table another question forwarded to owner's respondents with respect to Government policy on Market integration, 5% of the respondents said that it is excellent, 16% of the respondents said that it is good, 37% of the respondents said that it is fair and the rest 42% of them said that it is poor. In line with this finding respondent wrote on open ended question the Ethiopian farmers to be competent in the international market they need the government interference and support for the sound price decision making power by supplying on integrated product supply and creating marketing hub.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Considering the findings in relation to the objective of the study, that is to assess the market dynamics in relation to rose flower export market in Ethiopian. The performance, value of rose flowers exported weakened as a result of product quality problems, market information and customer relation management problems. On the other hand, high cost of operation and logistics; such as air transportation, plantation cost and oversea costs are the main bottleneck for the performance of the Ethiopian flower industry. To add on this, there is also a working capital shortage in the sector.

5.2. Conclusions

Based on the preceding analysis the paper finally drawn the following summary of findings:

The study found out that competition of Ethiopian cut flower in international market was affected by the following factors;

- The cut-flower industry is highly capital intensive that needs a huge amount of money for the start of the business. Nevertheless, the financial institutions in the country are not priorities flower industry unlike others sector in the country to meet the capital needs of cut-flower exports. Ethiopian banks, especially government banks are not in a position to provide the desired amount of credit for investors to set up or expand the cut-flower industry.
- Cut-flower is highly sensitive to quality. To keep up the quality of cut-flowers, high quality transportation is necessary. Ethiopian Airlines lacks enough air cargos specialized in transporting cut-flower and high transportation cost. The finding indicated that currently there is no contingency plan to handle neither the risks of insufficient cargo freight capacity, nor a master plan to assure that high volumes of cut flowers can be exported on a daily basis as well as during peak holiday periods special nine types of holiday in European country.
- The result also indicated that lack of quality packing industries and the high weights of the packaging materials available increases the transportation cost of the exported flowers which in turn minimizes their competitiveness abroad where others use the lightest possible packages that minimize transport costs and increase price competitiveness.

- Weak Government policies on market integration (market hub) and propagation units causes are some of other floriculture investment weekend factors in Ethiopia.
- Ethiopian floriculture sector is negatively and significantly affected by owning transportation facility, post-harvest value addition, access to market integration (hubs), lack of regular vase life test and examine product life cycle analysis before variety selection.
- One of the key challenges of production technology in the flowers industry high cost of planting material (propagation units)

5.3. Recommendation

In light of the aforementioned conclusion of the study, the researcher wishes to make the following recommendation to promote good market demand of flower.

- Use good marketing information systems and strategies by searching for new market and customers, by identifying customer wants and needs, using right pricing strategies, by providing and distributing to their right customer channels by following right market timing in order to satisfy customer preferences and also farm should indoctrinate its members on supply chain management, by using market research and development and other necessary marketing actions.
- Flower exporter should upgrade their capacity on the customer relation management.
- The government needs to look at the root of the problem concerning financial institutions and freight costs come up with some concrete solution.
- The government in collaboration with the Ethiopian Horticulture Producers and Exporters Association (EHPEA), Ethiopian horticulture development agency and other stakeholders has to set-up an independent cut-flower Research and Development Institution that undertakes Market Research for the identification and development of new export markets; conduct, analyze and disseminate cut-flower trade related information to the business community and provide inquiry reply and consultancy services.
- To compete and sustain in the international market, the flower industry should improve quality flowers and develop quality packaging industry and efficient cargo freight services.
- The Ethiopian Horticulture Producers and Exporters Association (EHPEA) have to exert at most effort to create an organized and strong rose supply chain so as to increase the sector's competitiveness. This can be done by sharing the experience of the neighboring countries like Kenya.
- The EHPEA and (EHDA) should provide a mechanism that enables the Ethiopian floriculture sector to achieve the highest performance standards by continuous improvement and sustainable

development and thereby improving the farm overall performance and competitive position in the market.

- To solve problems of packaging, propagation units and shortage of plant materials, the cut flower exporters and their association together with the government have to strive for the creation of a strong carton industry and enabling of the import of plant materials from abroad at a lower cost.
- The government should facilitate negotiation and dialogue between exporters and the Ethiopian Air Lines officials so as to provide cargo air planes for the exclusive transportation of cut-flowers.

5.4. Future research direction

This research paper in general trying to assess the overall Ethiopian rose flower export performance and its problems concerning the market tractability and frustrating the major bottlenecks for its performance. But as a result of time constraints and other factors the researcher could not see in depth the core factors but we recommend for future study or researcher to assess the underneath list of point of concern. Supply chain management in flower sector in Ethiopia, Competitive advantage of Ethiopian growers and exporters, Flowers quality maximization, Post-harvest management, Degree of Government support and mediation in flowers sectors.

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Survey Questionnaire for Owners (Employees)

Sir/ Madam,

This study is conducted in partial fulfillment of the requirements for the MBA Degree. I am carrying out a study on **“An assessment of Market Dynamics in relation to rose flower export market in Ethiopia.** The purpose of this questionnaire is to obtain your perceptions and views regarding to Market dynamic & demand factors on rose flower of Ethiopia in the international market. I would like to emphasize that your response are extremely valuable for the successful completion and I would immensely appreciate your response for all questions genuinely. I hereby assure you that all information obtained through this questionnaire shall be used for only academic purposes and will be handled and stored with the highest order of confidentiality. I thank you very much in advance for your cooperation and for sacrificing your invaluable time.

For further information, please contact Ermias Zewdenh Tilahun by the following address:-

TEL.:+251930034416

E-mail:ermiye06@gmail.com

General directions to Respondents

- Please do not write your name anywhere on the questionnaire.
- Mark (√) for appropriate answer for the questions in a given box.
- For questions that demands for your opinion, please try to honestly describe in the given space; if the space is not enough you can use the back space of the papers.

Any additional suggestion is appreciated.

Part One: General information

1). Sex:

Male Female

2). Age

Less than 35 Years 36-50 years
Above 50yaers

3).Level of education

Illiterate
Primary school
Secondary school
Certificate/diploma
BA/BSc degree and above

4).For how long has your company been in operation in flower industry in Ethiopia?

Less than 1 year
1-3 years
4-5 years
Over 5 years

5).What is the ownership structure of your company?

Local
Foreign
Both local and foreign

Part Two: - Demand Factors on Rose Flower of Ethiopia in the International Market. Put (√) response at the appropriate place that you perceive right. And write your additional answers and or suggestion on the blank space provided.

	Statements	1 Strongly disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
A	MARKETING PROBLEMS					
1.	Insufficient Linkage Capabilities					
2.	Inefficient Marketing Network					
3.	Inadequate Access to Market Information on Market Demand					
4.	Low tractability of top buyers in flora Holland market					
5	High contact on top buyers in flora Holland market					
6.	High Cost of input & Packaging Materials					
7-	High Over sea agents cost					
B	FINANCIAL PROBLEMS					
8.	High Interest rates of banks and lending companies					
9.	Lack of capital for expansion					
10.	Flower industry is the priority					

	sectors for your agent banks					
C	TRANSPORTATION COST					
11.	High transport air freight cost					
12.	High oversea cost					
D	OPERATIONAL PROBLEMS					
13.	Lack of growing Technical know-how					
14.	Limited Propagation know how					
15.	Insufficient Production Technology					
16.	You will make product life cycle analysis before variety section					
17.	There are many players in the industry					
18.	There is intense competition locally					
19.	Market access is difficult					
20.	There is capacity of problem related to Tracking and tracing					
21.	Insufficient knowledge on Post Harvest Technique					
22.	Limited Area of Propagation					
23.	Inadequate Breeding Technology					
24.	Regular flower vase life testing					

25.	Make product life cycle analysis before selecting flower varieties					
26.	You will demarked flowers types as supermarket and florist varieties on the time of varieties selection					
27.	There is Diversity market segregation					

28). How do you evaluate the strength of the Government policy with respect to the following parameters?

Statements	Excellent	Good	Fair	poor
Gov't policy on air freight				
Gov't policy on taxes and incentive				
Gov't policy on market integration				
Gov't policy on demand stimulation				
Government policy on marketing hub				

29. How would you describe the international demand progress?

Very high High Moderate Low Very low

30. How would you rate the bargaining power of your international demand flora Holland?

Very high High Moderate Low Very low

31. How would you describe the level of International competition in the Netherlands?

Very high High Moderate Low Very low

32. How to estimate demand of your flower in current international market?

Very high High Moderate Low Very low

33. What are your views on the future of the Ethiopian flower industry?

34. What measures and improvements should the government take in order to make the sector more competitive globally?

Annex -1

St Mary's University

School of Graduate Studies

MBA-General

Survey Questionnaire for Buyers

Sir/ Madam,

This study is conducted in partial fulfillment of the requirements for the MBA Degree. I am carrying out a study on “**An assessment of Market Dynamics in relation to rose flower export market in Ethiopia**”. The purpose of this questionnaire is to obtain your perceptions and views regarding to Market dynamic & demand factors on rose flower of Ethiopia in the international market. I would like to emphasize that your response are extremely valuable for the successful completion and I would immensely appreciate your response for all questions genuinely. I hereby assure you that all information obtained through this questionnaire shall be used for only academic purposes and will be handled and stored with the highest order of confidentiality. I thank you very much in advance for your cooperation and for sacrificing your invaluable time. For further information, please contact Ermias Zewdenh Tilahun by the following address:-

TEL.:-+251930034416

E-mail:ermiye06@gmail.com

General directions to Respondents

- Please do not write your name anywhere on the questionnaire.
- Mark (√) for appropriate answer for the questions in a given box.
- For questions that demands for your opinion, please try to honestly describe in the given space; if the space is not enough you can use the back space of the papers.

Any additional suggestion is appreciated.

1. What are the main factors that affect the demand of quality cut flowers in your company? Prioritize the following factors by ranking from -1- to 5

- Length of the flowers ____
 - Flowers head size ____
 - Stem thickness ____
 - Color ____
 - Type of flowers (Varity) ____
 - Other factors, please specify
-
-

2. Does Source of the flowers (growing place) affected your demand?

Yes No

Why? _____

3. Does availability of international Quality certifications affects your demand for cut flowers?

Yes No

Why? _____

4. In which part of the year does your demand for cut flower increases significantly? Please specify them

5. Do you consider past business relationship for current quantity purchase?

Yes No

6. How do you compare quality of rose flower product in Ethiopia with other country?

Excellent Good Fair Poor

7. How do you rate the imported Flower in terms of supply?

	Excellent	Good	Fair	poor
A. Quality				
B. Availability				
C. Affordability/Cost				

8. Agree or disagree the following statement related to customer relation management of the organization

	Disagree	Agree
The Ethiopian rose flower suppliers completely meets my expectations		
In my view, the flower industry is customer-oriented		
I would like to remain as a customer of the present flower growers and suppliers		

9. Are you satisfied with the overall service and goods you receive from your flower suppliers from Ethiopia? Yes No

10. What are the main strengths of "Ethiopian rose flower exporter" in the supply of flowers to your company?

11. What are the main problems you observe from Ethiopian rose flowers suppliers?

12. What measures should be taken to solve the above problems?

Annex III: Interview Question

1. How many years have you been in this organization?

2. What is your responsibility in this organization?

3. Now a day, Flower market is decline from time to time in Flora Holland market. What do you think that the causes?

4. Why is this causes occurring?

5. Do you think quality of product and Production Technology related factors affect flower demand in Ethiopia?

6. How do financial related factors affect floriculture demand in the market?

7. How do marketing related factors affect floriculture demand in the Netherlands market?

8. Do you think leadership related factors affect floriculture demand in the market place?

10. What are your views on the future of the Ethiopian flower industry?

11. What measures and improvements should the Ethiopian government should take in order to make the sector more competitive globally?