Flower Business Blossoms

By Kiyoshi Ozawa

Many large corporations in Japan in such diverse industries as steel, nonferrous metals, coal, textiles, electronic parts, beer brewing and general trading have begun branching out into a somewhat more attractive sideline—the flower business. This trend is expected to be further stimulated by the International Garden and Greenery Exposition to be held in Osaka from April through September this year. The exposition should also accelerate the growth of Japan's burgeoning flower market.

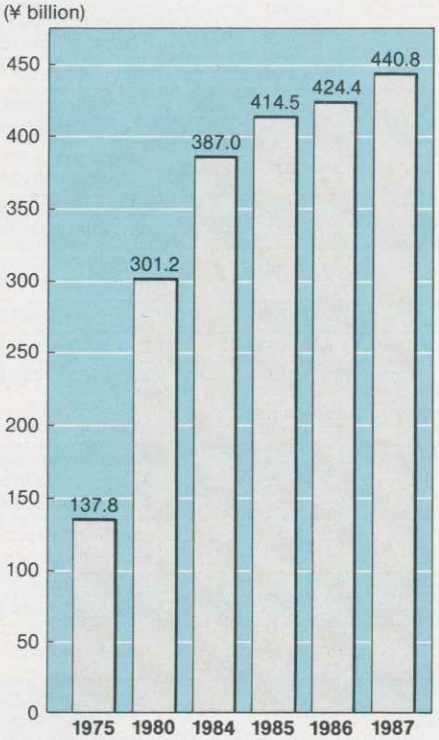
The flower market in Japan has blossomed in recent years into a ¥1 trillion market. According to a survey by the Ministry of Agriculture, Forestry and Fisheries, the domestic production value of flowers has been increasing steadily, reaching ¥440.8 billion in 1987, up 4% over the previous year and 3.2 times more than the 1975 figure of ¥137.8 billion (Fig. 1). Moreover, the value of imported flowers has risen rapidly, rising 29% to ¥13.2 billion in 1987 and 45% to ¥19.1 billion in 1988. Since the retail value of flowers is about three times the production value, the retail value of domestically grown flowers in 1987 exceeded ¥1.3 trillion ($8.9 billion at the rate of ¥145/$).

Rising value

Of the domestic production value of flowers in recent years, cut flowers account for ¥174.3 billion, up 9% over the previous year; ornamental shrubs and trees for ¥172.7 billion, down 0.8%; potted plants for ¥74.3 billion, up 0.4%; and grass and lichen for ¥12.8 billion, up 23%. Cut flowers replaced ornamental shrubs and trees as the largest category in 1987.

The production of flowers is occupying an increasing share in Japan's total agricultural production, with the figure rising from 1.5% in 1975 to 4.2% in 1987. One of the reasons for this is that the government has been leading farmers to shift to flower growing as part of its policy of reducing the acreage of land devoted to rice cultivation. Moreover, flowers can be grown on even small plots of land, there are no legal regulations on flower cultivation, and it is relatively easy to enter the business.

Fig. 1 Value of Japan's Flower Production



Source: Ministry of Agriculture, Forestry and Fisheries

The main reason for the growth of flower production in Japan is the expansion of domestic consumption; Japan is not a major exporter of flowers. Domestic consumption is increasing because of the changing lifestyle of the Japanese people.

Flowers are used mostly as gifts, especially by private companies, which like to present elaborate and expensive arrangements; for home parties, which are becoming increasingly popular among young people; for weddings and banquets, which have become extremely ornate affairs in recent years; for funerals and other gatherings; for the home; and for the art of flower arranging. Recently all of these uses have been increasing, with the exception of flower arranging, for which demand has remained flat.

Demand for flowers for both individual and social purposes has increased with Japan's urbanization. Most of Japan has a temperate climate with four distinct seasons, which means that flowers are in bloom all year round. In the past, everyone lived within reach of the open countryside, where they could often enjoy the sight of flowers. But the population is now concentrated in urban areas which have little space for greenery. So people like to add some color to their lives by decorating their homes and offices with flowers and plants.

By altering people's dwellings and lifestyle, urbanization also has diversified demand for flowers. The most popular flowers in Japan are, in order, chrysanthemums, carnations and roses, but recently demand has been growing for such Western flowers as tulips, orchids, common gypsophilas and poinsettias. A growing number of Japanese now decorate their homes with these flowers instead of, or as well as, Japanese-style flower arrangements.

In 1987, Japanese households spent an average of ¥8,889 (about $60) on cut flowers, up 7.5% from the previous year and almost twice as much as in 1975. This figure is still only about one-quarter of that in countries in Western Europe such as the Netherlands and West Germany. But the consumption of flowers in Japan is expected to continue growing, with demand being stimulated by increased production, expanded imports and new sales routes, such as mail order.

Several large corporations in a variety of industries have branched out into the flower business in response to the increasing demand. In general, these corporations fall into two groups: those for which flowers represent an extension of their main business, and those for which

Tissue culture experiments are being carried out with such flowers as African violets and cyclamens. *Photo: Kirin Brewery Co.*

Photo: Flowergate

Demand for flowers has increased along with Japan's rapid urbanization.

the flower business is related to their existing technologies.

Corporations in the first group include Kagome Co., Kirin Brewery Co., Sapporo Breweries Ltd. and Suntory Ltd. These companies were able to enter the flower business without much difficulty by moving into the field of biotechnology on the basis of their existing technologies.

Thanks to biotechnology

Kagome's entry into the flower business came as part of the development of its biotechnology business. The company is especially interested in orchids; in August 1989 it succeeded in developing a method for cultivating butterfly plants, *Phalaenopsis aphrodite*, using tissue culture. In Japan, orchids used to be considered high-class, expensive flowers, but progress in biotechnology has made it easier to grow them. Recently several companies, including Mitsubishi Metal Corp., Minebea Co., Osaka Gas Co., and Nippon Telegraph and Telephone Corp., have become involved in the production of orchids.

In the past the production of flowers was extremely labor-intensive and at the mercy of the weather and other natural conditions; productivity was low. Thanks to the application of biotechnology, however, these disadvantages are disappearing. With biotechnology, the mass production of virus-free flowers is coming closer to realization.

Kirin Brewery, one of the companies that is using biotechnology, is engaged in the research, development and production of vegetables as well as flowers. At its research institute in Yokohama, the company is experimenting with the tissue culture of such flowers as African violets and cyclamens. In September 1985 Kirin Brewery began selling flowers through Kamon, one of Japan's leading florists, and in February 1986 it established a joint venture with Kamon called Flowergate Inc. This venture seeks to become a leading producer and seller of ornamental flowers, combining Kirin Brewery's production technology with Kamon's sales know-how. Handling products developed by Kirin Brewery as well as other flowers, Flowergate expects its sales in fiscal 1989 to reach about ¥1.2 billion (about $8.3 million).

Meanwhile, Osaka Gas has been producing orchids using liquefied natural gas for heating. The company has been concentrating on dendrobiums, a genus of orchid with a stable market price, for which temperature control is especially important in cultivation. When grown naturally, dendrobiums flower in April and May. The best time for selling orchids in Japan, however, is the gift-giving season at the end of the year, when the temperature is low. What producers previously did was to grow the flowers on flat land until just before budding in the fall, then move them to a cold, hilly spot at about 1,000 meters above sea level and keep them dormant to delay their budding.

To avoid this laborious procedure, Osaka Gas built a 20,000-square-meter greenhouse at its LNG plant in Osaka, where there is a large market for flowers. Controlling the greenhouse's temperature by computer, it now produces 20,000 dendrobiums a year there.

Several corporations in the smokestack industries have entered the flower business as part of their efforts toward restructuring. In a tie-up with a toy manufacturer, Nippon Steel Corp., the world's largest steelmaker, started selling canned flowers in 1988. Instead of soil, Nippon Steel uses in the cans a substance that is a by-product of its iron ore smelting process.

A subsidiary of NKK Corp., another leading steel company, has begun cultivating orchids, and Kurabo Industries, Ltd., a textile firm, has built a greenhouse for orchids on some idle land in the city of Kurashiki.

In 1986, Sumitomo Coal Mining Co. opened a biotechnology research institute in the city of Akabira in Hokkaido, where it operates a mine, and began cultivating roses and carnations on a vacant plot of land. It chose roses because their unit price is high and demand is growing, and carnations because another firm in the

Sumitomo group—Sumitomo Cement Co.—had developed a new method of cultivating them.

General trading firms are also becoming actively involved in the flower business. Sumitomo Corp. plans to establish a joint venture with a U.S. firm in the United States to grow carnations and export them to Japan. Sumitomo also plans to grow miniature rose bushes by tissue culture in Singapore for export to Japan and to undertake the sale of grown plants developed by Kyowa Hakko Kogyo Co. and other firms.

In addition, Mitsui & Co. has linked up with Hibiya Kadan Floral Co., a leading florist, to import cut flowers from the Netherlands. And Nissho Iwai Corp., the second-largest importer of cut flowers in Japan, imports chrysanthemum, lily and other seedlings. Nissho Iwai also has joined forces with Sapporo Breweries to engage in the sale of young butterfly plants.

One of the most active general trading firms in the flower business, Nissho Iwai in 1989 obtained the sole right to import some genus of chrysanthemums, which are not cultivated in Japan, through a tie-up with a company in the Netherlands. Nissho Iwai now plans to cultivate and sell these flowers in Japan in cooperation with a Japanese horticulturist.

Deregulation spurs imports

With the general trading companies becoming eager participants in the flower business, imports have begun to flourish. According to the Ministry of Agriculture, Forestry and Fisheries, the value of Japan's imports of flowers, as mentioned above, climbed to ¥19.1 billion in 1988, up 45% over the previous year and 2.2 times the figure for 1985 (Fig. 2).

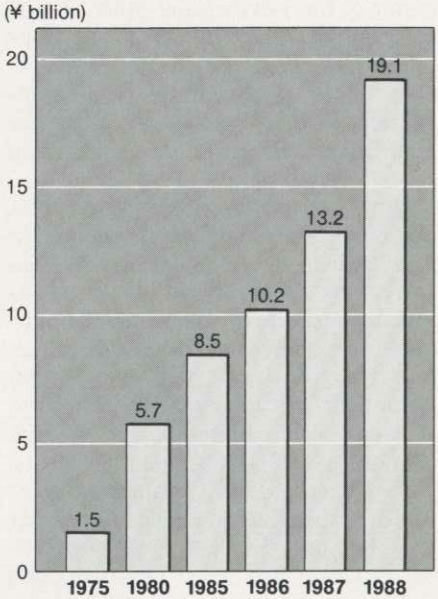
Imports of cut flowers have been especially remarkable, achieving double-digit growth every year since 1973. In 1988 the value of cut flower imports was ¥13 billion, up 56% over the previous year and accounting for 68% of the total value of Japan's flower imports. Next came ornamental shrubs and trees, accounting for 17% of the total, though the growth rate of this category was only 10%. The fastest-growing import category was bulbs, which increased by 47% in 1988 to reach ¥1.8 billion, following a 66% jump in 1987. In just three years, the value of bulb imports shot up 2.4 times.

Observers of the flower business suggest several reasons for the growth in imports: increased demand for Western flowers, the appreciation of the yen since 1985, the entry into the business of general trading firms and other large corporations, and, perhaps most important, the relaxation of regulations controlling imports of flowers.

In recent years Japan has come under much fire from flower-exporting countries for its nontariff barriers against flowers. When flowers are imported into Japan, they cannot be shipped directly from the airport to the market. Flowers must go through quarantine inspection to check for pests, and in the past bulbs had to be grown in quarantine for 12 months. Other countries enforce similar precautions, but Japan's quarantine system was criticized, especially by the Netherlands, as being the most strict and time-consuming of them all.

The Japanese government and the Ministry of Agriculture, Forestry and Fisheries took action in 1988 to improve the situation, increasing the number of quarantine inspectors on duty, extending inspection times on weekdays, doing inspections on Sundays, and expanding fumigation facilities. The government also revised the law concerning seeds and seedlings to protect overseas growers who rear new species, and exempted 31 types of Dutch tulip bulbs from the necessity of one year's cultivation in quarantine. Another 54 types of bulb were exempted in 1989. In addition, Dutch lilies were exempted from quarantine cultivation in January this year.

Fig. 2 Value of Japan's Flower Imports



Source: Customs statistics

The Netherlands, which is the world's largest producer of flowers, had expressed dissatisfaction with Japan's quarantine system. In 1985 it began paying for the stationing of two Japanese quarantine inspectors in the Netherlands to speed up the process of inspection; another two were added this January. As a result of these efforts, the Netherlands overtook Thailand to become the top exporter of flowers to Japan in terms of value in 1988.

Though Japan's flower business has been expanding in leaps and bounds, it also faces a number of difficult problems, not least of which is the complex distribution system. For example, the cut flower business, worth ¥220 billion to ¥230 billion (approximately $1.5 billion) a year, has as many as 27,000 small retailers and 300 local wholesale markets. Some people have expressed concern that the entry of so many large corporations into the business is going to lead to a glut in the market. And noting the small size of the market and the labor-intensive nature of the business, many of the new entrants are worried about profitability.

Nevertheless, as biotechnology continues to make rapid progress, and as the Japanese come to spend more time and money on making their immediate surroundings more pleasing, the flower business can be expected to continue to blossom.

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