

Tapal and the tea industry in pakistan



INTRODUCTION

Tapal is a shining example of a successful brand, born in Pakistan, competing neck to neck with a formidable multinational. Managing Director of Tapal Tea (Pvt.) Ltd., Mr. Aftab Tapal belongs to a third generation business family.

Mr. Aftab Tapal, a well-trained tea taster and tea connoisseur himself, introduced new tea concepts and developed a wide range of tea blends catering specifically to the tastes of people throughout Pakistan. Aftab Tapal defines success as balanced and timely decisions, differentiation, honesty and clear focus objective. His vision is to make Tapal the benchmark for quality, creativity and ethical values[1].

HISTORY

Tapal is neither a rags-to-riches nor an overnight success story. Adam Ali Tapal, grandfather of Aftab Tapal, started the company in Karachi in 1947 from a small shop in Jodia Bazaar (now called Tapal House). With hard work of Adam Tapal, he innovated a new blend of leaf and dust. The multinationals laughed at his idea because they believed that leaf should not be blended with dust. But Adam Tapal did it and his taste buds of Karachiites, making it very popular. In early 60s, the dominant players were the multinationals and only two local brands, Ispahani and Adams (Tapal tea). By that time another big group had already come and gone; that was Aroma, which belonged to the Adamjees.

In 1977, Aftab Tapal joined the company and went into distribution, branding and packaging. His contribution to business was Dander, a totally new

category of tea. Tapal tea was the first to introduce it. It became so popular that almost all the tea companies started copying the blend and the grade. Even the multinationals joined the brand wagon and they all started calling their version of the tea Dander too. Dander is a granular tea, slightly larger than tea leaf. Dander is bolder and has more flavors, although it is not as strong as tea leaf.

After joining the company, one of the first things Aftab Tapal noticed was the number of people queuing up at our shop in Jodia Bazaar to buy tea. He began listening to their comments. What he kept hearing was why didn't we open a shop in Nazimabad or Malir? This meant that customers wanted the convenience of availability. That is when we decided to brand our tea, appoint distributors and bring our to our customers' doorstep. He is very proud of the fact that when they started distribution, we bypassed the depot system. Until then Lipton, Brooke Bond, Ispahani all had depots[2].

BRANDS PORTFOLIO

Family Mixture

Danedar

Mazban

Tapal Safari Chai

Chenak

Tezdum

Jasmine Green Tea

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Gulbahar

TEA INDUSTRY IN PAKISTAN

The history of tea drinking in the subcontinent can be traced far back. It is said, that tea was introduced with the arrival of the British in the Subcontinent and became popular in the region during the British rule. The British people were clever enough to use a powerful slogan, which remained in the minds of the people. They said, “ In winters it provides warmth and in summers, it gives freshness.”

Over a period of time, the colonials improved the quality and taste of tea. Mr. Thomas Lipton was the key person who introduced the aromatic soothing leaves, to the common man at affordable prices. This is one of the main reasons why “ Lipton” even now is one of the most well known brands of tea in this part of the world.

At present there are two kinds of tea available in the market: branded and unbranded (loose) tea, the ratio is (55: 45) respectively. Therefore, the importers are also of two types, though both import tea from the same countries. Bulk importers sell tea to retailers in loose form, while the second category of bulk importers sell packaged tea under brand names.

Unilever enjoys leadership with approximately 54% of Pakistan's tea market. Tapal stands out as the major competitor for Unilever with 28% share. Tetley tea, a joint venture b/w Lakson Group and Tata tea of India, was introduced early this year and it has approximately 4% share, which is continuously decreasing. Other players in industry are Kohinoor Tea Company, Vital Tea Company and Alpha Tea Company. Last year Tea consumption in Pakistan is summarized below:

Tea Consumption in Pakistan (in tons)

Unilever

46, 000

Tapal

24, 000

Tetley

3, 700

Others

11, 550

Unbranded

69, 750

Total Consumption

155, 000

Source: sales in tons of Unilever, Tapal & Tetley are taken separately from each company. Total consumption is taken from Pakistan Tea Association (PTA).

This gives us branded tea market of approximately 85, 250 tons. The branded market can be divided by each player as follows:

Capsule: A thriving food business

A couple of brokerage houses reported this week that Lever Brothers Pakistan Limited had made a “ firm bid” to take over Tapal Tea (Pvt) Limited. With both Lipton and Brooke Bond already in its fold, Lever enjoys leadership with 45% of Pakistan’s tea market. Tapal stands out as the major competitor for Lever with 25% share.

Lever Brothers Pakistan has denied that it was in advanced talks for takeover of Tapal, for that would give it a commanding 70 per cent share of the tea market. Such an act would inevitably stir the Monopoly Control

Authority into action as happened when Dewan Salman acquired Dhan Fibres, which together brought over 51 per cent of the polyester staple fibre (PSF) market in the group’s hold.

Earlier, Lever Pakistan had seen the potential in the ice-cream market and bought over Polka, which together with its own Wall’s, has established the company firmly in the ice cream business. €¼

The author of above article is Dilawar Hussain. It was published in DAWN, business page, on September 18, 2000.

Approximately more than 10-15% of yearly consumption is being received by smuggled tea. Imported tea through illegal channels enters Pakistan mainly from Land routes b/w Pakistan & India. The smuggled tea has some bad implications for industry, which will be discussed in next section.

INDUSTRY GROWTH

Tea industry is growing at a slow rate almost equal to population growth rate. Per capita tea consumption in Pakistan, which is about 1 kilogram, is not increasing. Pakistan tea market is still very attractive which is apparent from the fact that Sri Lankan and Indian are continuously negotiating with Pakistani Government for liberalization of tea import. And Lakson Group entered into a joint venture with Indian Tata Group for introducing Tetley tea in Pakistan. Hadn't it is not an attractive one these developments haven't taken place.

POLITICAL ENVIRONMENT

Pakistan is the third largest consumer and importer of tea in the world.

Pakistan is only below the United Kingdom and Russian Federation on global imports. Pakistan imports about 140, 000 tons of tea every year. African countries account 65% of Pakistan's tea imports[3]. More than half of Pakistan's tea demand is met by Kenya, which exported 64 million kg to Pakistan in 1999[4]and other contributors to tea imports in Africa are Uganda, Burundi and Tanzania. The other major tea suppliers to Pakistan are Sri Lanka, India, and Bangladesh[5].

Relations between Pakistan and India has always affected trade between two neighbors and so the trade of tea. India is always keen to enter Pakistani tea market because prices are slightly low due to no freight charges.

In July 2001, when President Musharraf visited India, Political disputes were kept on the top of agenda. During that Musharraf-Vajpayee summit, Indian Industrialists pursued Indian Government to put trade ties on top of agenda. Tea exports to Pakistan were primary item in those trade talks. India, the world's biggest tea producer, was hoping to grab a larger slice of the huge Pakistani tea market⁴. But as we know that the summit was a failure and both leaders were unable to reach a consensus. All trade ties came to an end and Pakistan lost a cheap tea importer.

But in 2003, when relations between two countries improved, Lakson Group entered into a joint venture with Indian Tata Group for introducing Tetley tea in Pakistan. And industry scenario started to change. We hope that prevailing good relations b/w two countries may bring cheap tea in Pakistan.

ECONOMIC ENVIRONMENT

As mentioned earlier, Pakistan is third largest importer of tea and tea imports form a significant portion of our total import bill and it is shown as a separate in SBP annual report & Economic survey of Pakistan. One can conclude that how much foreign exchange burden tea imports have on country's balance-of-payments. Government of Pakistan (GOP) has also levied import duties on tea imports to earn revenue. High import duties have led to sharp increase in smuggled tea. Speaking in a seminar on Intellectual Property Rights in Pakistan for journalists, Muhammadi Miabhoy, Deputy

Managing Director of Tapal Tea (Pvt.) Ltd. said that tea smuggling had shot up 46% in 2002 due to the high import duty on the commodity. One official of the Pakistan Tea Association said the Rs 28 billion local tea industry is fast losing its market share to the smuggled tea[6].

Tea Import Bill

(Value in million US\$)

FY

Value

Percent change

1994-95

187.3

0.8

1995-96

169.6

-9.5

1996-97

133.5

-21.3

1997-98

226.6

69.8

1998-99

222.9

-1.7

1999-00

210.5

-5.6

2000-01

206.4

-1.9

2001-02

156.6

-24.1

2002-03

172.7

10.3

2003-04*

185. 7

14. 8

Source: SBP Annual reports

*July-May

Few latest developments in Pakistan's tea industry are follows:

Government has slashed customs duty on tea import from 10% to zero in Federal Budget 2004-05 as remedy measure against smuggled tea.

Pakistan and Sri Lanka has recently signed a Free trade agreement (FTA). Pakistan has agreed to a demand of Sri Lanka to bring down the customs duty on tea to zero in exchange of zero rate export of rice and potatoes to Sri Lanka under the proposed treaty. Import of tea from Colombo stood at \$4 million during the year 2002-03. The FTA framework agreement was signed by the two sides in 2002 during the visit of President General Pervez Musharraf to Sri Lanka. But it was yet to be finalized and implemented[7].

SOCIAL ENVIRONMENT

Tea is the cheapest and most popular beverage that is served at both professional and social gatherings all over the world. In Pakistan it is counted as a staple food item of common man and is an integral part of our culture and heritage[8]. As described earlier that per capita consumption of tea in Pakistan is not increasing and few marketers say that its growth is stagnant

during past few years. Social and cultural factors are also changing the shape of industry.

Industry is also under tremendous threat from substitutes (coffee, softdrinks etc.), which will be discussed in later sections. Stagnation of tea industry can be seen by lots of consumer promotions especially by Lipton and introduction of tea variants like iced tea (Lipton is about to introduce), green tea (Lipton recently introduced and Tapal already have it) and flavored tea (Dilmah).

Tea is not very much popular among teens, that is, population under 15 years. It is perceived as a ‘ grand pappy’ drink by youngsters.

Population by selective age groups (in percent)

Less than 5 yrs

Less than 10 yrs

Less than 15 yrs

Pakistan

14. 8

30. 45

43. 4

Rural

15. 69

32. 18

45. 06

Urban

13. 0

26. 98

40. 07

Source: Population Census Organization, Statistics Division, GoP.

43. 4% of country's population is under 15 yrs. This is big chunk of market not much liking tea as a beverage.

TECHNOLOGICAL ENVIRONMENT

Technological advancements do not have significant impact on the industry as other external factors have. Advent of new machines for better blending and packaging have not affected industry in terms of consumption patterns, industry pie size, industry growth rate etc. All players have made use of new machines, like Dilatometers and Q. C. machines, for attractive packaging and digital scales for quality blending. But advent of tea bags has really changed the consumption patterns. Tea bags have given convenience, hygiene to consumers. In few segments, tea bags are more popular than soft packs and sachets.

STRATEGIC ISSUES FOR TAPAL

Tapal would have to move into the untapped areas of the market aggressively because of the competition it is facing. The untapped areas would include rural areas of Sindh and Punjab, Balochistan and NWFP as a whole.

After the WTO implementation, foreign tea companies (especially from India) can enter the market easily and that will increase the competition. So it should cater to safeguard against them.

People are getting more health conscious because of media expansion. So now focus has diverted towards consumption of Green Tea. Thus Tapal should focus more on improvement strategies for it's Jasmine Green Tea to meet the increased demand.

To target more towards the younger segment of the society, Tapal should focus more on Ice Tea as the trend does not only prevail in this segment but also in the other segment of the society.

To benefit from the WTO, it should plan towards its differentiation strategy and for the resources so it could cater to the new world of opportunities.

INDUSTRY ANALYSIS

Threat of New Entrants

Major factors like strong customer loyalty, strong brand preferences, saturation of market and counter attack by existing firms are creating high barriers for new entrant and favorable for existing firms.

Key players due to their experience of the market and sheer size, enjoy the benefits of economies of scale bring their costs down and making a competitive entry difficult.

Capital is required for the setting up of processing plants as per the size of the firm.

The brands are well established and make the new entry in the market a real challenge.

Rivalry among Existing Competitors

Major factors intensifying the rivalry among competitors are; increase in the number of competitors and price cutting. While other factors like customer's inability to switch brands easily, barriers to leave the market and fixed cost are moderate.

After the entrance of Tetley the rivalry has increased. But still Tetley's survival is on stake.

Smuggled tea poses an intense competition in the industry.

Customer don't switch brand easily because of taste loyalty.

Bargaining Power of Customers

Customer purchase tea in small quantity and are large in number therefore have no bargaining power.

Consumers from the upper and middle classes are not price sensitive resulting brand loyalty. On the hand lower class consumers are highly price sensitive and usually prefer loose tea because of its lower price.

Bargaining Power of Suppliers

There is a large number of suppliers and new markets for tea suppliers are also emerging because of which bargaining power of suppliers has decreased.

Kenyan tea is the preferred type of tea in Pakistan making it one the largest supplier of tea and a major market for Kenyan tea.

Threat of Substitutes

Threat of substitute is high because competitive pressure from them is increasing tremendously.

Although coffee is considered a substitute for tea but the consumption of coffee in Pakistan is comparatively lower than the consumption of tea.

Cold drinks, though not a direct substitutes, tends to be very popular with teenagers who are a market for tea consumption.

Key external factors

We have summarized following opportunities and threats which Tapal need to address:

OPPORTUNITIES

Reducing input costs due to cheap imported tea from India & Sri Lanka.

Setting up own farms to cultivate tea in country to further reduce inputs costs.

Finding new markets for export of packaged tea.

Introduction of iced/flavored tea for younger generation.

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Tea bags consumption increasing due to convenience.

Target NWFP & Balochistan's Market, which is being currently dominated by loose Tea.

Out-of-Home channel (Institutional sales) penetration

THREATS

Cheap tea from India and Sri Lanka inducing new players to enter the tea industry.

Increase in smuggled tea, which is sold as loose tea in the markets on cheaper rates.

Entry of juices and soft drinks of better taste and quality.

Population under 20 years getting more attracted towards other beverages because of more inspirational advertising and better segmentation.

Rise in International tea prices.

KEY SUCCESS FACTORS

Advertising:

As described earlier that tea market is highly competitive market, therefore aggressive and creative advertising is very important to retain existing customers and attract new customers.

Currently, Lipton and Supreme are doing aggressive advertising and Tapal is launching counter campaigns.

Substitutes like Pepsi, juices are currently launching aggressive advertising campaigns and hammering whole tea industry.

Product Quality:

Product quality is also very important success factor because majority of branded tea consumers are hygiene conscious and therefore willing to pay a higher price for it.

The freshness of tea should be long lasting, which is ensured by the quality packaging of the product.

Consistency in taste and aroma of the product guarantees the customer superior and sustained quality.

Convenient Packaging:

Tea is available in soft packets, sachets, plastic boxes, tea bags and hard packs as per requirement, convenience and purchasing power of the customer.

The tea packets are designed in a manner which also focuses on convenience of retailers and wholesalers.

Modern technology has deeply influenced packaging techniques and because of these innovations customers needs have been better satisfied.

Distribution Network:

The distribution network in Tea industry is very important. After our analysis of the industry, we have seen that because of poor reach in rural areas by

the competing companies, smuggled products have established there foothold especially in NWFP and Balochistan.

To keep track of the rising competition, both direct & indirect, in the urban markets, the Tea companies have to continuously search for new markets and expand there distribution networks accordingly.

As tea is a staple food item, reach in consumers arm length will result in increase in sale.

Wide spread distribution networks are also important, to recognize customers needs and receive effective feedback.

Financial Position:

Having strong financial position has also become very important in the current competitive market;

Extended credit period is demanded by the retailers and wholesalers, which requires companies to maintain higher working capital.

Secondly, the suppliers are to be paid through L/C, which requires instant payment to them.

Customer Loyalty:

In tea industry, consumers are taste loyal. They don't switch brands easily unless they are not satisfied with current brand or other brand's communications may be so strong that it induces them to try the new brand.

Major players in branded market have established identities and preferences of their brands. They are in the tea business for last many years.

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Market share:

Market share is important because it determines the hold in the market.

If the market share is large, the company can dictate its own terms to its suppliers and retailers.

When the market share is high, it helps safeguard the sales promotion and marketing budget for the company.

SWOT ANALYSIS

Strengths

Quality Management

Experience

Integrated Production Process

International Exports

Strong Distribution Network in Sindh and Punjab

Brand Image

Highly Innovative

Customer Loyalty

Strong advertising campaigns on local channels (KTN etc.)

Weaknesses

Weak out-of-home channel

Distribution relatively weaker in NWFP & Balochistan

Weak relative financial position

Relative Technological Backwardness

Opportunities

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Achieving Differentiation-base Competitive advantage:

A company can use four approaches to achieve a differentiation-based competitive advantage, which is discussed below:

Incorporate product attributes and user features that lower the buyer's costs of using the company's product.

Tapal has incorporated above approach in following ways:

They are not commanding premium price for differentiating their offerings, as most of the companies do. Tapal prices are lower than Lipton and higher than Supreme.

They are offering their brands in different packaging like sachets and soft packs to cater the diverse needs of target customers. With rising inflation and decreasing purchasing power, sachets give consumers additive benefit.

Incorporate features that raise the performance a buyer get out of the product.

Tapal has incorporated above approach in following ways:

Offering its tea in soft packs.

Introduction of round and metal-free tea bags.

Sustained freshness and aroma in packages.

Incorporate features that enhance buyer satisfaction in non-economic or intangible ways.

Tapal has incorporated above approach in following ways:

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In their Ads of family mixture, they are depicting family love and bonding. It is a tea for whole family. Tagline “ mukammal ghar, mukammal chai” provides a very good intangible value.

Tapal giving more value in lesser price.

To Compete on the basis of capabilities – to deliver value to customers via competitive capabilities that rivals don’t have or can’t afford to match.

Tapal has incorporated above approach in following ways:

Tapal is a family business and they have focused their business on tea only, so they have better knowledge of tea blending than its competitors. They have invented mixture of leaf and dust (family mixture) and Danedar, both are new in tea market. Unilever cannot match their capability of matching different blends & innovating new types of tea. This capability gives Tapal competitive edge to deliver value to customers in ways rivals cannot.

Differentiating the Value Chain:

Differentiation in their value chain exists in Tapal in following ways:

They have differentiated product R&D activities, as described earlier. They have better product designs and performance features, which other competitors lacks.

They owns majority of their distribution network. They do not have third-party distribution system as Unilever have. That’s why they are able to lower costs in distribution and achieve faster delivery, more shelf space and greater availability than its competitors.

They are doing different advertising campaigns. Positioning of their brands is different from that of Lipton and Supreme. Only similarity is in positioning of Tapal Mixture and Supreme.

They also have differentiated manufacturing and packaging activities. All their brands have soft packs currently. Only tea bags are offered in soft carton. Whereas Lipton and Supreme have soft packs, hard packs and plastic bags.

RECOMMENDATIONS

Tapal should continue their existing strategy of differentiation and should also incorporate following recommendation to further strengthen their strategy.

Tapal is unable to differentiate their purchasing and procurement activities. Tapal is following its purchasing activities which were followed by its founders. Instead of purchasing tea through auctions, they should built strong relationships with same suppliers and assist them in maintaining the quality and increasing the efficiencies.

High price of tea due to better quality could be offset by bringing innovations and efficiencies in value chain.

As described earlier that younger generation is not attracted towards tea as they are towards soft drinks. So Tapal should come up with new variants of tea for this segment.

They should not diverse their business, that is, extending their current brands to other products. They should concentrate on tea business only. This

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way they can sustain their competitive advantage. According to Al Ries's law of contraction, company should focus their core business and don't try to expand to other categories.