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COMPETITIVE PRIORITIES AND KEY DECISION AREAS IN THE FLORAL INDUSTRY

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ABSTRACT

The paper examines the application of operations strategy to the Australian floral industry. Interview were conducted with ten flower growers to identify the Key Decision Areas (KDAs) and Competitive Priorities (CPs) that applied and their relationships. KDAs identified were supply chain management, technology, skilled labour, R&D, production costs and control of capacity development. CPs identified were cost, quality, product features and variety, supply capability and vertical integration. The research supported the research propositions that (1) CPs can be identified for the Australian floral industry, (2) certain KDAs can increase CP driven performance in the Australian floral industry and (3) CPs in the Australian floral industry can result from more than one KDA. The findings also suggested transferability of CPs, but not necessarily KDAs across industry sectors with similar environmental conditions. Performance implications for the identified CPs supported organisational growth, although this may lead to improved profitability as the industry is highly fragmented.

Key Words: operations strategy, agribusiness, flower industry

INTRODUCTION

If you went online to order a bouquet of flowers, you would probably find plenty of web vendors wanting to send one to your requirements. The $1.1 billion [1, 2] Australian floral industry is blossoming with new competition and several new major entrants have joined the race to bring fresher flowers. Globally, the industry is growing rapidly as well as being transformed by global competition forces [3]. The Australian floral industry faces many challenges, such as being fragmented, experiencing resource shortages (eg water and skilled staff), requiring typically two years to change production (as new plants are established) and utilises a range of distribution channels including direct sales, supermarket chains and independent florist sales. This article focuses on using operations strategy to improve the performance of the Australian floral industry. Many authors (such Slack et al) have identified production strategy considerations that may apply to the Australian floral industry, which will be considered in this paper. This research identifies and evaluates Competitive Priorities (CPs) for the industry such as price, cost, quality, product features and supply control and flexibility [4] and Key Decision Areas (KDAs) that may influence these, such as R&D, labour skills, production planning and control, capacity and technology. The correct management of KDAs can help organisations improve their CP performance and increase their competitiveness [4]. The context for CPs and KDAs will now be considered, followed by an analysis of in-depth interviews conducted with retailers and growers in the Australian floral industry to identify how they CPs and KDAs to this industry.
LITERATURE REVIEW

A number of areas of Agribusiness, such as marketing, have been well researched. Little research, however, has been conducted to determine whether operations strategy approaches can be applied to agricultural businesses. The general business literature strongly supports the relationship between operations strategy and business performance (revenue, profitability and growth/longevity), although it is less conclusive in regard to small business financial performance (remaining conclusive, however, in regard to growth and longevity) [5-13].

The relationship between KDAs and CPs is an important strategic concept for processing organisations, such as agricultural businesses, because of the high level of capital investment in land and equipment and the impact of controllable factors such as production planning. This project is intended to extend operations strategy theory into this area. It is expected that this type of research will stimulate further development of this discipline, Demeter which is strongly called for in the literature [14-20].

Operations strategy has focused on theory development for the last 50 years. The practical application of theory has been shown to provide significant benefits to the manufacturing industry [21]. There still remains a need, however, for more empirical research to stimulate further theory development [22]. In addition, whilst empirical research has been conducted in its application to the service industry, it is quite limited compared to the research which has been conducted on the manufacturing industry. The research discussed in this paper considers both production and retail (as they are integrated in this industry) and so provides an interesting comparison of the interrelationship of the KDAs across the two aspects of this industry.

The paper integrates empirical investigation with a contribution to theory extension of the literature by examining the research question; "Can the concept of KDAs and CPs be used to focus strategic decision-making for increased organisational performance in the floral industry?". The floral industry was selected for this research because it is a significant and developing area of agriculture in Australia and is clearly bounded, making it an ideal research target. This paper will now review the contemporary literature pertaining to CPs, KDAs and operations strategy, along with the very limited literature linking it with the agricultural industry.

Floral industry research

No floral industry operations strategy research was identified, however, some related research was identified. A number of recent articles identified the importance of the floral industry to developed as well as developing countries, especially China [23-27]. A recent paper investigating supply chain management in the Dutch floral industry found that trust and coordination were major success factors for the relationship between retailers and floral growers. Information also appears to have a moderating role in the success of these relationships [28]. Interestingly, trust and coordination were also found to be important factors for success in the Kenyan cut floral industry [29], whilst another study examining the relationship between African flower producers and European flower wholesalers found that trust and information were again the basis of success in these supply chains. This research suggests that competing in the global
floral industry requires relationships [28], scales of economy [3] and good information management to successfully control the production control process [30]

**Competitive Priorities**

CPs are the outputs of a process that create a competitive advantage. Consequently, they are a key focus for a company's operation management; defining the critical characteristics of the process that will lead to a competitive advantage. The strong relationship between the organisation's environmental conditions and the CPs which apply mean that there may be a high level of consistency across industries experiencing the same environmental conditions [31, 32]. In an industry such as the floral industry, the retail nature of the product and medium levels of industry rivalry suggests that the most commonly identified CPs such as cost, quality, delivery and supply flexibility would apply. Garvin suggested that these CPs would lead to a focus on improving operations to reduce costs (including inventory levels); focusing on both product and service quality development; creating flexible production plans; reducing delivery times and innovation in products, services and production processes [33].

Zhao and Zhou supported the applicability of these CPs and extended them to the international arena by noting that fierce competition in today's global markets has forced organisations selling internationally (part of the Australian floral industry exports products) to improve their cost, quality, delivery, new product introduction speed, customer services and innovation capacity, in order to be successful [34].

Prior operations strategy research into the Australian wine industry determined that cost, quality, delivery and supply flexibility apply to this agricultural industry, although the retail side is much less developed. This research also identified the CPs market scope and supply dependability (for wine production) which may also apply to the floral industry [35].

In the floral industry, delivery reliability and transit time are important factors [36], which require capabilities in production and planning. They can also be improved by shortening the supply chain, which has the added advantages of improving quality and reducing costs by enabling the organisation to ship directly from the grower. Buying directly from growers also has a positive impact on costs. Typical supply chains in industry include markets, transporters and agents.

Service is another factor that is becoming important in the floral industry; including after sales services, product availability and products designed to meet different customers' needs [37]. Gerald Stevens, a US floral firm worth $110 million at its peak, competed on the basis of an integrated supply chain, economies of scale and a range of service features such as call centres, catalogues and websites. Gerald Stevens' founders claimed that this approach was successful because of the fragmented nature of the industry in the US [38] (the Australian floral industry is also similarly fragmented). Despite their success and rapid growth over a 10 year period, the company collapsed in 2001 due to its inability to compete with the lower costs achieved by online flower vendors [39]. In a similar manner, current changes in customer preferences have resulted in a big decline in the German floral industry [40].
Key Decision Areas

Once the CPs have been determined for the particular industry, the organisation then needs to control its operations to maximise performance in the production outputs. An organisation is unlikely to be successful unless appropriate operating decisions are made [41]. KDAs are the operational aspects upon which the organisation should focus to maximise its performance in its CPs. The effectiveness of an operations strategy is generally determined by the degree of consistency between CPs and corresponding KDAs [42]. The difficulties most organisations face, however, is in identifying which KDAs apply to which CPs, the relative contribution a KDA can make to a given CP, the interactivity between KDAs and CPs and the competition for attention from other aspects of the organisation due to ownership, regulation, historical behaviours and culture.

Empirical research has identified that a focus on the KDAs of the production process, capacity, technology, planning and control generally improved performance in important CPs, such as cost and quality [41]. Orr’s research into the Australian wine industry determined that important Australian wine industry KDAs included quality control/assurance, top management involvement, communication and product design [35].

Hayes and Schmenner and Hayes and Wheelwright identified the KDAs of production volume, sources, specifications, availability, geographical location, distribution channel, lead-times, standardization and handling, which are also likely to contribute to the floral industry CPs, such as cost and supply dependability [43, 44].

Operations Strategy

Operations strategy (the strategic use of KDAs to improve CP performance in support of corporate strategy) is a logical fit with the floral industry because of its long-term planning perspective [45-47] (changes to products, capacity and supply characteristics take a minimum of two years in this industry) and attention to the effective management of valuable resources (land, equipment and distribution networks). Furthermore, most flower growers and retailers have a strong sense of identity (for example Australian tulip producers associate themselves solely with tulips which has been successful strategy) [48] and which fits well with the operations strategy objective of achieving a “unique positioning of a company in the market” [49].

Business strategy can be categorised according to the three levels; corporate, business unit and functional [50]. Operations strategy is most concerned with the functional level strategy by determining how functions such as marketing, sales, manufacturing, research and development and finance contribute to the organisation’s competitive advantage. Operations strategy supports functional level strategy and ultimately contributes to the corporate strategy objectives [50-52]. The use of operations strategy can create a competitive advantage (the ability of a firm or industry to achieve a better profitability (or stakeholder return) performance than its rivals)[53].

The foundations for CPs are usually set at the corporate strategy level and represent objectives for the businesses functions. In this regard, CPs are really the mechanism for the linkage between operations strategy and corporate strategy identified by Skinner [52]. In addition,
however, they provide the broad direction for the paths the organisation can follow to maximise competitive advantage by emphasising particular KDAs on which the business functions can focus (e.g. a CP of product cost suggests a focus on the KDAs of purchasing, production and inventory control). A TOWS (threats, opportunities, weaknesses and strengths) assessment of these KDAs can enable the operations to respond to performance demands in particular CPs. More importantly, however, it can also be used to proactively plan for KDA maintenance and development [4]. This will help the organisation to secure its competitiveness in the face of changing environmental conditions which may affect the contribution of specific KDAs to the organisation’s CPs.

The Australian wine industry bears similarities to the Australian floral industry, being another agricultural industry, with origins as a fragmented industry (consolidation through acquisition has recently changed this), advantages from Australian geographical characteristics (such as a suitable climate for flower production and fertile soils that promote the production of quality flowers) and the production of perishable luxury products. Also, both these sectors support a similar customer base and experience similar pressure from imports [35, 36]. A previous major Australian wine industry research project [35], which used multiple data collection and analysis methods, offers a good basis for comparison of findings with this floral industry research. The wine industry research determined that the KDAs of quality control/assurance, top management involvement, communication and product design contributed to the CPs of product cost, quality, market scope, supply dependability and supply flexibility. It is therefore possible that these KDAs contribute to the floral industry. Commonality between CPs and their associated KDAs in research findings across two agricultural industries would provide further evidence of the value of operations strategy for the agricultural industry. This research project will examine the generalisability of its findings in this regard.

The current project aims to create a pathway for the well-established operations strategy research discussed above to be applied to agricultural industries such as the floral industry, as a basis for decision-making. The research will evaluate the existence of identifiable CPs and KDAs in the industry, as well as their relationships and the generalisability of these findings for application in other agricultural industries.

**RESEARCH METHODOLOGY**

As the project is concerned with collecting empirical evidence to support the applicability of the operations strategy constructs of competitive priorities and key decision areas to a sector of the agricultural industry, a positivist research approach was adopted. Evidence collected to demonstrate the value of operations strategy for this sector will establish a basis for the development of operations strategy constructs from this industry in future research. This will require statistical data collected from a national survey which will form the second stage of this research.

With this objective in mind, the lack of research focussing on these important operations strategy constructs in the literature that applies to agriculture in general and the floral industry suggests testing the research propositions:

P1. CPs can be identified for the Australian floral industry
P2. Certain KDAs can increase CP driven performance in the Australian floral industry  
P3. Interactive relationships exist between KDAs for the Australian floral industry  
P4. CPs in the Australian floral industry can result from more than one KDA

As the purpose of the project was to identify the appropriateness of operations strategy for this industry, a research protocol providing rich data and good response rates was selected. Advice from floral industry researchers suggested that response rates for questionnaire based survey protocols would be too low to be useful, so an interview protocol was developed. Ten flower growers/retailers were selected randomly from an industry directory and approached by phone with e-mail follow-up. All ten agreed to be interviewed, although one later withdrew and was replaced by another randomly selected organisation from the same database.

The interview guide included a section collecting demographic characteristics of the interviewees so that similar responses could be compared on the basis of organisational characteristics. This was followed by a section addressing the rebate is for competition in the industry so as to identify any CPs (dependent variables) that were not apparent from the literature review. The next section asked the interviewees to identify CPs that were significant to the industry in their experience. This was structured in the interviews under a Porter’s five forces framework to emphasise the connection with industry competitiveness and avoid the inclusion of unsupported priorities. A list of CPs drawn from the above review was provided to stimulate this process. Interviewees we asked to identify the relative importance of the CPs they identified (although all were unable to give them an absolute ranking). KDAs were assessed in a similar manner, utilising a weakness/strength framework to ensure only supportable KDAs were included. The interviews concluded with a consideration of CP and KDA development that the interviewees thought would strengthen the industry in the future. This information was used to allow for different or short term perspectives in the responses.

The data were transcribed and categorised under identified CPs, KDAs and future development of both, with an overlay of the relevant Porter force (CPs) and strength/weakness (KDA), together with appropriate examples to provide context and appropriate qualifications. Themes were then identified using a hermeneutic [54] and interpretivist analysis [55] of this data. An industry report was then produced and returned to participants to validate the findings.

FINDINGS

Industry Overview

The industry is fragmented (which is not uncommon amongst flower growing countries [56]) and distributed across Australia with a particular concentration of organisations in Victoria. Large volume, low cost production goes to the supermarket chains through major distribution companies with contracts with many growers. This relatively recent development has transformed the industry in many countries [3]. The remaining sales occur through florists which might be outlets of growers or independent florists who purchase their flowers at wholesale markets. Only $295 million of the industry’s revenue is generated from flower growing [57]. Four areas were identified as strengths by the participants - the quality of the products grown in
Australia, production volumes and supply dependability resulting from technology capabilities in irrigation and the use of the internet for sales.

Australian professionally trained florists were regarded as having an advantage over other countries because Australian florist courses encouraged creativity and thus improved the quality of presentation through design. The respondents reported that climate and soil conditions allowed Australian growers to produce sufficient quality flowers to meet much of the domestic market demand; however, this sometimes resulted in an oversupply of some varieties and corresponding product wastage.

Technology was considered to be important with one respondent noting that the most successful retailer in the industry utilised the Internet at each of its points of sale. Another respondent claimed that generation X’ers preferred to use the Internet for flower shopping. Irrigation technology was a particularly important strength at present due to the current drought, although the Australian industry was identified as being weak in horticultural technologies overall, relative to New Zealand. Recent developments such as the production of genetically disease resistant flowers in the US, further support the importance of technology in the industry [58, 59].

Costs of transportation to major markets in Europe was an issue that the industry had not yet developed a solution and coordination between flower growers needed to be improved and some growers produced varieties that suited their processes rather than matching production to market demand.

**Key Decision Areas**

The KDAs identified by the respondents revolved predominantly around the area of production and distribution control, with the exception of R&D. The six KDAs identified were:

- *Supply chain management and breadth* – the respondents noted the importance and high costs associated with transportation from Australia, compared to transportation over similar distances from countries in regions such as Europe [3]. Inventory turnover in this industry can be as short as 2-3 days [25].

- *Technology* - the respondents indicated that technology was important in dealing with environmental factors such as drought (through irrigation techniques) [59] information management [60] and in facilitating flowers sales in competition with substitute products such as chocolates.

- *Skilled labour* - the respondents suggested that more than half of the industry is unqualified and that there is a skilled labour/knowledge shortage limiting production, particularly in retail. European countries produce very high quality flowers (although their florists are not as good at creating arrangements) as a result of their higher levels of skill and training.

- *R&D* - The respondents noted that most of the product development work occurs in Europe. Very little constructive research was identified, although, the CSIRO and the Department of Agriculture moderately active in this area.

- *Production cost control* - products produced in undeveloped countries can be imported into Australia at competitive prices because of the significant labour cost component. This is a
major reason for the success of flower exports from South America [3, 61, 62] and South Africa [26, 59, 63].

- Control of capacity development - overcapitalisation was identified as a real potential risk when chasing markets. The requirements of major potential markets, such as the Japanese market, were poorly understood.

Competitive Priorities

The CPs identified by the respondents were fairly consistent with those which apply to most industries with the exception of vertical integration which in this industry, because of its relative simplicity, provided producers with access to better information and higher overall profits. The five CPs identified by the respondents were:

- Cost – Internet-based sales are reducing costs by providing access to local florists. Supermarket sales are increasing dramatically, despite their lower quality because of the lower costs resulting from the supermarket chain’s buying leverage [59].
- Quality – although identified as a differentiator to low-cost sales and imported products, little evidence was provided by the respondents to indicate how this created an advantage.
- Product features/variety – The production of Australian flowers is an advantage because of their limited availability from overseas, although the respondents suggested that the range was a bit small.
- Supply capability – The ability to supply is highly dependent upon seasonal conditions. 24 hour operation provides a significant advantage to retail sales. Consolidation in the industry is also apparently increasing this capability.
- Vertical integration (wholesale and retail) – despite the advantage of access to valuable market information and ability to plan and retail appropriate production in an otherwise fragmented industry from operating retail and supply, the respondents indicated that an increasing number of people were entering the retail side of the industry from outside the industry and are taking advantage of this CP.

DISCUSSION

These findings have indicated the Australian floristry’s main strengths were its production volume/quality capability for the domestic market. This was enhanced by the industry’s use of technology to expand client markets and improve irrigation. A need to advance horticultural technological skills was apparently required for the industry to compete internationally.

Significant production planning weaknesses were the tendency to oversupply which resulted in waste, a lack of variety of product available domestically (which forced buyers to shop internationally for alternatives) and a lack of cooperation at the grower level (preventing the reduction of export costs and an opportunity to use the oversupply of flowers). The industry only exports 5% of cut flower production by value [57]. If production control and international marketing are improved, opportunities include the exporting of high quality natives and peonies to Asia and increased industry coordination (possibly sponsored by a levy and controlled at a government or the industry association level).
Increased R&D should be focused on increasing the life and maintaining the quality of flowers during export transportation, identifying varieties suitable for hydroponic production (continual production), the development of hybrids for exporting and increasing the range of domestic varieties to improve competitive advantage. An improvement to control of the domestic and international supply chain would also reduce costs and encourage loyalty, in the face of the biggest threat – low cost imports. The lack of skilled labour (and industry regulation) was also a KDA on which the industry did not focus sufficiently and impacted on the CPs of quality, product features and supply capability.

The research found that supermarkets affected the lower end retailers. Substitute products such as chocolates and silk flowers were considered to be a problem, which could be controlled through better R&D and industry coordination. Participants indicated suppliers generally valued consistency of orders and loyalty where buyers valued variety, discounts, quality of product and service, as well as consistency in these areas, including attention to detail in the product.

The lack of coordination evidence in the industry and apparently poor understanding of the relationship between KDAs (such as developing a technological capability in hydroponics) and the competitive priorities that they required to be successful, along with an apparently weak understanding of the international market (for example, the suggestion that occasional excess production could be sold overseas if export markets were better developed), indicates a lack of maturity in the industry and the need for much tighter management and business development frameworks. Further research identifying split between the CPs and associated KDAs for the domestic and international markets would be a valuable extension to the research.

It is difficult to identify the value chain of the industry from the research conducted to date and this should be a focus for future research in the floral industry. The research does suggest, however, that the major value chain items that the industry focussed on were production and marketing, with little attention to sales (in the Dutch floral industry, Dutch Auctions are used to create a significant profit extensions [30]), R&D (in the Californian and Dutch industries, product life is extended using technology [31]) and after sales service (in the Californian industry, after sales service is a major competitive tool [60]). These last areas would be an important focus for future industry CP development. The evidence above will now be used to examine the research propositions:

P1. CPs can be identified for the Australian floral industry - this was supported by the identification of five strongly supported CPs in this research.

P2. Certain KDAs can increase CP driven performance in the Australian floral industry - this was supported by the finding that KDAs, such as supply chain management and technology management were found to drive CPs such as cost and supply capability. Other KDAs, such as R&D drove the CP of product features and variety.

P3. Interactive relationships exist between KDAs for the Australian floral industry - insufficient evidence was identified to support this proposition. The KDAs identified were fairly independent with the exception of skilled labour and technology which would have overlapped into the other KDAs to some extent. The respondents did not identify this extent.
P4. CPs in the Australian floral industry can result from more than one KDA – this proposition was supported by the research, for example, it was found that the CP of product costs was positively affected by the KDAs of supply chain management and production cost control.

To identify the generalisability of the findings (and as no KDA/CP research that applies directly to this industry was identified in the literature review), these results were compared with those from prior research conducted in the wine industry. Of the KDAs identified in the floral industry research, only design and possibly some aspects of quality control (comparable to aspects of supply chain management and capacity development) applied to both industries, out of the total 10 combined KDAs identified for the two industries. The CPs, on the other hand, mapped extremely well between both industries - four out of the six CPs identified applied to both industries. Only the CP of market scope applied to the wine industry and not the floral industry and the CPs of product features and vertical integration applied to the floral industry and not the wine industry. Interestingly, the floral industry KDA of supply chain management would have reflected an improved performance in the wine industry CP of supply dependability and flexibility.

This suggests an extension to the four original propositions which is also supported by these findings - that similar environmental conditions between sectors of an industry can result in the identification of similar CPs for those sectors. Four of the six CPs identified in the current Australian floral industry and prior wine industry research mapped onto one another. This suggests that CPs identified in research for one industry may be transferable to a different sector of the industry if it experiences similar environmental conditions.

The difference in the KDAs identified for the two industries, despite the similarities in CPs, suggests that these two industries had a very different ways of achieving their CPs and that KDAs are much less likely to be transferable between industries. This would reflect the difference in the operational characteristics of these two sectors of the agricultural industry, in particular, their relative maturity and understanding of the relationships between KDAs and their CPs. For example, technology is very highly developed in the Australian wine industry and provides little basis for a competitive advantage between companies operating in that industry [35]. On the other hand, the current research indicates that technology was not very well developed in the Australian floral industry. Consequently, whilst the development of technology in the Australian floral industry has the potential to provide a competitive advantage, there is little scope for its development to provide further competitive advantage in the Australian wine industry.

The focus of the CPs on cost, quality, features and internal capabilities suggests a fairly broad organisational performance implication if organisations in this industry leverage the identified KDAs to improve these. Improvements in cost, quality and features are likely to increase sales volumes, leading to a potential for organisational growth. Improvements in internal capabilities are likely to support this growth (by providing the increased capacity and ensuring supply and distribution).
Whilst the identified CPs appear not to address profitability directly (except, perhaps, for cost), the fragmented nature of the industry would probably mean that growth in most organisations would lead to scales of economy that would also improve operational efficiency. Given the concerns for competition with imports from lower labour cost countries, the focus on CPs that lead to growth may reflect a desire to protect and develop profitability through increased efficiency. This was not directly identified by the respondents, although the considerable capital investment flower grower has means that exit barriers for this industry would be quite high and so sustainable, profitable operations would be a very high priority.

CONCLUSION

The study has shown that the CPs in the floral industry are similar to those that could be expected for most industries operating in a similar environment, although two CPs that applied to the floral industry only, vertical integration and product variety, are a reflection of the fragmented nature of the industry. This finding reflects the fact that organisations in this industry frequently sell directly to individual customers and that the product itself is a discretionary and more emotively driven (possibly even artistically) driven purchase than, for example, consumer products.

The research supported three of the four research propositions, namely that CPs can be identified for the Australian floral industry, certain KDAs can increase CP driven performance in the Australian floral industry and CPs in the Australian floral industry can result from more than one KDA. Insufficient evidence was identified to support the proposition that interactive relationships exist between KDAs for the Australian floral industry. Performance implications for the identified CPs supported organisational growth, although this may lead to improved profitability as the industry is highly fragmented.

The research also indicated that the KDAs that applied to the Australian floral industry were quite different to those that applied to the Australian wine industry. Furthermore, the management and the understanding of the identified KDAs were apparently quite poor, despite the recent awareness of the importance of the CPs that they supported. This indicates a potential for achieving greater competitiveness in parts of the floral industry, particularly for the companies supplying the supermarket chains by focusing on the identified KDAs of supply chain management and possibly production costs. This leaves the KDAs of labour skill, R&D and capacity control as other areas where future capability development should be focused by other sectors of the floral industry.

Further development of the operations management process, and particularly, the utilisation of an operation strategy recognising the concrete relationships between KDAs and CPs in this industry may enable it to counter the identified threat of imported products, particularly countries such as Europe and New Zealand possessing a greater skill base and where the CPs of product costs is not an outweighing factor.

Further research into this industry is required to refine the identified relationship between this industry's KDAs and CPs. Funding support from some of the major companies in the industry would enable a national survey to be conducted to collect qualitative data on the relationship
between the identified KDAs and CPs. This data could then be analysed using structural
equation modelling techniques to identify the relationships.

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