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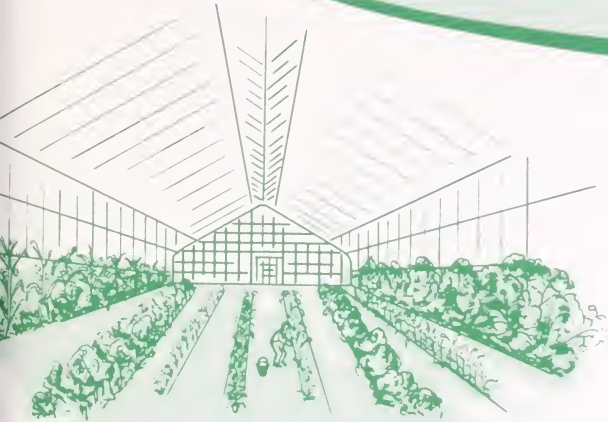
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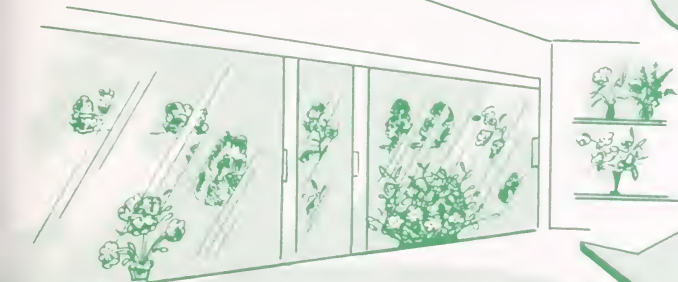
# Wholesaling Floral Commodities in the Chicago and New York City Markets



Wholesale Grower



Commission and  
Merchant Wholesaler



Retail Florist

UNITED STATES DEPARTMENT OF AGRICULTURE

Agricultural Marketing Service

Marketing Research Division

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## PREFACE

This is the first of a series of reports presenting the results of research undertaken in floricultural marketing in the Chicago and New York wholesale market areas. The object of this research is to determine the marketing services required at the wholesale level to stimulate the marketing of cut flowers and potted plants; and to determine the impact on cost of marketing these products in an expanded market.

This report determines for these two wholesale markets: (1) sources of supply and wholesale dollar value of floral commodities marketed; (2) marketing functions performed for suppliers and buyers of floral commodities; (3) marketing methods, practices, and policies used; (4) distribution practices; and (5) estimated cost of marketing floral commodities.

Appreciation is expressed by the author to many people for suggestions, criticism, and cooperation. These include the wholesale growers and commission and merchant wholesalers in the Chicago and New York City market areas, who provided data. Considerable assistance in locating persons and firms in these markets was received from Robert H. Roland, formerly Executive Secretary, Society of American Florists; Hubert J. Wolfe, Secretary, Illinois Florists Association; and Edward R. Hall, Secretary, Wholesale Commission Florists of America. Assistance in conducting the interviews with wholesalers in the New York City market was given by M. Truman Fossum, who was then with this Division.

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# WHOLESALE FLORAL COMMODITIES IN THE CHICAGO

## AND NEW YORK CITY MARKETS

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### SUMMARY

This study of wholesaling floral commodities in the Chicago and New York City markets provides information on market location, location of supplies, types of suppliers, procurement methods and practices, modes of transportation, marketing channels, methods and practices, and estimated marketing costs.

#### Market Location

Approximately 50 New York City wholesale firms are concentrated in a relatively small area of downtown Manhattan. This is in sharp contrast to the 13 Chicago firms which are located in 3 different areas.

#### Sources of Supply

Wholesalers in the Chicago and New York City markets received more than 50 percent of their total floral products from sources within 149 miles of the market.

#### Kind of Suppliers

Wholesalers in both markets obtained their floral commodities from wholesale growers, shippers or assemblers, and other city wholesalers and brokers, in approximately that order of importance. Wholesale growers provided the Chicago and New York City markets with three-fourths of their total supplies; distant wholesale growers provided 19 percent of the total for the Chicago market, but 30 percent in New York City.

Generally, floral wholesale firms of different sizes in each market showed marked differences with respect to the kinds of suppliers from which they obtained floral commodities. On the average, smaller firms tended to act more as jobbers than did large firms, buying a large portion of their supplies from other wholesalers.

#### Procurement Methods and Practices

Almost 85 percent of the floral commodities handled by wholesalers in

each market was obtained on a consignment basis. Distant suppliers usually provided wholesalers with floral commodities on a purchase basis.

Wholesale commission charges for selling outdoor and greenhouse commodities varied within both markets. However, these charges were generally consistent for firms of similar size within each market. On the average, as the size of firm decreased, the commission charge also decreased. In Chicago, commission charges ranged from 15 to 20 percent for greenhouse products and 22 to 25 percent for outdoor-grown products. The commission charges for the New York City market ranged from 15 to 20 and 20 to 25 percent, respectively. Generally, these charges were higher in Chicago than in New York.

In neither market did wholesalers use written or oral agreements in obtaining products. Less than one-fifth of the New York City wholesalers made cash advances or provided production supplies such as fuel, seeds, plants, and fertilizer to wholesale growers, but one-half of the Chicago wholesalers did so.

#### Modes of Transportation Used by Suppliers

Trucks--owned, hired, or leased--were the chief means of transportation used by each market. In Chicago about 73 percent of the floral commodities received by wholesalers were transported by truck and 17 percent by air. For New York City these percentages were 61 by truck and 20 by rail.

#### Marketing Outlets Utilized by Wholesalers

Wholesalers in both markets sold almost 80 percent of their floral commodities to retail florists. Chicago wholesalers sold about 14 percent to other wholesalers. New York City wholesalers sold 8 percent each to truckers and to other wholesalers.

Generally, small wholesale firms sold a greater proportion of their total volume of floral commodities to retail florists than did the medium or large firms in each market.

#### Marketing Methods and Practices

Floral product prices at the wholesale level cannot be compared because uniform grades are lacking. Also, various trade practices are used other than changing prices to attract buyers and sellers. For example, approximately 70 percent of the Chicago wholesalers gave some specific market information to suppliers who furnished about 70 percent of the total market volume; approximately 51 percent of the New York City wholesalers gave similar information to suppliers of 27 percent of the market volume.

The means by which Chicago wholesalers sold their commodities were in the following order of importance: Telephone, 69 percent; salesmen, 24 percent; and standing orders, 7 percent; for New York City, salesmen, 63 percent; telephone, 35 percent; and standing orders, 2 percent.

Wholesalers generally used a preassigned number to identify each grower's product when they received consigned flowers. Frequently they used the grower's name in addition. In some firms this identification number was written on the sales invoice. From this sales invoice a report was made to the grower each week.

Delivery to retailers has become an accepted practice in Chicago and New York City. In Chicago approximately 60 percent of the total sales of wholesalers was delivered to retail florists, in New York City 50 percent.

Wholesalers in both markets commonly grant credit to retail florists. Chicago retailers usually paid wholesalers sooner than those in New York. Bad debts, however, were less than 1 percent of total sales in both markets.

### Estimated Marketing Costs

Major components of marketing costs in each market based on cost per dollar of sales were: In Chicago (1) selling costs, 6.6 cents; (2) administrative expenses, 4.4 cents; and (3) handling, packing, and delivery expenses, 3.9 cents. A similar breakdown for New York City wholesalers show: (1) Selling costs, 8.0 cents; (2) administrative expenses, 3.0 cents; and, (3) handling, packing, and delivery expenses, 3.0 cents. Average total estimated marketing cost for Chicago wholesalers was about 18 cents per dollar of sales, for New York wholesalers 17.5 cents. The balance of the dollar covers cost of goods sold and profit.

## INTRODUCTION

This is a report on the functions of commission and merchant wholesalers in the marketing of cut flowers in Chicago and New York City. It describes methods of procuring and marketing, and the channels used in moving cut flowers from suppliers to retailers.

### Historical Background

Development of wholesale floral establishments in New York City was stimulated by at least two major unsatisfactory economic conditions. First, during the depressions in the 1870's growers were unable to fill the credit needed by retailers (7).<sup>1/</sup> Second, floral production required almost all of the time of growers, leaving them little time to find buyers. James Hart established the first New York City wholesale firm about 1870 (6).

In 1886, a wholesale floral firm was established in Chicago. Prior to that time Chicago, Cleveland, Buffalo, Detroit, and Montreal florists were large buyers from the Boston and New York City markets.

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<sup>1/</sup> Underscored numbers in parentheses refer to Literature Cited, page 23.



Owing to the relatively undeveloped transportation and communication services, local growers supplied practically all of the requirements of nearby markets. As production areas expanded to the West and South, significant proportions were shipped to the midwestern and eastern markets. Lower production costs and improved means of communication and transportation account, to a large extent, for the establishment of new supply areas. As a result of these shifts, many midwestern and eastern floral growers went out of business when prices received for floral products failed to keep pace with increasing cost of production. Also, in some instances increasing suburban developments have caused land values and taxes to advance and floral growers to sell their property.

### Description of Markets

The New York City wholesale floral market is the largest in the country; the Chicago market is second on the basis of dollar volume of sales. In 1955 approximately 50 wholesalers were located in a relatively small area of downtown Manhattan; approximately 13 wholesalers were located in 3 areas of Chicago. Eight Chicago wholesalers were located in 1 building west of the center of the city, 2 others in 1 building about 14 blocks south of the center, 2 others in 1 building about 6 blocks south, and 1 located about 3 miles southwest of the center. In contrast to the Chicago market, all New York City flower wholesalers were located in a 2-block area on West 28th Street and 6th Avenue.

The average firm, based on total sales per firm, is larger in Chicago than in New York; the largest firms in Chicago are much larger than the largest firms in New York; and the smallest firms in Chicago are larger than the smallest in New York.

In New York floral commodities were received from distant commercial production areas and were redistributed primarily to other markets in the Northeast. A substantial volume of locally produced floral commodities are shipped out of the New York market area by growers as well as by wholesalers.

Historically, the Chicago wholesale market has been an important shipping center for floral commodities. Its influence was important throughout most of the Midwest and South. Competition from other production areas has reduced the volume of shipments from the Chicago area to the southern part of the United States.

### Procedure

The New York and Chicago markets were selected for this study of wholesaling floral products because they are the two largest markets in the United States. In addition, there are differences in organization and operation of wholesale firms in the two market areas which should be of interest to the industry. All floral wholesale firms in both markets are included in this study.

Data for this study were collected by personal interview of responsible personnel in each firm. These interviews were conducted from February to May 1956.

Three basic questions were asked respondents. First, "From whom, where, and how are your floral supplies obtained?" Second, "To whom, where, and how are these commodities sold?" Then third, "What are your marketing costs as a percentage of wholesale sales for the last fiscal year (1955) for specified cost items?" Twenty-six specific questions were asked to obtain answers to these three basic questions.

#### SOURCES OF SUPPLY

Commercial floricultural production in the United States is chiefly concentrated around large metropolitan market areas (2). In 1949, two-thirds of the floricultural crops, based on wholesale value, was produced in 239 of the 3,073 counties of the United States (1). Sixty-two counties produced 40 percent of the wholesale value of the floricultural production in the United States. These 62 counties accounted for more than 26 percent of the population of the United States and 33 percent of the retail trade of floriculture and comprised the 10 leading markets for floricultural crops in the United States. These 10 markets include New York-northeastern New Jersey, and Chicago in which production was in balance with the requirements of retail trade in these areas; Los Angeles, Philadelphia, Boston, and San Francisco-Oakland which produced more than was required by the trade within these markets; and Detroit, Pittsburgh, St. Louis, and Washington, D. C. which were deficient in production (3).

Of the total production of floricultural crops in these 62 counties, the New York-northeastern New Jersey and Chicago areas produced 27 and 14 percent of the wholesale value, respectively, in 1949 (1).

During 1955, wholesalers of floricultural crops in the New York City and Chicago markets received approximately 54 and 63 percent, respectively, of their total supplies from within a 149-mile radius of their establishments. The breakdown for both the local and distant supply of each market for 1955 is shown in table 1.

#### Kind of Suppliers

Wholesale growers provided about three-fourths of the total volume of the Chicago and New York floral markets (table 2). Wholesalers, shippers or assemblers and brokers 2/ supplied the balance (table 2).

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2/ Usually a broker is defined as an agent who, for a fee, brings buyers and sellers together and assists in negotiating contracts between them. In the floral industry, a person who buys floral commodities locally for his own account and resells them to other outlets is known as a broker.



Table 1.--Sources of supply for Chicago and New York City wholesalers of floral commodities, 1955

Chicago					
Miles from market	Suppliers				
	Wholesale growers	Shippers (growers) or assemblers <sup>1/</sup>	Brokers	Commission and merchant wholesalers	Total
	Percent	Percent	Percent	Percent	Percent
0-149	58.4	0.1	--	4.1	62.6
150 and over	18.7	13.9	4.2	.6	37.4
Total	77.1	14.0	4.2	4.7	100.0

New York City					
	Percent	Percent	Percent	Percent	Percent
0-149	45.0	0.5	--	8.3	53.8
150 and over	29.9	15.6	0.7	--	46.2
Total	74.9	16.1	0.7	8.3	100.0

<sup>1/</sup> This group consists of establishments engaged in purchasing, assembling, and growing floral commodities, locally, and shipping to other wholesale buyers. In addition to these functions, such establishments may grade, pack, store, and in some cases finance the commodities they handle.

Table 2.--Wholesalers reporting and volume of floral commodities obtained by kind of suppliers, Chicago and New York City markets, 1955

Supplier	Chicago		New York	
	Firms reporting	Total volume supplied	Firms reporting	Total volume supplied
	Percent	Percent	Percent	Percent
Wholesale grower	100	77.13	98	74.87
Shipper (grower) or assembler	77	13.91	63	16.13
Broker	38	4.19	9	.66
Commission and merchant wholesalers	85	4.77	70	8.34
Total	--	100.00	--	100.00

About 84 percent of the sales of wholesale growers in the Chicago area <sup>3/</sup> were made through Chicago wholesalers. Wholesale growers in the New York City area <sup>4/</sup> sold only 45 percent of their crop through New York City wholesalers. (Appendix table 13.)

The wholesale value of the marketings of wholesale growers made through wholesalers located in the Chicago area was about 46 percent of the total wholesale marketings for Chicago. This figure for New York was 15 percent. (Appendix table 13.)

Merchant and commission wholesalers who supplied other wholesalers were usually located in the central market; but shippers or assemblers and brokers usually were located in the wholesale supply area more than 150 miles from each market.

Wholesale firms of all sizes in each market obtained floral products from brokers, except the small firms in New York City (table 3). Most of the floral products sold by brokers in either market were purchased by large wholesale firms. (Appendix table 14.)

#### PROCUREMENT METHODS AND PRACTICES

The floral industry has been characterized by several alternative methods of marketing but a relatively high degree of specialization in production. Indications are that marketing methods, especially procurement methods at the wholesale level have not kept pace with specialization in production and improvements in techniques. Wide fluctuations in supply and prices of floral commodities are partially due to unequal rates of change between improvements in procurement methods and improvements in production techniques and degree of specialization in production. Some procurement methods and related practices for floral products at wholesale which influence supply, demand, and price for these products are: (1) Contractual agreement and method of sale between wholesaler and supplier; (2) market information; (3) commission charge; (4) accounting and reporting methods; (5) modes of transportation employed; and (6) grading.

##### Contractual Agreements

Wholesalers in neither market used contracts or agreements in obtaining floral supplies.

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<sup>3/</sup> Counties included in the Chicago standard metropolitan area are: Cook, DuPage, Kane, Lake, Will in Illinois; and Lake in Indiana.

<sup>4/</sup> Counties included in the New York-northeastern New Jersey standard metropolitan area are: Bronx, Kings, Nassau, Queens, Richmond, Rockland, Suffolk, Westchester in New York; and Bergen, Essex, Hudson, Middlesex, Morris, Passaic, Somerset, Union in New Jersey.

Table 3.--Number of wholesale firms and percentage of total volume of floral commodities obtained from specified suppliers by value of sales groups, Chicago and New York City, 1955

		Chicago					
Wholesale sales	Firms	Supplier					Total <sup>1/</sup>
		Wholesale grower	Shipper or assembler	Broker	Wholesale florist		
	Number	Percent	Percent	Percent	Percent	Percent	
\$400,000 and over	5	81.0	11.0	4.0	4.0	100.0	
\$200,000 to \$399,000	4	56.3	37.4	.4	5.9	100.0	
\$199,000 and under	4	53.0	16.0	11.0	20.0	100.0	
New York City							
\$400,000 and over	15	76.6	13.8	0.9	8.7	100.0	
\$200,000 to \$399,000	16	72.4	20.0	.2	7.4	100.0	
\$199,000 and under	13	68.0	24.0	--	8.0	100.0	

<sup>1/</sup> For percentage of total market volume of floral commodities obtained from various suppliers by value of sales groups, see appendix table 14, page 26.

Less than one-fifth of the New York wholesale firms made cash advances or provided production supplies to their suppliers, but one-half of the Chicago wholesale firms did so.

Locating sources of supply presented no great difficulty to wholesalers in the Chicago and New York markets. Both markets operate essentially on a consignment basis which means that wholesalers (or receivers) do not have adequate advance information concerning supplies. This means that wholesalers do not have sufficient time to organize adequate promotional and advertising programs to the best interests of the industry. More than three-fourths of the total market volume supplied by wholesale growers to wholesalers in both markets was provided on a consignment basis (table 4).

#### Market Information

Of the market information available to wholesalers in each market, what kind did they give to and suggest for growers? (table 5.) Generally, wholesalers in New York City gave less specific information to growers than

Table 4.--Procurement methods of commission and merchant wholesalers of floral commodities by type of supplier, Chicago and New York City markets, 1955

Supplier	Chicago			New York		
	Obtained on con- signment	Outright purchase	Total supplied	Obtained on con- signment	Outright purchase	Total supplied
	Percent	Percent	Percent	Percent	Percent	Percent
Wholesale grower	76.2	0.9	77.1	73.6	1.3	74.9
Shipper (grower) assembler	6.1	7.8	13.9	12.0	4.1	16.1
Broker	1.0	3.2	4.2	0	.7	.7
Commission and merchant whole- saler	.7	4.1	4.8	0	8.3	8.3
Total	84.0	16.0	100.0	85.6	14.4	100.0

Chicago wholesalers. This difference may be partially due to the fact that a daily cut flower market report is published on the New York flower market, but not in the Chicago market. This report provides, primarily, information which reflects supply and demand conditions for specific kinds, varieties, colors, and grades of floral products. The lack of such a report in the Chicago market apparently is felt by wholesalers who attempt to provide information of this type to growers.

In Chicago, approximately 60 percent of the wholesalers suggested that growers should be provided with information on consumer preferences for floral commodities while 12 percent of the New York wholesalers suggested such information (table 5).

About two-thirds of the wholesalers provided market information to suppliers who accounted for about two-thirds of the volume marketed in Chicago (table 6). In the New York City market about one-half of the wholesalers gave such information to suppliers who accounted for a little more than one-fourth of the total market volume (table 6).

#### Commission Charges

Commission rates charged by wholesalers in both markets were higher for selling outdoor than greenhouse grown cut flowers (table 7). Large and medium sized firms in both markets charged higher commission rates for selling outdoor and greenhouse grown cut flowers than the small sized firms (table 7). Also, large and medium sized firms charged the same commission rates in each market with these charges in Chicago a little higher than for New York.



Table 5.--Wholesalers that gave marketing information to growers and suggested the type of information growers could use, Chicago and New York City markets, 1955

Item	Chicago		New York	
	Whole- salers	Whole- salers	Whole- salers	Whole- salers
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Information--				
<u>Given to growers:</u>				
Market conditions with respect to supply and demand.....	4	31	5	11
What they (growers) need....	--	--	9	21
None.....	1	8	17	39
Floral colors, varieties, etc., demanded at the retail level of trade.....	6	40	2	5
Which floral crops are the most profitable for growers.....	--	--	2	5
All specifically requested information.....	4	31	3	7
Outlook on market conditions:	--	--	5	12
Wholesalers reporting....	13	100	43	100
<u>Suggested for growers:</u>				
Growers do not use what information they have.....	--	--	18	42
None.....	5	38	11	26
Consumer preferences for floral commodities.....	8	61	5	12
Improved methods and practices of packing and transporting.....	1	8	3	7
Production practices that will affect the market demand for specific floral commodities.....	3	23	1	2
Education on function of wholesale trade and business costs.....	1	8	3	7
Crop estimates.....	--	--	2	5
Wholesalers reporting....	13	100	43	100



Table 6.--Marketing services wholesalers provided suppliers and percentage of total market volume on which supplied, Chicago and New York City markets, 1955

Type of marketing service	Wholesalers		Total wholesale market volume	
	Chicago	New York	Chicago	New York
	Percent	Percent	Percent	Percent
Transportation	8	0	9	0
Credit	0	12	0	1.1
Market information	69	51	69.7	26.9
Shipping boxes	33	<u>1/</u>	25.6	<u>1/</u>

1/ Not reported.

Table 7.--Commission charges of wholesalers for selling outdoor and greenhouse grown cut flowers, by size of firm, Chicago and New York City markets, 1955

Chicago				
Number of firms	Value of wholesale sales	Weighted average commission		
		Outdoor	Greenhouse	
	Dollars	Percent	Percent	
5	400,000 and over	25.0	18.6	
4	200,000 to 399,000	24.1	18.6	
4	199,000 and under	25.0	17.2	
New York City				
15	400,000 and over	22.4	17.9	
16	200,000 to 399,000	20.4	17.9	
13	199,000 and under	20.2	17.1	

Two explanations for the difference in commission charges between greenhouse and outdoor grown floral commodities are given by Trotter (4). First, this difference is primarily for providing protection to local greenhouse producers against competition from outdoor grown products. Second, it is based on differences in handling cost and quality of product, between outdoor and greenhouse products.

The terms of sale between the wholesaler and the supplier are based on customs, habits, and institutional factors prevailing in the trade and on services rendered the supplier by the wholesaler.

### Accounting and Reporting Methods

In accounting for and reporting to growers on consigned flowers handled, wholesalers generally used a preassigned number to identify each grower's product. Frequently, a combination of the assigned number and the grower's name provided the means of identification. This identification was written on each sales invoice. Then the report of sales which was sent to growers was made from these sales invoices. This settlement report along with the cumulative net proceeds of such sales were sent to growers weekly.

The number of wholesalers in both markets reporting on the sale of consigned floral products and the kind of information given is shown in appendix table 15.

Wholesalers in each market expressed a preference for a grower to identify his commodities by the assigned number rather than by the use of his name. Some wholesalers preferred that both means of identification be used so that a double check on ownership was provided.

### Modes of Transportation Used by Suppliers

The relative importance of the various modes of transportation used to bring floral commodities into the Chicago and New York wholesale markets is shown in table 8.

Trucks were the chief means of transportation to each market. For wholesale growers, this was the major method of shipping. Receipts by air were proportionately larger for Chicago than for New York. The New York market received less by air than by rail. Rail shipments were actually greater for New York than they were for Chicago (table 8). Total receipts by rail in New York were nearly 5 times those for Chicago since the total wholesale value of floral commodities sold in New York during 1955 was a little more than twice that in Chicago.

In both markets, wholesalers frequently selected the modes of transportation when floral commodities were handled on an outright purchase basis. But the quantity of floral commodities so obtained was small: 14.4 and 16 percent, respectively, for New York and Chicago (table 4).

Table 8.--Percentage distribution of wholesale value of floral commodities received by wholesalers, by specified modes of transportation, Chicago and New York City markets, 1955

Mode of transportation	Chicago	New York
	Percent	Percent
Truck:		
Own	2.8	4.4
Hired or leased	69.8	56.1
Total	72.6	60.5
Rail:		
Express	9.0	19.9
Freight	.2	.4
Total	9.2	20.3
Air:		
Express	2.8	2.3
Freight	14.4	7.7
Total	17.2	10.0
Other <u>1/</u>	1.0	9.2
Grand total	100.0	100.0

1/ Other modes of transportation include bus companies, suppliers' and customers' carriers.

### Grading

There seem to be various attitudes in the floral industry on whether or not to have standard grades for floral commodities. These attitudes range from a state of indifference or satisfaction with the current status, to varying degrees of enthusiasm in favor of standard grades (4).

Standard grades for floral commodities have been under consideration in the floral industry for a number of years. At present roses come nearer to being graded on the basis of uniform standards than any other cut flower. Standard grades for most floral products do not now exist.

The existing system of grading or sorting, partially based on subjective values, may be beneficial to some wholesalers and not to others in their marketing operations.

Moreover, a basic economic justification of grades is that they provide a means for buyers to register their preferences more accurately and more effectively. If the grading system is carried back to the producer, buyers are better able to encourage the production of the grades they prefer and to discourage production of less desirable grades (5). According to Dr. Waugh (5), "The right system of grade standards should maximize returns to producers by classifying the product on the basis that most accurately reflects what the buyers want and are willing to pay for."

### MARKET OUTLETS OF COMMISSION AND MERCHANT WHOLESALERS

The proportions of the total wholesale market value sold to each type of outlet in each market are shown in figures 1 and 2 and appendix table 16.

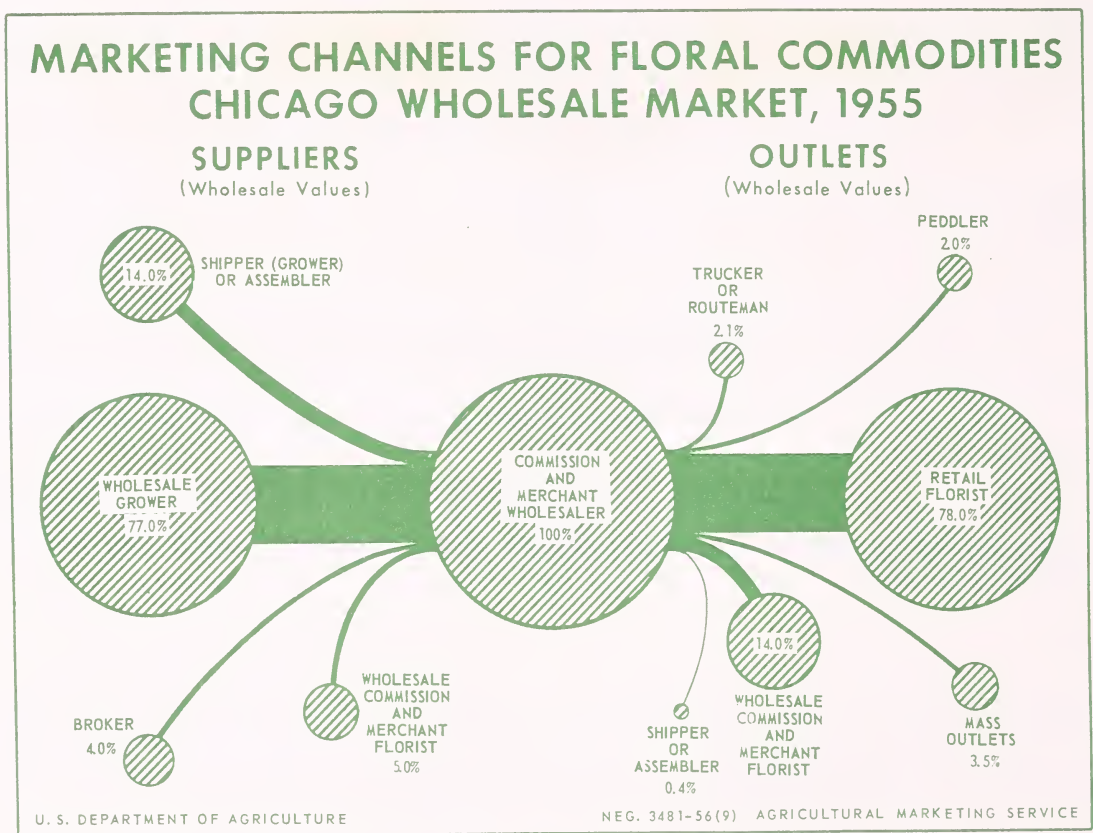


Figure 1

Retail florists were the major sales outlet for wholesalers of all size groups. More than three-fourths of the total wholesale volume in each market was sold to retail florists. Small sized wholesale firms sold a larger proportion to retail florists than did large sized wholesale firms. (Appendix table 17.) In general, large wholesale firms sold a smaller proportion to retail florists than did the medium or small wholesale firms, except the medium sized firms in Chicago. This group sold the smallest proportion of



## MARKETING CHANNELS FOR FLORAL COMMODITIES NEW YORK CITY WHOLESALE MARKET, 1955

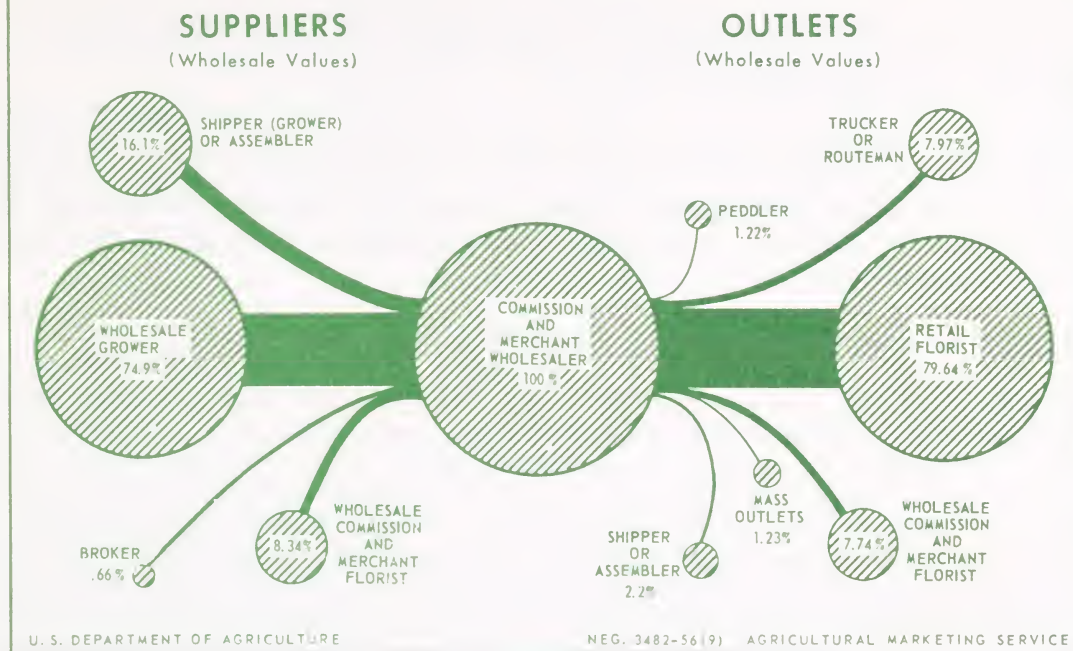


Figure 2

their total volume to retail florists. But these firms (medium sized) provided about 69 percent of the total floral products sold to peddlers in the Chicago market. (Appendix table 18).

In both markets as the size of wholesale firm increased, the percentage of total volume sold to other wholesale firms also increased. Chicago firms, proportionately, sold almost twice the volume among wholesalers as compared with wholesalers in the New York market. (Appendix table 18.) Large sized firms in Chicago and New York City sold 87 and 70 percent, respectively, of the total market volume sold to other wholesalers.

In New York volume sold by wholesalers to truckers was greater than to other wholesale firms. (Appendix table 18.) In Chicago about 92 percent of the wholesale market volume sold to truckers was sold by large firms, in New York about 71 percent. Truckers received about 8 percent of the total wholesale market volume in New York, but only 2 percent in Chicago.

In the Chicago market, all cut flowers sold to mass outlets <sup>5/</sup> by wholesalers were sold by large sized firms. In New York nearly 80 percent of the

<sup>5/</sup> Mass outlets include supermarket, variety, drug, and department stores, one-stop shopping centers, and garden supply centers.



wholesale market volume of cut flowers sold to mass outlets was sold by large sized firms; and medium sized firms sold about 20 percent to mass outlets. Small sized firms in neither market reported any sales to mass outlets. Chicago wholesale firms sold about 1 1/3 times the amount of cut flowers to mass outlets as similar firms in New York.

In Chicago, shippers or assemblers <sup>6/</sup> obtained most of their floral supplies from large wholesale firms; in New York all supplies were from large firms. (Appendix table 18.)

Large sized wholesale firms in the New York market sold 3.3 percent of their total volume to shippers or assemblers. This amount is about 2 percent of the total wholesale market volume. (Appendix tables 17 and 18.) These firms sold more than 11 times the dollar volume of Chicago firms to shippers or assemblers.

Shippers or assemblers usually obtained floral supplies for other markets. Comparing the volume sold to shippers or assemblers by wholesale firms in either market, it is apparent that the New York market served more as a redistribution center than did the Chicago market.

Small sized wholesale firms in the New York market sold the smallest proportion of their total volume to peddlers. Medium sized firms in both markets sold a larger percentage of their total volume to peddlers than the small or large sized firms. (Appendix table 17.) But large sized firms in New York sold a larger volume to peddlers than did the other two size groups combined; and medium sized firms in Chicago sold a larger volume to peddlers than did the other two size groups combined. (Appendix table 18.)

## SELLING METHODS, PRACTICES, AND POLICIES

### Sales Methods and Practices

Means of sale employed by Chicago wholesalers were telephone, salesmen, and standing orders, in that order of importance. In the New York market the order of importance was salesmen, telephone, and standing orders (table 9).

The majority of sales of New York firms were made by inside salesmen while telephone orders accounted for about two-thirds of the sales in Chicago.

Standing orders were used by 54 percent of the firms in Chicago, but by 18 percent of the firms in New York.

Thus in Chicago 76 percent of the wholesale market volume was sold to buyers who did not personally appear in the market. In New York this volume

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<sup>6/</sup> A person or firm who buys on his own account within the local market for sale to another market.

Table 9.--Sales methods of wholesalers for floral commodities by firms, and total sales, Chicago and New York markets, 1955

Method of sale	Firms using specified method of sale		Total wholesale sales	
	Chicago	New York	Chicago	New York
	Percent	Percent	Percent	Percent
Standing orders	54	18	6.7	2.4
Telephone Salesmen:	100	93	68.9	34.7
Inside selling	100	95	22.9	61.4
Outside selling	15	2	1.5	1.5
Total	--	--	100.0	100.0

was 37 percent. Apparently these differences are reflected in the proportions of floral commodities delivered to retailers in each market.

#### Delivery Practices

The proportion of total value of sales delivered to retail florists by wholesalers in Chicago exceeded that of New York. Amounts delivered were 60 percent for Chicago and 50 percent for New York (table 10). Of course in the New York market where a larger proportion of total sales were made to retail florists on the premises of the wholesale firm, fewer floral products were delivered to the retail florists by the wholesaler than in Chicago (tables 9 and 10).

Table 10.--Marketing services wholesalers provided retail florists and the percentage of the total market volume of sales on which the services were performed, Chicago and New York City, 1955

Marketing service	Proportion of			
	Wholesalers		Wholesale value	
	Chicago	New York	Chicago	New York
	Percent	Percent	Percent	Percent
Delivery	100	100	60	50
Credit	69	91	1/	1/
Market information	23	48	1/	1/

1/ Not reported.

Most wholesalers in both markets that sold to retail florists provided delivery services. Practices with respect to frequency, distance, and amount of delivery varied within each market.

Credit Practices and Policies

Chicago wholesalers extended credit to retail florists for a shorter average time period than did New York firms (table 11). Although Chicago wholesalers held a larger percentage of 90-day accounts receivable than New York wholesalers--6.6 and 1.0 percent, respectively--only 38 percent of such accounts were held by Chicago firms for a period longer than 30 days while approximately 82 percent were held by New York firms for that period. Bad debt losses were less than 1 percent of total sales in each market.

Table 11.--Accounts receivable by firms and age of accounts when paid, Chicago and New York City markets, 1955

Age of accounts when paid	Chicago		New York	
	Firms	Accounts	Firms	Accounts
	Percent	Percent	Percent	Percent
Less than 30 days	69	61.9	54	17.5
30 to 60 days	100	23.2	98	67.2
61 to 90 days	85	8.3	86	14.3
More than 90 days	69	6.6	5	1.0
Total	--	100.0	--	100.0

In Chicago 31 percent of the wholesale firms did not collect any of their accounts receivable in less than 30 days; in New York 46 percent of the wholesale firms did likewise.

Since each market operates essentially on a consignment basis with wholesale growers, the amounts and time periods within which accounts receivable were held by wholesalers will influence the ability of the wholesaler to pay these growers.

Centralized location of New York wholesale firms within a relatively small area provided buyers a greater opportunity to "shop around the market" than in the Chicago market where there are three distinct areas. These differences in market location may explain why salesmen sold a proportionately larger volume in New York than in Chicago (table 9).

## CREDIT INFORMATION

Major sources of credit information for New York City firms were the Protective Association and the firms' own records and those of competitors.

Sources of credit information for Chicago firms were the Chicago Creditmen's Association, Dun and Bradstreet, and private sources.



New York respondents, when asked: "Whatever sources you now use for credit information, is this information adequate and reliable?", 44 percent said yes; 56 percent said no. When this same question was asked Chicago wholesalers, 85 percent said yes, 15 percent said no.

Suggestions offered by Chicago wholesalers for improving credit information included: (1) An arrangement wherein buyers who were delinquent in paying accounts would operate on a cash basis for all current purchases and then deposit 10 percent on outstanding accounts, and (2) faster and better reporting of credit information within existing credit arrangement.

Approximately 84 percent of the Chicago wholesalers offered no suggestion for improving their credit information.

New York wholesalers made these suggestions for improving their credit information: (1) Establish and operate a central clearing house for credit; (2) more cooperation among wholesalers and strengthen the existing credit organization; and (3) better cooperation among wholesalers on exchange of credit information.

#### ESTIMATED MARKETING COSTS--MAJOR COMPONENTS

A general idea of the magnitude of the major components of wholesale marketing cost for floral commodities can be gained by considering the proportion of each dollar of wholesale sales spent for specified items. Table 12 shows such a breakdown.

Summary comments on each cost item shown in Table 12 and their sum--total marketing costs--follow.

#### Total Marketing Costs

These costs represent reported expenditures of wholesalers in moving floral commodities between suppliers and buyers or between two classes of markets and among buyers. Transportation usually is considered as a separate item regardless of who performs it. In this study, transportation costs resulting from delivery of floral commodities by wholesalers to buyers were included as a part of the cost data for handling, packing and delivery.

Wholesalers in each market usually specified the mode of transportation for their purchases and assumed the transportation costs. Therefore, transportation costs of some incoming as well as outgoing commodities are included. On consigned commodities the suppliers selected the mode of transportation and paid for it.

Estimated average total marketing cost and the corresponding average commission charges made by each of the three size groups of firms in each market is shown in appendix table 20. These costs for the medium and small

Table 12.--Commission and merchant wholesalers: Weighted average estimated marketing costs as a percentage of sales, by items, specified markets, 1955

Cost item	Chicago	New York
	<u>Percent</u>	<u>Percent</u>
Handling, packing, and delivery expenses	3.90	3.02
Selling costs:		
Telephone and telegraphic services	.81	.81
Travel	.40	.52
Salesmen salaries	4.87	5.60
Advertising (including "allieds")	.29	.41
Entertainment	.26	.64
Total selling costs	6.63	7.98
Materials, packaging	.92	1.45
Other expenses:		
Administrative	4.39	3.04
Occupancy and floor	1.40	1.07
Bad debt	.85	.99
<b>Total marketing costs</b>	<b>18.09</b>	<b>17.55</b>
	<u>Number</u>	<u>Number</u>
Wholesalers reporting	13	43

sized firms in New York were greater than their average commission charges for selling greenhouse grown floral products while large sized firms' average marketing costs were equal to their average commission charges for selling these products.

In Chicago, only the small sized firms had estimated average total marketing costs which were greater than corresponding average commission charges for selling greenhouse grown floral commodities.

Commission charges for selling outdoor and greenhouse grown floral products were higher for each size group in Chicago than New York. But estimated average total marketing costs for each size group of firms in New York were higher than Chicago, except the small sized firms in New York.

The range for each cost item and the total marketing costs obtained for each market studied is shown in appendix table 21. These ranges show the low and high costs for each item. Large firms frequently dominated the low



end of the range of each cost item; small firms dominated the high end of the range, and a few firms in either size group appeared more than once as the end point of different ranges.

### Handling, Packing, and Delivery Expenses

These expenses include costs incurred by wholesalers in handling, packing, and delivering floral products. In both markets, costs of deliveries made by the wholesaler to the buyer were frequently shared by them, since some wholesalers charged their buyers a flat charge per delivery regardless of the size of the order delivered. Resulting income was deducted from the gross delivery cost. Typical charges were \$0.50 per delivery in Chicago. About two-thirds of the Chicago firms made this charge. Data on such charges, if any, were not obtained from New York City firms.

Chicago wholesalers delivered a relatively larger proportion of their total sales to retailers than did New York wholesalers. This difference in practice was reflected in the difference in transportation costs. Depreciation allowances on delivery equipment, when owned or operated by the wholesaler, are included as well as wages and salaries of personnel engaged in handling, packing, and delivery operations. Another form of transportation charges included in delivery costs are cab and car fares.

New York City wholesalers frequently used the transportation services of an independent routeman who made scheduled deliveries throughout the city to retailers. This practice tended to minimize delivery costs of the wholesaler; charges for delivery per order were fixed for both wholesaler and retailer. On the other hand, when the wholesaler operated his own delivery service, the associated fixed and variable costs could not be easily controlled. In cases where a delivery service was used, the wholesaler could decide in advance of the actual delivery whether the value of the order plus the fixed charge made to the buyer, less the fixed delivery charges incurred, rendered the order profitable.

### Selling Costs

These are costs which were incurred by the wholesaler in effecting the transfer of ownership of floral commodities. Such costs include charges for telephone and telegraphic services, travel associated with selling efforts, salesmen's salaries, commissions and bonuses, entertainment expenses generated in selling endeavors, and expenditures for advertising.

The weighted average of these selling costs for the New York City wholesalers was higher than it was for Chicago wholesalers. Salesmen's compensation and entertainment accounted for most of this difference.

Chicago wholesalers' expenditures for advertising averaged more than one-fourth of a cent of each dollar of sales; New York wholesalers spent about four-tenths of a cent of each dollar of sales on advertising.

Cooperative advertising organizations commonly referred to as "Allieds" in the Chicago market area embrace most levels of floral trade. Wholesale growers participating in this organization reported contributions for advertising as one percent of gross sales. This deduction was usually made by the wholesaler when the commodities were sold. Such deductions are marketing costs of the wholesale grower.

### Packing Materials

Considerable variations in cost of packing materials were found among wholesalers within each market but not so much between the two markets. These differences, in the main, can be accounted for by the commodity specialization of the firms. For example, the quantity and cost of packing materials used for orchids or gardenias differ significantly from those used for gladioli or roses. Newspaper is not uncommonly used as packing material for roses while glass orchid tubes and shredded paper are used for orchids.

### Administrative Expenses

Included are costs for managerial, supervisory, and administrative services that are necessary in the operation of the business. These expenses averaged 4.4 cents per dollar of sales in Chicago and 3 cents in New York City.

### Occupancy and Floor Expenses

The weighted average of occupancy and floor expenses for Chicago wholesalers exceeded that for New York wholesalers (table 12). Part of this difference between the two markets was due to the relatively larger establishments in the Chicago than the New York market. Furthermore, occupancy arrangements with respect to whether the buildings in which wholesalers conducted their business was owned, leased, or rented, have some impact on the amount of these expenses; but such conditions were not determined in this study.

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Table 13.--Transportation used by growers supplying the Chicago and New York City market, 1955

Method of transportation	Chicago	
	Growers total supply	Total wholesale market supply
	Percent	Percent
Truck		
Own truck	6.29	3.42
Hired or leased	77.32	42.00
Rail		
Express	.24	.13
Freight	--	--
Total through-		
Wholesale market	83.85	45.55
Other outlets	16.15	--
Total grower marketings	100.00	--
	New York City	
Truck		
Own truck	6.14	2.04
Hired or leased	38.40	12.75
Rail		
Express	--	--
Freight	--	--
Total through-		
Wholesale market	44.54	14.79
Other outlets	55.46	--
Total grower marketings	100.00	--

Table 14.--Sources of supply by size of wholesale firm, Chicago and New York City, 1955

		Chicago					
Size by value of wholesale sales	Firms	Supplier					Total
		Wholesale grower	Shipper or assembler	Broker	Wholesale florist		
	Number	Percent	Percent	Percent	Percent	Percent	
\$400,000 and over	5	69.0	9.0	3.9	3.6	85.5	
\$200,000 to \$399,000	4	6.9	4.6	<u>1/</u>	.7	12.2	
\$199,000 and under	4	1.2	.4	.3	.4	2.3	
Total	--	77.1	14.0	4.2	4.7	100.0	

		New York City					
Size by value of wholesale sales	Firms	Supplier					Total
		Wholesale grower	Shipper or assembler	Broker	Wholesale florist		
	Number	Percent	Percent	Percent	Percent	Percent	
\$400,000 and over	15	51.8	9.3	0.6	5.9	67.6	
\$200,000 to \$399,000	16	17.3	4.8	<u>1/</u>	1.8	23.9	
\$199,000 and under	13	5.8	2.0	--	.7	8.5	
Total	--	74.9	16.1	0.6	8.4	100.0	

1/ Less than 0.3 of 1 percent.

Table 15.--Commission and merchant wholesalers reporting to consignment suppliers, by kind of data given in settlement report

Data	Reports	
	Chicago	New York City
	Number	Number
Kind of commodity.....	12	43
Grade or quality.....	8	41
Quantity:		
Received.....	13	43
Sold.....	13	41
Carried over.....	13	35
Dumped.....	12	35
On hand.....	13	23
Gross prices paid.....	13	42
Commission charged.....	13	43
Advertising charges.....	11	1
Express charges.....	13	43
Wholesalers reporting.....	13	43

Table 16.--Market outlets of wholesale firms for floral commodities, Chicago and New York City, 1955

Type of outlet	By markets	
	Chicago	New York City
	Percent	Percent
Retail florist.....	77.92	79.64
Wholesale florist.....	14.02	7.74
Mass outlet.....	3.50	1.23
Trucker (routemen).....	2.11	7.97
Peddler.....	2.02	1.22
Shipper or assembler.....	.43	2.20
Total.....	100.00	100.00

Table 17.---Market outlets of wholesale firms for floral commodities, by outlets and size of firm, Chicago and New York City, 1955

		Chicago									
		Percentage of total wholesale volume sold to									
Wholesale sales	Firms reporting:	Retail florists	Mass outlets	Truckers	Peddlers	Shippers	Commissioners	wholesalers	assemblers	salers	Total
	Number	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
\$400,000 and over	5	78.3	4.1	2.3	0.6	0.4	14.3				100.0
\$200,000 to \$399,000	4	75.2	--	.7	11.3	.4	12.4				100.0
\$199,000 and under	4	80.4	--	3.6	4.9	--	11.1				100.0
New York City											
\$400,000 and over	15	77.7	1.4	8.3	1.2	3.3	8.0				100.0
\$200,000 to \$399,000	16	82.2	1.1	7.8	1.5	--	7.4				100.0
\$199,000 and under	13	87.5	--	5.6	.5	--	6.4				100.0



Table 18.--Market outlets of wholesale firms for the total market volume of floral commodities, by outlets and size of firm, Chicago and New York City, 1955

		Chicago															
		Percent of total wholesale market volume sold to															
Wholesale sales	Firms reporting	Period in business	Retail florists			Mass outlets			Truckers			Peddlers or assemblers			Shippers or commission wholesalers		
			Number	Years	Percent	Number	Years	Percent	Number	Years	Percent	Number	Years	Percent	Number	Years	Percent
\$400,000 and over	5	3-69	66.90	3.50	1.95	0.52	0.38	12.25	85.50								
\$200,000 to \$399,000	4	2-68	9.21	--	.08	1.39	.05	1.52	12.25								
\$199,000 and under	4	0-50	1.81	--	.08	.11	--	.25	2.25								
Total	--	--	77.92	3.50	2.11	2.02	0.43	14.02	100.00								
		New York City															
\$400,000 and over	15	3-74	52.55	0.97	5.62	0.83	2.20	5.43	67.60								
\$200,000 to \$399,000	16	2-60	19.59	.26	1.87	.35	--	1.76	23.83								
\$199,000 and under	13	0-65	7.50	--	.48	.04	--	.55	8.57								
Total	--	--	79.64	1.23	7.97	1.22	2.20	7.74	100.00								



Table 20.--Average commission charges of wholesalers and marketing costs as a percentage of sales, distribution of sales, by specified groups, Chicago and New York City markets, 1955

Chicago					
Wholesale sales	Firms reporting	Distribution of sales	Commission rate		Marketing costs percentage of sales
			Outdoor grown	Greenhouse grown	
	Number	Percent	Percent	Percent	Percent
\$400,000 and over	5	85.5	25	18.6	17.2
\$200,000 to \$399,000	4	12.3	24	18.6	18.3
\$199,000 and under	4	2.2	25	17.2	20.2
Total	13	100.0	--	--	--
New York City					
\$400,000 and over	15	67.5	22	17.9	17.9
\$200,000 to \$399,000	16	23.9	20	17.9	18.5
\$199,000 and under	13	8.6	20	17.1	19.0
Total	44	100.0	--	--	--

Table 21.--Commission and merchant wholesalers: Range and weighted average of marketing costs as a percentage of wholesale sales, by items, specified markets, 1955

Cost item	Chicago			New York City		
	Range		Weighted average	Range		Weighted average
	Low	High		Low	High	
	Percent		Percent	Percent	Percent	
Handling, packing and delivery expenses	2.30	9.20	3.90	0.02	8.00	3.02
Selling costs:						
Telephone and tele- graphic services	3.30	4.08	.81	.02	1.00	.81
Travel	.01	4.00	.40	.01	2.00	.52
Salesmen salaries	.18	7.00	4.87	.06	14.00	5.60
Advertising (including allies)	.06	2.10	.29	.06	10.00	.41
Entertainment	.08	2.00	.26	.01	3.00	.64
All	--	--	6.63	--	--	7.98
Materials, packaging	0.01	4.00	0.92	0.01	3.00	1.45
Expenses:						
Administrative	1.00	7.00	4.39	.03	11.10	3.04
Occupancy and floor	.24	7.80	1.40	.01	5.00	1.07
Bad debt	.006	5.00	.85	.00	5.00	.99
Total marketing costs	13.07	27.78	18.09	12.00	30.10	17.55





