

Tea Export Diversification and International Market Segmentation

Tea is over 5,000 years old and was discovered, as legend has it, in 2737 B.C by a Chinese Emperor when some tea leaves accidentally blew into a pot of boiling water. According to the legend, Emperor Shen Nong was a skilled ruler, creative scientist and patron of arts. His far-sighted edicts required among other things, that all drinking water be boiled as a hygienic precaution. One summer day while visiting a distance region, when the servants began to boil water, dried leaves from a near by bush fell into the boiling water and a brown liquid was infused into the water. The emperor was interested in the new liquid, drank some, and found it very refreshing – and so according to the legend tea was created.

The tea was first introduced into Sri Lanka by the British planters during the 19th century as a replacement crop for coffee, which was destroyed by a leaf disease. The commercial planting of tea was first done in Sri Lanka by Mr James Taylor, a Scottish planter, on 19 acres of land on Loolecandera Estate at Deltota, which has today developed, into a major agricultural industry in Sri Lanka. Tea is Sri Lanka's main agricultural crop and account for almost 15% of the foreign exchange earnings of the country. It is also the largest employer in the country and over one million people directly and indirectly are employed in the tea sector.

According to the recent tea land survey, the total area under tea cultivation is about 200,000 hectares while the annual tea production is a little over 300 million kgs but increasing continuously. Sri Lanka ranks as the third largest tea producer in the world having an approx. share of 10% of the global tea production. Currently Sri Lanka exports about 280 million kgs of tea annually to more than 100 countries and is the largest exporter of tea in the world with a share of 22%.

This position as the global leader in tea exports sphere has been maintained continuously for the past 5 to 6 years.

Although, the first commercial tea plantation was done in 1864 it was only in 1873 a small parcel of 23 pounds of tea was exported from Sri Lanka to U.K. Since then, the tea plantation has grown into a major export industry in the country. The production and manufacturing of tea in Sri Lanka (Ceylon at that time) was started by British Agency Houses and almost all the production was shipped to London as a primary commodity for blending and marketing by the British tea companies in U.K. The

A.H. de Alwis

Director, Sri Lanka Tea Board

Ceylon tea was traditionally sold as a primary product mainly in the bulk form. Since the plantation was owned by British Agency Houses their main objective was to cater to the tea trade in London. The British management companies ignored the importance of product diversification and Ceylon tea was traded as a commodity only. However, the first product diversification took place in 1959 when a consignment of packeted teas was sent to Libya. This opened the eyes of the manufacturers and exporters to ship tea in pre-packed form, which was the beginning of the product diversification in the tea industry of Sri Lanka.

The "two leaves and the bud" was the main concept of Ceylon tea which helped the industry to capture the world tea market. The British companies as well as local exporting companies who were involved in production and trading of tea realized the importance of direct marketing of tea and began to cater to the other markets in the world. The shipment of value added teas sent to Libya encouraged the exporters initially to cater to the mass-market requirement of the consuming countries. This segment which consist of lower and middle

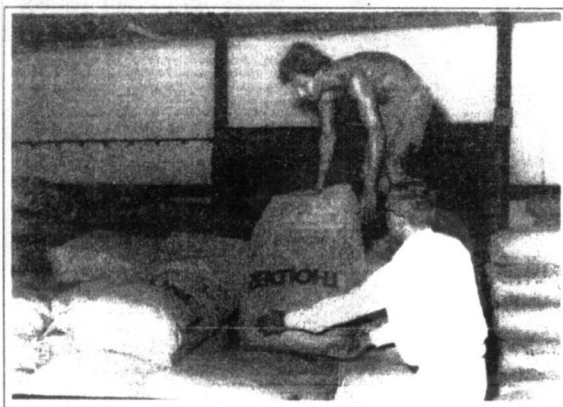
class consumers mainly require a medium quality tea pack at a reasonable price. The manufacture of consumer packs, below the weight 3 kgs, involves blending, packaging, labelling and branding of the tea product. The expansion of value added tea exports from Sri Lanka was a slow process but it gradually increased over the last three decades. Today, local teas are exported in a wide range of packets such as foil packs, box board cartons, soft wood boxes and satches etc. The export of straight-line teas in raw material form is now limited to about 5% and export of pre-packed teas account for at least 40% of our total tea exports. The local packaging industry has developed to such an extent that the industry can help the tea sector to be competitive in the international market.

The second stage of the product diversification began with the export of tea bags from Sri Lanka in the early 1970's to cater to the needs of the up-market segment of developing countries. The consumers in this segment which normally include the rich and upper middle class people would like to have convenient and quality products and are prepared to pay more as long as the product is going to satisfy their needs. The development of tea bag exports was hampered during the early stages due to lack of availability of tea bagging machinery in the country. The demand for tea bags, which commenced from Europe and other developing countries, has now expanded to almost all the tea consuming countries in the world. The local industry is now capable of manufacturing a complete range of tea bags whether single or double chambers, heat or non heat-sealed with or without tags and with or without the envelope etc. The demand for more convenient tea products from the up-market segment forced the manufacturers to come out with more innovations in the manu-

facture of tea bags. The multinational companies who dominate the teas bags segment invested heavily in developing new types of tea bags such as round shape or pyramid shape etc to get a faster and better brew from the tea bags. Today Sri Lanka exports about 9000 MT of tea bags, which account for 3.5% to 4% of the total tea, exports.

The development of institutional segment which includes hotels, Airlines, passenger ships and other catering establishments has given a further boost to the tea bag segment since the convenience and quick preparation are the main criteria for purchase of tea by the institutional customers. In this respect the trade has responded with catering packs which contain more number of tea bags but without much elaborated packaging.

The completion faced from carbonated soft drinks and the increase in youth in population many countries have compelled the tea manufacturers to come out with new tea products with more innovations in the consumer packs to counter the new threat in the market. The manufacture of Ready to Drink Products (RTD) was the result of the innovation of new product diversification and tea is



now available in liquid can form and pet bottles either with or without flavours. This segment has witnessed a rapid growth in Japan/USA and some other developed countries where RTD tea products are available through the vending machines. The present day life style of the youth has also contributed towards the expansion of production and marketing of

instant tea as well. Although Sri Lanka is the number one exporter of tea in the world, her position in RTD segment is rather insignificant. The first R.T.D. project of commercial scale has introduced by "Heladiv" brand Pure Ceylon teas in liquid form in a tetra-pack of 5 different flavours. The manufacturing and marketing of RTD products are currently done by multinational companies such as Nestle, Lipton, Coca cola, and Pepsi etc whose investment in this sector cannot be matched by the Sri Lankan tea traders. The present day health consciousness among the young people too have contributed towards the fast development of RTD segment.

Sri Lankan tea exports have identified niche markets in most of the developed countries which includes instant, flavoured and gift tea segments. The addition of flavours into tea was started a few years ago to cater to the changing habits of consumers in the developed world. The product range of flavoured tea includes earl gray, mint, lemon, Jasmine, Strawberry and Apple etc. Recently spice flavours have also added to tea with cardamom, cinnamon and clove flavoured teas being the most popular. Sri Lankan exporters have penetrated into a number of sophisticated markets with flavoured and spiced teas. In USA, "chai tea latte" – spice tea where tea is blended with ginger, cardamoms and cloves has emerged as a fact growing product in R.T.D form and highly popular thru Start Buck centres.

The production of instant tea by Sri Lanka began during late 90's but up to now only two companies are engaged in this segment due to the high

investment required in setting up the plant. During year 2000 Sri Lanka exported 1218 MT of instant tea mainly to USA and European countries and according to the available data the demand for instant tea is gradually increasing due to the convenience in preparation.

Sri Lanka is the first country to manufacture a wide range of gift tea packs.

Ms. Mlesna Tea Company who pioneered this industry identified certain developed countries as potential markets and began the marketing of gift tea in different types of packaging. Today, a number of exporters produce a wide range of gift tea packs, which have attracted many consumers not only from the West but also from the East and Middle East as well. Although, the volume of flavoured and gift tea exports are rather small, the foreign exchange earnings accrued to the country from such exports are substantial.

The world is becoming more and more health conscious and consumers are looking for agricultural products, which are produced without the use of artificial fertilizer and pesticides. As a result the production of organic tea or bio tea commenced in Sri Lanka a few years ago. At present a volume of about 750 MT of organic tea are produced annually and approx. 500 Tons exported mainly to West European countries Japan, USA and Australia. Although, the consumption of green tea was earlier popular only in China and Japan, the recent surge in demand for health products by the consumers have increased the demand for green tea in other markets as well. The research work carried out on health aspects of both black and green tea have revealed the health benefits of green tea which has further boosted the demand for this product. Sri Lanka exported a volume of 642 MT of green tea last year. The Green Tea segment in Sri Lanka is still very small but growing slowly and steadily.

The tea industry in Sri Lanka underwent two major changes during the last 130-year period. First when the British owned plantation was nationalized in 1975 and secondly when the management of State owned tea estates were given to the private sector for 50 years with option to renew the lease. The industry continued to cater to the changes in the world tea market irrespective of these changes and it is certain that it will meet the new challenges in the world tea market and respond with new product and marketing innovations in the future too. ■