

Analyse the tea industry in india economics essay



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The tea industry in India is about 172 years old. It occupies an important place and plays a very useful part in the national economy. Robert Bruce in 1823 discovered tea plants growing wild in upper Brahmaputra Valley. In 1838 the first Indian tea from Assam was sent to United Kingdom for public sale. Thereafter, it was extended to other parts of the country between 50's and 60's of the last century.

However, owing to certain specific soil and climatic requirements its cultivation was confined to only certain parts of the country.

Tea plantations in India are mainly located in rural hills and backward areas of North-eastern and Southern States. Major tea growing areas of the country are concentrated in Assam, West Bengal, Tamil Nadu and Kerala. The other areas where tea is grown to a small extent are Karnataka, Tripura, Himachal Pradesh, Uttaranchal, Arunachal Pradesh, Manipur, Sikkim, Nagaland, Meghalaya, Mizoram, and Bihar.

Unlike most other tea producing and exporting countries, India has dual manufacturing base. India produces both CTC and Orthodox teas in addition to green tea. The weightage lies with the former due to domestic consumers' preference. Orthodox tea production is balanced basically with the export demand.

Production of green tea in India is small. The competitors to India in tea export are Sri Lanka, Kenya, China, Indonesia and Vietnam.

Tea is an agro-based commodity and is subjected to vagaries of nature.

Despite adverse agro climatic condition experienced in tea growing areas in many years, Indian Tea Plantation Industry is able to maintain substantial growth in relation to volume of Indian tea production during the last one decade.

There has been a dramatic tilt in tea disposal in favour of domestic market since fifties. While at the time of Independence only 79 M. Kgs or about 31% of total production of 255 M. Kgs of tea was retained for internal consumption, in

2008 as much as 802 M. Kgs or about 82% of total production of 981 M. Kgs of tea went for domestic consumption. Such a massive increase in domestic consumption has been due to increase in population, greater urbanisation, increase in income and standard of living etc.

Indian tea export has been an important foreign exchange earner for the country. There was an inherent growth in export earnings from tea over the years.

Till 70s', UK was the major buyer of Indian tea Since 80s' USSR became the largest buyer of Indian tea due to existence of the trade agreement between India and erstwhile USSR. USSR happened to be the major buyer of Indian tea accounting for more than 50% of the total Indian export till 1991.

However, with the disintegration of USSR and abolition of Central Buying Mechanism, Indian tea exports suffered a set back from 1992-93. However, Indian Tea exports to

Russia/CIS countries recovered from the setback since 1993 under Rupee Debt

Repayment Route facilities as also due to long term agreement on tea entered into between Russia and India. Depressed scenario again started since 2001 due to change in consumption pattern, i. e. switch over from CTC to Orthodox as per consumer preference and thus India has lost the Russian market. Another reason for decline in export of Indian tea to Russia is offering of teas at lower prices by China, South Asian countries like Indonesia and Vietnam.

The major competitive countries in tea in the world are Sri Lanka, Kenya, China and Indonesia. China is the major producer of green tea while Sri Lanka and

Indonesia are producing mainly orthodox varieties of tea. Kenya is basically a CTC tea producing country. While India is facing competition from Sri Lanka and

Indonesia with regard to export of orthodox teas and from China with regard to green tea export, it is facing competition from Kenya and from other African countries in exporting CTC teas.

Because of absence of large domestic base and due to comparatively small range of exportable items, Sri Lanka and Kenya have an edge over India to offload their teas in any international markets. This is one of the reasons of higher volume of export by Sri Lanka and Kenya compared to India. Another important point is that, U. K has substantial interest in tea cultivation in

Kenya. Most of the sterling companies, after Indianisation due to implementation of FERA Act started tea cultivation in Kenya. So, it makes business sense for U. K. to buy tea from

Kenya and Kenya became the largest supplier of tea to U. K.

Tea is an essential item of domestic consumption and is the major beverage in India. Tea is also considered as the cheapest beverage amongst the beverages available in India. Tea Industry provides gainful direct employment to more than a million workers mainly drawn from the backward and socially weaker section of the society. It is also a substantial foreign exchange earner and provides sizeable amount of revenue to the State and Central Exchequer. The total turnover of the

Indian tea industry is in the vicinity of Rs. 9000 Crs. Presently, Indian tea industry is having (as on 18. 12. 2009)

- 1692 registered Tea Manufacturers,
- 2200 registered Tea Exporters,
- 5848 number of registered tea buyers,
- Nine tea Auction centres.

Indian tea industry at a glance

Total turnover is approximately \$2. 25 billion.

Total Net Foreign Exchange earned is approximately is \$ 413 million per annum

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Tea production, since independence has grown over 250%

Women constitute 50% of workforce.

Generates income and livelihood for nearly 20 million people in the country.

India is the largest producer and consumer of tea in the world.

Tea Production in India

Tea production in India, the world's largest grower, rose by nine per cent to 49 million kg in March, 2010, as against 45 million kg in the corresponding month last year.

Similarly, tea exports increased to 17.96 million kg in March from 14.22 million kg in the same period of 2009.

According to official data, tea production in the plains of West Bengal and Assam, which harvest the best quality tea leaves in the world, increased to 29.82 million kg in March from 27.34 million kg in the same month last year.

Output in the southern states of Tamil Nadu, Kerala and Karnataka also improved to 19.17 million kg from 17.69 million kg in the review period.

In the 2009 calendar year, India's tea output stood at 979 million kg, against 981 million kg in the previous year.

Tea production is an annual cycle. The country has 5,79,000 hectares of land under tea cultivation, of which 1.53 lakh hectares is handled by small growers.

According to the Tea Board, the country is estimated to have shipped 200 million kg in the 2009-10 fiscal, against 190 million kg in the previous year.

India is the largest producer of tea and ranks fourth in terms of total tea exporter in the world.

Production pattern

India was the leading producer and consumer of tea in the world till 2003.

But China emerged as the leading producer, which accounted for 28.76% percent of global production in 2006 followed by India with 24.46 percent.

The tea production in the world increased from 29.56 lakh tonnes in 2000 to 36.49 lakh tonnes in 2006. The corresponding increase in India's tea production was from 8.37 lakh tonnes in 2000 to 8.92 lakh tonnes in 2006.

Global exports

World tea exports reached 16.15 lakh tonnes in 2004. Sri Lanka was the largest exporter with 18.51% followed by China. Sri Lanka accounted for 2.99 lakh tonnes valued at Rs. 3291.33. India was the fourth major tea exporter with a volume of 1.75 lakh tonnes shares around 10.82% earning a foreign exchange of Rs. 1697.25 crores.

Country-wise export of tea during 2004

Country

Quantity of export

Value of export

(lakh tonnes)

%

Rs. Crores

%

Sri Lanka

2. 99

18. 51

3291. 33

22. 38

China

2. 85

17. 68

2088. 98

14. 20

Kenya

2. 84

17. 61

2083. 59

14. 17

India

1. 75

10. 82

1697. 25

11. 54

Vietnam

0. 99

6. 16

429. 32

2. 92

Indonesia

0. 99

6. 10

521. 29

3. 54

Argentina

0. 68

4. 20

182. 03

1. 24

Uganda

0. 37

2. 28

167. 40

1. 14

Malawi

0. 33

2. 03

177. 19

1. 20

UK

0. 29

1. 77

1163. 76

7. 91

Other Countries

2. 07

12. 84

2904. 21

19. 75

World

16. 15

100. 00

14706. 35

100. 00

Source: <http://faostat.fao.org>

The following pie chart shows the share of leading tea exporters in the world. Sri Lanka (18. 51%), China (17. 68%), Kenya (17. 61%) and India (10. 82%) were the leading exporters with approximately two-thirds of the global market share in 2004. The other countries contributed 12. 84 per cent of the world tea export. The following pie diagram shows the market share of major tea exporting countries during 2004.

India's export

India exported 1. 58 lakh tonnes of tea valued at Rs. 1632. 09 crores in 2005-06. There has been a decline in India's tea exports in 2005-06. The annual export from India was hovering around 1. 80 lakh tonnes between 2001-02 and 2004-05. But 2005-06 witnessed 13. 66% reduction in volume of export and 11. 30% reduction in export earnings.

Export of Tea from India during 2001-02 to 2005-06

Year

Quantity (lakh tonnes)

Value (Rs. Crores)

2001-02

1. 80

1719. 22

2002-03

1. 83

1652. 07

2003-04

1. 78

1637. 35

2004-05

1. 83

1840. 30

2005-06

1. 58

1632. 09

Source: CMIE

Source:- Centre for Monitoring Indian Economy (CMIE)

The following figure shows the export pattern of tea in terms of quantity from India which shows a declining pattern over the years from 2001-02 to 2005-06.

Russia was the largest importer of Indian tea (17. 5%) followed by UK (15. 5%) and UAE (15. 2%) and USA (7. 31%) which together accounted lionshare of India's exports. In value terms also thse four countries acounted for more than half of India's tea export.

Country-wise export of tea shows that Russia was the major destination with 0. 28 lakh tonnes in 2005-06 (17. 48%), followed by UK and UAE with 15 per cent. The market share for USA and Germany was seen to be higher in terms of value of exports in contrast to volume of exports.

Country wise export of Tea from India during 2005-06

Importing Country

Quantity of export

Value of export

(Lakh tonnes)

%

(Rs. Crores

%

Russia

0.28

17.48

220.70

13.52

UK

0.25

15.80

222.20

13.61

UAE

0. 24

15. 16

239. 57

14. 68

USA

0. 12

7. 31

146. 91

9. 00

Kazakhstan

0. 10

6. 18

96. 53

5. 91

Iran

0. 08

4. 99

78. 77

4. 83

Germany

0. 06

3. 84

112. 18

6. 87

Pakistan

0. 05

3. 07

24. 13

1. 48

Australia

0. 05

2. 88

81. 69

5. 01

Saudi Arabia

0. 04

2. 72

39. 26

2. 41

Other countries

0. 33

20. 59

370. 14

22. 68

World

1. 58

100. 00

1632. 09

100. 00

Source: CMIE

The following pie chart shows the country-wise volume of export of tea from India in 2005-06. The top four importers accounted for 55. 75% of India's tea export.

Country-wise export of tea from India during 2005-06

Organic Tea

Total world production of organic tea is estimated at around 9000 tonnes in 2001 which represents less than 1% share of global tea production. India produced around 3150 tonnes of organic tea in 2001 which accounts for one-third of the world production. India is not only the pioneer but also one of the leading producers of organic tea in the world.

Darjeeling has the largest number of estates under organic cultivation followed by Assam/ Dooars and South India. However, Oothu tea estate of Bombay Burmah Trading Corporation (BBTC) in South India is the single largest organic tea producer in the country and also one of the largest organic gardens in the world, producing around 1000 tonnes of organic tea annually.

To support and strengthen the globally recognized organic movement, the producers of organic tea in India formed the Indian Bio Organic Tea Association (IBOTA) in 1996. FAO funded model organic farms have also been planned to establish Assam and Darjeeling in North-East and Valparai in South India.

PEST ANALYSIS IN THE U. K. TEA MARKET

Political Factors

The UK Government supports the fair trading commitment for both the local consumers and foreign producers (News BBC, 2005). This is observed by a requirement on labeling that a stamp of " Fairtrade" must be included in the products for consumer reference. This is a way to give the buyers a chance

to patronize those companies that are producing tea responsibly. However, this also shows that the UK Government do not have strict policies on fair trade. Due to this, the recent calls of Indian workers for the UK Government to act against Unilever due to unfair trade acts and the inability of the latter to act speedily on the matter have adverse consequences on future exporters. If big and global companies such as Unilever continue to rip profits un-scaled with the source plantation abroad, the competitiveness of new entrants would be reduced. For example, Unilever can engage to price wars as well as incur substantial growth funds. To address this scenario, prospective exporters are expected to create a niche market to go away with direct competition with large companies.

In 2004, the calls of EU Commission against the UK Government to implement the “ tea break” law concretized the significant role of tea in the country as well as the Union as a whole (BBC News, 2005). In contrast but in support to the increasing importance of tea in the UK, the Government used the gesture of providing free to all British to motivate them to go to the cherished Millennium Dome. Also, tea giving is also used to foster cohesion among British especially in 2005 where terrorist attacks plague the country (Watley Website). Throughout the UK political history since the introduction of tea in Britain by Catherine of Braganza and rationing of tea to UK soldiers of First World War, tea played a major role in government affairs. Thus, it can be concluded that the approach of the Government to tea imports are positive. However, there is still a question of protecting their local producers. Specifically, imports will only be allowed if local production is

under shortage or if the country cannot get the internal benefits greater the cost of doing business with foreign tea manufacturers (Tea Website).

In contrast, there are similar adverse actions that the Government imposed on tea campaigns (BBC News, 2007). For example, the Advertising Standards Authority apprehended the UK Tea Council, for dis-informing the market about the benefits of tea. Even though the Council cited several papers to prove that the press release is facts, the Authority argued the lack of substantial evidence. More importantly, the Authority wanted the council to avoid making ill-supported ads that may run counter to the health policies of the Government. Due to this, it can be said that the Government does not have a firm stand about the health benefits of tea. In effect, future ads to increase the market for tea may have weaker impact to consumers due to absence of full government support. However, as history suggests which includes events dated back as far as Opium Wars, UK Government places a substantial importance in tea trade. But the role of exporters such as Chinese merchants fell as UK have established its own tea fields in UK areas such as Cornwall.

Economic Factors

Comparing the UK tea prices of today and 1977 figures, supermarkets are selling tea bags much cheaper compared to several decades ago (Telegraph Website). This is a good opportunity for exporters because the natural resources as well as cheap labor in their home countries can be used to engage in price competition in the UK. However, there is a pitfall. This is true when the price of exported teas is so low that the operations of the exporters are in jeopardy once the market continuously put pressure on tea

prices. There are several risk factors that influence of price reduction in of UK tea which can include competitive policies of retailers to as far as the weak US dollar. Due to this environment, exporters might not have much incentive in selling in the UK given that there are trade constraints and disincentives coupled with heavy competition. Ultimately, exporters have to battle with volume rather than quality. In contrast, there is an advantage of exporters who can offer innovative products. In this way, the market will not rely on price factors to affect their decisions rather to the qualities of tea products which is also the source of loyalty.

There are numerous characteristics of UK that makes it an attractive destination for exporter goods. Being the second largest economy in Europe, UK is also one of the most globalized advanced economies the world (UK Statistics). There is an opportunity for exporters to exploit the inclusion of UK in the EU and the latter influence in the trade agreements of the former. When this is enforced, entry to UK market may serve as a window of opportunity to infiltrate EU state members. Free market is also the main framework of UK institutions which limits the influence of UK in trades. According to National Statistics, UK also has low inflation, unemployment and interest rates and ranked one of the most superior economies in the region. With this in mind, exporters can easily attached bulk of positive issues to the production, start-up and marketing environment in the country. In the contrary, UK still has problems in reducing income inequality. Although not a good sign in aggregate, exporters can use niche marketing to exploit this bottleneck. Competition, thus, is reduced when direct rivalry is spread over the income boundaries of the people.

With respect to some concepts on tea business, influx of tea exports can reduce the capacities of monopolist but this can result to intense rivalry (Market Trade Fair). Thus, exporters can reduce the competitiveness of local producers. With cheaper labor and known abundant natural resources in developing countries, UK tea industry may not have the ability to cope with them. Further, switching costs of tea products are low which makes customers have the higher bargaining especially in terms of price and quality. Considering this, exporters that have the upper hand in bringing broader variety of teas compared to local producers. With Asian touch to the products, the market may also feel that exports have higher nutritional value than local counterparts. However, there is a very high risk of failure in the industry especially if the location is UK. Profits margins are low, fixed assets are high, inventory are perishable and local producers may have been embedded. This is to exclude adverse corporate responsibility that may result to low margin such as the example of Unilever criticized approach in Indian tea farms.

Social Factors

It is internationally claimed that tea is the second most popular drink after water (Rico Magda Research, 2006). There are at least 800 million cups of tea that are consumed in a global scale. Of this figure, UK is the country that has the highest share per capita on a daily basis. Without demographic restrictions on the market regarding their preference of tea (i. e. at all ages), the UK tea market loomed to at half a billion value with everyday demand of tea at 160 million cups. According to Mintel Report, green tea is preferred by the market apart from red and black variants of tea because of green tea's

relatively higher pleasurable taste and health benefits. As the country is on the peak of its becoming a cafe society culture (Elopak Website), numerous tea-makers all over the world saw opportunity of this trend. Not only is the basic qualities tea encouraging UK market to buy them. As a matter of fact, several new entrants that introduced different varieties and innovations on tea products are also becoming successful. Specialty teas such as those with spicy flavors are widely-accepted. The UK market continues to support tea-makers and retailers as long as they are able to address the health, safety and taste needs while innovation serves as a good foundation to introduce new products. If accepted, these innovations can make a demand shift from ordinary tea features to creative ones. Another illustration is the changing lifestyle of the UK market. The preceding features can also be successful if they are able to make tea as a representation of the one's consuming them. This is when stylish tea from niche players became critical. Thus, the growth in of tea industry in the UK is expected to be at least 7%.

Delving to other health products, UK's consumption of oatmeal including porridge from 2003 to 2005 significantly increased at least 20% (Baker Website). This indicated that the health consciousness of consumers have revived several years ago. The interesting part is the large part of UK consumption of these products is sourced from cafes shops similar to teas. Convenience in eating as well as provision for healthy diet is two of the primary motivation of the consumer of their increased support. Parallel to iced tea, the positioning of cold cereal market is good with annual increase of at least 10%. This means that the typical intake of healthy products is

changing (Food Quality News). With the aid of governmental information efforts, more UK people are developing the habit of evaluating the nutritional content of each product label before actual purchase. This improvement is an extension of 2000 shifts on health beliefs of the population.

There are many benefits of tea from the Asian tests and experiences that are not yet as many as UK (Info Cancer Website). In fact, there are minimal UK studies to confirm that Asian evidence of cancer-minimizing capabilities of green tea. However, the UK market as well as some UK analyst has concluded that the Asian benefits are yet to be acquired by the country simply because the former is relatively consuming less quantities of tea. On the other hand, there are UK laboratory test that observed that tea has higher caffeine content than regular cola, energy drinks and chocolate. Caffeine is a substance that has positive effects to people such as increased alertness, treatment of asthma and aids blood flow. To be in safe levels of consumption, a person should not exceed 6 cups of tea in a day. Finally, increase caffeine consumption would lead to inability to sleep, nervousness and frequent palpitation of the heart (Tea Website). There are also studies that showed increased risk of bone illnesses such as osteoporosis and adverse effects on pregnancy if caffeine intake is not regulated.

Technological Factors

In European standards, UK agricultural production and its level of technology is efficient and highly-automized. As illustration, only 2% of its labor is in required to support sixty percent of its agricultural sector (Nutri-Ingredients). However, the list of main agricultural outputs of the country excludes tea. This is because that tea is abundant and typical to Asian

regions. There are private companies such as Unilever that are able to re-produce tea in the UK. But this is generally limited in variety and in texture. For example, in 2003, White tea became a successful product introduction in the UK because it is an exotic plant to the consumers. Obviously, the advantage of producing and selling exotic teas in the UK is that it is a good hedge in any technological advancements and efficiency in production of developed countries. Also, medicinal value is believed to be redeemed for products that do not undergo intensive technological application. To this part, exporters would be encouraged to enter and compete the UK market because what they are offering are unique products. Historically, unique products have the ability to run against market trends (e. g. avoidance of lower prices).

UK is one of those developed economies that maintained the role of agriculture in the economy despite radical shift of sectors towards service and manufacturing industries (IATC Website). In fact, the country is one of the leading nations that produce safe and efficient harvests. The quality of UK's products is reflected in its consumer protection against low quality and sometimes foreign foods. This can be a source of weakness against tea products from developing countries. The good issues are that China is a close trading partner of UK. The topography of UK includes fertile farmlands, favorable climate, pioneering breeding practices and application of science. However, these features may as well highlight the competitive advantage of Asian tea which is deriving in traditional, religious and cultural uniqueness. Even if some varieties of Asia teas are being able to be re-produced and

propagated in UK, the impressions of healthy and effective may not be synonymous to all UK customers.

Recommendation to the Chinese Tea-Seller

When doing business, he could divert the attention of English prospects from the religious concepts of herbal medicine into an essential health concept. This means that adaptation to the English religion is needed. Diversion of religious perspective of Yin Yang could be upheld by minimizing the use of such term when talking or advertising to prospects. The latter may feel cultural imperialism on the move that could adversely affect purchase. He could use general terms such as strong and weak ingredients as an option. However, such alternative could demise the healing power of the practice. Healing through herbal medicine necessitates harmony and it could not be attained if dishonesty lurks in the communication process.

Therefore, adaptation does not strictly require the practitioner to deemphasize the origin of herbal medicine which is China. There should only be a greater emphasis to concentrate advertising to the health aspects of the product not in its inherent Yin Yang concepts. The product specifications should be written comprehensively in the package which should include cautions, benefits and other educational facts. Leaflets about herbal medicine can also be helpful accompanied by seminar for closer customer communication. Diversity marketing, the process of customizing marketing programs to a specific market segment, could be tapped to cater the economic class stratification of UK. A more sophisticated and well-package product should be distributed to the upper class, the relative reverse could be distributed to the lower class and the middle features can be allotted to <https://assignbuster.com/analyse-the-tea-industry-in-india-economics-essay/>

the working class. As a strategy, it can be more realistic to generate income if the merchant will initially focus on the middle and lower class as they are characterized with cost-cutting while most of their income is allocated to food and education.

Herbal medicine could be characterized by high involvement in buying behavior and significant differences between other forms of mainstream Western medicine (Kotler, 2003). As a result, the merchant can fight in terms of cheaper price and non-toxic characteristic of herbal medicines. It can initially gain market in cases of simple viral- or bacterium- based sickness like colds and flu. It could be advertised as natural forms of medicine that simple disease could not only be treated in the short-run but continuous consumption can lead to long-term benefits. In doing this, marketing should highlight not only the breakthrough accomplishments, but more importantly, educate the consumers about the risks and researches. By emphasizing its cost-and-benefit features, it can be differentiated with other modern medicines as non-biased and customer-friendly alternative.

Conclusion

The PEST analysis above showed that Chinese tea exporters have a good opportunity in the UK market. The tea sector in the country has variety of advantages against exporters. This includes regulatory compatibility, consumer familiarity, efficient production practices, arable lands and high purchasing power of the people. On the contrary, Chinese exports have also its advantages such as traditional approach to production, unique land setting, embeddedness of tea as cultural medicine, competitive prices and a new look to tea products. The last feature and the health value Chinese tea

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exports would be the most critical factors for today's slowing tea sector. To address this issue, iced tea is the answer. This will defeat UK-based products especially if the Chinese exporter can offer cold and unique recipe of tea. Specifically, the ability of its product to be preferred by customers as hot or cold can be an indispensable characteristic to increase its market share abruptly.