

**MARKETING OF TEA: STRATEGIES FOR
INDIAN TEA INDUSTRY**

by

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ABSTRACT

The Indian Tea Industry is facing a crisis in the context of the collapse of USSR, who were the major buyers of Indian Tea. This paper analyses the demand for tea in the domestic as well as international market. The export potential for tea is analysed regionwise for several groups of countries. Similarly, the domestic demand is also analysed in terms of packaged and loose tea. Based on this analysis, strategies have been suggested for domestic and export marketing.

INTRODUCTION

Tea is the cheapest hot beverage popular worldwide. is consumed by people belonging to all age groups across all income categories in a number of countries. It has been estimated that about 3 billion cups of tea are consumed daily worldwide.

Brought about a century and a half ago from China, tea to-day occupies a very prominent position in the economy of India. About 750 million Kg of tea is produced in India every year from an area of 4,15,000 hectares spread over North India, North-east India and South India. The tea industry contributes Rs. 3000 crore to GNP and more than Rs. 1000 crore to the foreign exchange earnings.

Although the Indian tea industry continues to occupy a pre-eminent position in the world tea scene and in the national economy, tea industry is currently facing a crisis due to the dissolution of Soviet Union which used to buy up roughly one-sixth of the total tea produced in the country, about 100-130 million Kg annually. Incidentally this accounts for 60% of our total exports of about 200 million Kg.

Efforts are on to find new markets and also to persuade the republics of former Soviet Union to lift tea from India. If the tea prices crash further, it may result in the producers reducing their inputs hampering the productivity increases in the next few years. Is this a passing phase which would ease out soon or do we need to work out long term strategies to tide over this situation? Was it in the first place, reliance on a single market for 60 per cent of our exports, an appropriate strategy? Why is it that our share in the world market has declined from about 45% in 1950 to as low as 18% in 1990?

In order to answer questions such as the above we need to develop insights about tea marketing which cannot be obtained without an understanding of the global market for tea, as changes in the tea consuming countries as well as exporting countries can have an impact on our tea prices and the tea market.

MAJOR PRODUCERS

The major players among the tea producing and exporting countries are India, China, Srilanka and Kenya which account for 65 - 70% of the world production of tea. Table 1 Gives the production figures of these select countries.

Table - 1
Production of Tea

(Calender years)	(in Million Kg)			
	1960	1970	1980	1989
Country				
India	321	419	570	684
China	--	--	303	535
Srilanka	197	212	191	206
Kenya	13	41	89	180
World	--	--	1848	2444

Other countries that produce tea are Indonesia, Bangaladesh, Uganda, Tanzania, Malawi, Zimbabwe, Taiwan, Japan, Former U.S.S.R., Iran, Turkey, Malaya, Vietnam, Argentina, Brazil, Papua New Guinea and a few others. The global tea production during the 70s and 80s reveals a compound growth rate of 3.68% per annum. However Kenya and China have much higher growth rates of 7.94 and 7.50 respectively, while India has a growth rate of only 2.38%. With these growth rates, it can be forecast that the world production will touch about 3820 million Kg by the year 2000 and the shares of India, China, and Kenya are likely to be about 900, 450, 1250 million Kg respectively.

PRODUCT-MIX

Orthodox, Green and CTC are the three different types of tea that are produced in various parts of the world. India produces both Orthodox and CTC varieties of tea. China produces mostly the Green variety of tea. Recently, China has also started producing Orthodox tea for export purposes. Srilanka produces mostly the orthodox variety of tea. Whereas, the African countries produce only the CTC tea. The percentage shares of Green, CTC and Orthodox varieties in the total production of tea are about 26, 24 and 40 respectively. The percentage annual compound growth rates in the production of Green, CTC and Orthodox varieties of tea are 4.93, 4.60 and 2.29 respectively.

EXPORT MARKET - MACRO LEVEL TRENDS

World exports of Tea has increased from 529 Million Kg in 1960 to 1010 million Kg in 1990. During the 70s and 80s the global exports of tea have increased at a compound growth rate of 2.26% per annum. The corresponding growth rates for Green, CTC and orthodox tea exports are 3.24, 2.25 and 2.15 respectively. Hence the CTC exports are declining while orthodox and green tea are on the upward trend. The relatively slower growth rate in exports as compared to the 3.68% growth in production of tea per annum, is attributed to rapid rise in the domestic consumption of some of the tea producing countries like India. The general phenomenon that can be observed in almost all tea producing countries is that the growth rate in tea production is lower than the growth rate

in the retention of tea for domestic consumption. This phenomenon will lead to reduced supply relative to the demand in tea importing countries.

The area under tea has been increasing at a compound growth rate of 0.69% only. Growth prospects in China with nearly half the world's total tea acreage appears to be bleak as it produces only about 20 percent of world output as its average yield nationwide is only 498 kg/ha in 1990. This compared with India's average yield of about 2000 kg/ha in 1990 is very low and the prospects of revival are remote. Hence the global demand for tea is likely to exceed the global supply of tea over the years and the tea prices are expected to increase.

EXPORT MARKETS - CLASSIFICATIONS AND CHARACTERISTICS

The global tea market can be broadly classified into the following areas or categories.

1. The 'internal' markets in all producing countries
2. The United Kingdom and Western Europe
3. Russia and Eastern Europe
4. The Middle East
5. Miscellaneous markets (USA - Japan - Australia)

Let us consider them one by one.

1. In 'internal' markets the consumers mostly drink that country's tea although this could change in future years.

2. The UK where 85% of consumption is tea bags the main requirement is CTC tea and the grade used are pekoe fannings and pekoe dust. The balance 15% is accounted for by speciality tea.
3. In Russia and Eastern Europe where tea bags are not yet very popular, the main requirement is orthodox tea.
4. The major requirement in Middle East is also orthodox tea. Certain gulf countries import tea of the highest quality and certain others use green tea and CTC. The demand for CTC is growing.
5. In the last category of miscellaneous markets no clear pattern can be identified and the countries concerned import variety of teas.

Now we shall look at the individual markets in a little more detail.

UK AND WESTERN EUROPE

UK is a stable market and London remains an important and vital tea centre. Tea consumption has declined slightly over the years but following the energetic efforts of the tea council of which India is a member and the promotion conducted by large tea companies the per capita consumption has stabilised at just under 3kg. This is a satisfactory achievement when one considers the aggressive efforts made by other producers of beverage products like coffee, soft drinks etc. to increase their share of this important sector of the market.

What is significant however, is that the import of tea from India into the UK has declined from 134000 tons in 1940 to 24300 tons in 1990.

Exports from India to other countries have increased during this period but this decline of exports to the UK will clearly illustrate the ever changing movements in world trading patterns and highlights the importance of maintaining export markets once they have been established.

The UK tea market is now mainly in tea bags which account for nearly 85% of the market. The packing of tea is undertaken by a number of old established companies such as Brooke Bond, Typhoo, Lyons and so on and the retailing done mainly through supermarkets. It may be necessary to get an insight into this important sector and the various steps which have to be undertaken to put packet of tea on a supermarket shelf.

It is important to recognise that the UK is a terminal market and that teas from numerous countries are available. This is an underlying strength of the tea trade in the UK. This ability to purchase teas from many different sources for blending purposes does not exist elsewhere.

In broad terms therefore 85% of the UK market is covered by tea bags and the balance 15% of the market taken up by speciality teas. A large proportion of this is Earl Grey and China tea and this market also absorbs a small percentage of

flavoured tea. Flavoured teas are becoming more popular particularly with the younger generation and over 65 flavours are now available and one of them is a coffee flavoured tea. But these flavoured teas form only a very small percentage of the market.

Hence, basically to exploit the potential in UK Markets the exporters of India should work in collaboration with the blenders and tea bags manufacturers and marketers. Though India is not in a position to carry out large scale promotions and enter the field of brand marketing in UK, it should not be difficult to get into supply arrangements with blender in UK.

The other West European countries like Germany, Holland, France and Ireland have a good potential and they import about 60 million Kg. per annum, but India's share is just 10 to 15 percent. India should make efforts to tap the potential in these countries.

RUSSIA AND EASTERN EUROPE

The political changes in the erstwhile Soviet Union has adversely affected Indian Tea exports. The significant change that has happened is only the disintegration of Soviet Union into several countries. Prior to disintegration, the country was consuming 350000 tones of tea, out of which nearly 200000 tones were imported from India, China, Sri Lanka, Indonesia and Turkey. Of course, India's share was the largest from among these countries.

Probably one has to wait and see, since Government of India is in the process of establishing trade relationships with the several countries in the former Soviet Union. Depending upon the political and economic stability in these several nations, Indian tea industry will have to evolve strategies. As the potential still exists, now the efforts have to be put in with several nations. May be in a couple of years' time the position will become clear. It has to be kept in mind that the demand in Russia is predominantly for orthodox tea.

Poland where the economy is more buoyant is the only other country in Eastern Europe where tea is a popular drink. The consumption is slowly increasing and currently is of the order of about 30000 tons a year out of which India provided 7000 tons. This country also consumes orthodox tea. This is a growing market as the economy is improving and one in which Indian producers should try to increase their share. The other countries in Eastern Europe drink little tea and a few statistics are available.

EAST AFRICA AND SRI LANKA

These regions are mainly competitors to India. They also export good quality tea to countries like UK, Germany and others. The advantage these countries have over India are their good quality and higher yields. This would give them a price advantage. There are also efforts going on in East African countries to increase production by going in for best clonal teas. Many countries in this region adopt mechanisation in

cultivation and harvesting which gives them cost advantage. Sri Lanka, which almost exports 90% of its production, is presently in the process of privatisation of tea gardens. This would be an excellent step benefiting Sri Lanka in terms of better management, planting high yielding varieties and achieving higher yields. The quality of Sri Lankan teas is excellent and is in great demand.

India should also try to adopt efficiency measures in tea production both in the field and factory, so that we can compete effectively in the international market.

MISCELLANEOUS MARKETS

Countries like USA, Japan and Australia are classified as miscellaneous markets, as they consume much less tea compared to the European Countries. These are somewhat unexplored markets by Indian tea.

The present crisis in Russia should force the Indian tea industry to look for these non traditional markets. This requires greater effort and support from the government. It is very much necessary to explore the possibilities of exporting tea to these countries, irrespective of the developments in trade with the erstwhile Soviet Union. Primarily, we must get as much information as possible about the tea drinking habits in these countries and suitable strategies have to be evolved. In the present context, this could be a worthwhile challenge for the tea industry in India.

THE DOMESTIC TEA MARKET

India's domestic tea market has been estimated to be growing at the rate of 3 - 4% per annum. At this rate of growth, India's domestic consumption is expected to increase to about 800 million Kgs by the year 2000. However the consumption pattern varies from state to state, which is evident from Table 2. The states of Maharashtra, Gujarat, Uttar Pradesh, Rajasthan and Punjab alone account for nearly half the quantity consumed in the country.

Table -2
Estimated Consumption of Tea, 1991

State	Consumption (million Kgs)
Uttar Pradesh	45
Bihar	18
Maharashtra	72
West Bengal	38
Andhra Pradesh	25
Madhya Pradesh	32
Tamilnadu	21
Karnataka	26
Rajasthan	45
Gujarat	61
Orissa	10
Kerala	33
Assam	18
Punjab	45
Haryana	18
J & K	10
Others	30
Total	547

The domestic tea market can be broadly divided into two major segments, viz., Loose Tea segment and Packaged tea segment. Loose tea accounts for seventy percent of the total market and the balance thirty percent is with packaged branded tea.

In the loose tea segment, the product does not undergo any further processing or treatment after it has been purchased at the auctions or gardens. Tea is sold to the consumer generally in the same form. In view of the existence of wide variations in the quality of tea from garden to garden and even within the same garden, depending upon the period of plucking, type of processing, quality of processing etc., it is not uncommon to find tea traders preparing a few table blends. The composition of the blend (flavour and thickness of liquor) depends upon the local demand. Such blending activity is done by any wholesaler or big retailers. Leading wholesalers-cum-retailers of loose tea in the metropolitan cities have popularised select blends of tea under special brand names.

The branded tea market consists of tea sold in carton/paper packages, paise packs (paper envelopes of 19gms) and, recently, pouches bearing the brand names. The leading packaged tea marketers are Lipton, Tata Tea and Brooke Bond. Table - 3 gives the market shares of the major players, including loose teas.

Table -3
Market Share variations of Major Players

	1980	1982	1984	1986	1988	1990
Quantity Sold (million Kgs)	361	384	416	438	478	481
				(Market Share %)		
Brooke Bond	32.2	25.7	21.6	18.7	14.9	12.1
Lipton	12.9	11.4	9.4	9.6	8.7	8.6
Tata Tea	-	-	-	1.3	2.7	4.8
Others	1.7	1.0	2.0	1.8	1.9	4.9
Unbranded Tea	53.2	61.9	67.0	68.6	71.7	70.4

Consumer Behaviour: Tea is regularly consumed as a beverage and as a relaxation drink in North India, but in the South it is more a change from coffee, or a beverage to serve guests in imitation of North Indian customs. However, there are certain pockets in the South where tea is consumed on a regular basis and is more popular than coffee.

In rural areas, tea can be counted almost as a semi-food, since it accounts for a significant part of the day's calorific intake. Tea is frequently consumed to wash down a meal of dry bread or *chapatis* among the poor.

Tea drinkers in the North prefer leaf tea. In the South, dust tea is preferred, as it gives a stronger liquor that somewhat resembles the coffee decoction. Dust tea is used in hot tea shops in Gujarat, Maharashtra and parts of Rajasthan.

Rural Market for Tea: The growth in the market for branded packaged tea is much higher in the rural areas than the urban market, thanks to the television.

Tea companies are vying with each other to cash in on the rural boom. Table -4 gives the market shares of the leading players in both rural and urban markets.

Table - 4
Growth of Branded Tea in Rural Markets

	Urban Market			Rural Market		
	1985	1988	1990	1985	1988	1990
Quantity Sold (million Kgs)	46.6	57.4	75.5	19.8	43.0	57.0
				(Market Share %)		
Brooke Bond	58.8	47.4	39.1	38.0	37.0	33.1
Lipton	29.9	27.0	28.8	33.1	32.7	31.9
Tata Tea	4.3	10.6	17.2	5.6	9.4	14.4

STRATEGIES FOR THE DOMESTIC MARKET:

Efforts should be made to manufacture value-added products (particularly instant tea, tea bags, tea colas, flavoured tea, etc.) for the domestic market. Although a tea bag has apparent cost disadvantages, they are outweighed by its advantages to its consumer without compromising with the end-cup quality so long as the blend is comparable. There is less wastage because the use of tea inside the bag is accurately measured related to specific consumption, they are more convenient to use and there is guarantee of safety and standardisation.

Further, it should be possible to upgrade the quality of instant tea to bear the same relationship to conventional tea as instant coffee bears to natural coffee. Both tea-bags and instant tea will be steps towards standardisation of the end-cup quality of tea which is likely to attract consumers.

Indonesia has a bottled drink of tea decoction - known as 'tea bottle'. This effectively competes with other beverages like cola and soft drinks. This 'tea bottle' can also be served chill. This also needs to be explored. What is basically needed is product innovations from the basic tea - dust or leaf.

Moreover, as the quality of tea depends on the natural endowments of the area where tea is located, adding value will ultimately increase the per hectare returns of areas which suffer from locational disadvantages and hence produce teas whose quality and costs do not fetch a remunerative price. This is true, for instance, in the case of instant tea because the quality of tea going into it does not have to be *creme de la creme*.

A strong domestic base for value added products will offer valuable experience in product development, packaging systems, and brand marketing which in turn will provide the foundation to successful export marketing. All this will call for an effective system of marketing and promotion campaign by the producers and the marketers. Ultimately, both generic and brand publicity will be necessary to popularise tea as

a beverage and ensure better returns to the producer. Fiscal incentives are necessary especially to enable the industry to undertake the essential expenditure on publicity and other market development and promotional activities.

STRATEGIES FOR THE EXPORT MARKET

In view of the near constancy of tea consumption in most of the traditional tea consuming countries India's declining share in their imports, it is necessary to look for new and growing markets and make sustained efforts in such selected markets. The important factor in retaining the existing markets and exploring new ones in order to increase the country's exports, relate to promotion of Indian tea with a commercial zeal and market instinct, competitiveness of Indian tea, availability of finance and maintaining the credibility of India as a dependable exporter of tea. The country should adopt a selective approach to market development by concentrating on a few new markets which show promise and potential and move on to others only after accomplishing substantial base in these markets.

The need for generic promotion is greatest in countries where the image of tea as a beverage has gradually tarnished and those where tea drinking is virtually non-existent. As a complementary effort, a massive promotional drive has to be mounted to popularise Indian tea through promotional programmes. To make a greater headway in value added

items, brand promotion is necessary in order to create consumer preferences for Indian brands. But without generic image, brand image is virtually impossible to attain. Projecting the Indian tea symbol is also necessary to promote a distinct identity of teas produced in India.

CONCLUSION

The problems currently experienced by the tea industry in India due to the sudden collapse of Soviet Union appears to be a temporary phenomenon. The growth in domestic demand in most tea producing countries with out a commensurate increase in production, points to a situation of a global shortage of tea for exports. If we take a long term perspective, we have to increase the area under cultivation and improve our productivity if we want to maintain our current level of exports and to meet the growing domestic demand. The temporary set-backs should not come in our way of re-planting, increasing the area under tea and applying fertilisers and other inputs to existing tea gardens. We should strive hard to achieve our target of 1000 million Kgs of tea production by 2000 AD. We should also develop value-added products so that the growers can be given better returns.

