This Project is co-financed by the Republic of Turkey
and the European Union

Technical Assistance for the Establishment of Rize Tea Research and Application Centre

EuropeAid/131426/IH/SER/TR

TR07R1.10-04/001

Activity 1.1.2

Strategic Market Research

International Market Survey
Main Report
Russia, Egypt, United Kingdom

January 2018

Türkiye Cumhuriyeti
Bilim, Sanayi ve Teknoloji Bakanlığı

.projectgroup

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INTRODUCTION

European Union supports establishment of the “Rize Tea Research and Application Centre (TRAC)”, the Project, in Turkey. In this regard, TRAC will be made operational under this Project and will increase the product quality and competitiveness of the tea industry, which is concentrated in Rize and its environs, by serving R&D and innovation facilities, a developed infrastructure and high quality services to the tea producing SMEs.

An important component of the Project is to conduct a strategic market research will be produced through a number of sub-activities including organisation of interviews with 15 international tea value chain actors specifically in marketing and selling tea products in order to deepen knowledge of the market analysis. These interviews will identify the key opportunities and constraints.

Russia, Egypt and the United Kingdom were selected as the target countries to carry out an international market research survey upon the desk research.

This report elaborates the analysis of the interviews while transcripts of the interviews were presented as a separate document annexed to this report.

Methodology

Qualitative research

Qualitative research is designed to reveal a target audience’s range of behavior and the perceptions that drive it with reference to specific topics or issues. It uses in-depth studies of small groups of people to guide and support the construction of hypotheses. The results of qualitative research are descriptive rather than predictive.

Qualitative research methods originated in the social and behavioral sciences: sociology, anthropology and psychology. Today, qualitative methods in the field of marketing research include in-depth interviews with individuals, group discussions (from two to ten participants is typical); diary and journal exercises; and in-context observations. Sessions may be conducted in person, by telephone, via videoconferencing and via the Internet.

Method

Below methods are commonly used in qualitative marketing research processes:

- group discussions
- In-depth interviews
- Focus groups
- Bilateral talks
- Home/facility visits

During the course of this research in-depth interview method was used. In overall, 15 companies in three countries were interviewed via face-to-face or telephone interviews. To sum-up there are 16 interview transcripts as there are two interviews in one company in Egypt.

Interview universe

- Russia
- Egypt
- Th United Kingdom

Target group

Marketing and sales professionals (marketing managers, directors, brand managers, sales and distribution managers, etc) who are also familiar with production techniques.

Interviewed companies

Russia	The United Kingdom	Egypt
1. Moskovskaya Chaynaya Fabrika	1. Unilever	1. El Gawhara Tea
2. Mlesna Ltd	2. Pukka	2. Lipton Tea
3. Imperial Tea Exports Ltd (Impra Russ)	3. Pekoe	3. El Farasha Tea
4. Milford ZAO	4. Yumchaa	4. Al Sherouk Tea Packing
5. New tea project	5. In-fusion	5. El Arousa Tea (2 IDIs)

EXECUTIVE SUMMARY – General Findings

- Tea market in the studied countries can be described as saturated, highly competitive and well established in terms of the rules and main players.
- It does not seem to be growing during last years. One of the possible reasons: the consumers have already reached the limit of consumption (several times a day).
- There are several companies dominating the business in each country. Unilever is the biggest tea company mentioned as one of tea market leaders in all countries. Local companies are also represented among market leaders.
- Government tends to ensure health and safety of its citizenships by certain control and legislation measures.
- There is no or almost no local tea-growing industry in the studied countries.
- The producers are focused on retail consumers. Nevertheless corporate buyers and HoReCa can be considered as quite promising.
- In terms of products affordable, value for money brands are most popular.
- Key pain points:
    - Lots of competition
    - Due to different reasons consumers choose cheap tea, that can be low quality and this is not an issue for them
    - Since the raw materials are imported (there is no or almost no local tea-growing industry in the studied countries), tea market depends on the currency exchange rate significantly.

Common tea consumption trends

- In the studied countries tea drinking is extremely common among most of the population. Moreover, tea can be considered as the essential part of national cultures, the product seems to be “ingrained” in the culture of each country.
- Tea companies experts describe tea drinking in their countries as:
    - Traditional, ingrained, close to the heart, part of their culture
    - Habitual, part of daily life, almost like a staple/ basic
    - Social: it is common to consume it in family circle or with friends
- It is used for the following reasons:
    - to pick-me-up
    - to concentrate for deep thinking & studying
    - to relax
    - to socialize

- “as treatment”: to get a relief for pain or headache (Egypt), cold and flu (e.g. in Russia)
    - to follow the traditions
    - to quench thirst
    - to warm up
    - to help with a digestion after heavy eating (Egypt only), etc.

- It is not a seasonal product. It is consumed all year long. However, in cold weather / season consumption increases.
- Russia, UK and Egypt are strongly black tea markets. Black tea is followed by green tea. Fruit teas and herbal infusions are other ways of tea consumption.
- Consumption frequency: a significant part of tea users drinks several cups of tea every day or almost daily.
- Key consumption occasions are associated with in-home consumption but drinking tea out of home is also popular. Tea tends to be drunk during the day and afternoon as well as in the morning. It can be consumed in the end of the main meal or during breakfast, when snacking.
- Substitute products: coffee is considered to be the closest substitute (hot, energizing, etc.). Especially on the following occasions: in the morning, at work, at a café or restaurant.
- In terms of changes and trends over the last 20 years number of different types and flavours of tea / infusions increases.
- Many more “players” / brands selling the tea these days (including small companies)
- Health benefits are more widely known and appreciated. Trend of healthy living contributes to the interest in healthy products in general and healthy teas (green, fruit, herbal) in particular. More or less trend of “tea as a health benefit” is emerged in each country and healthy teas market seems to be developing.

Table 1: Comparative analysis of all countries

KEY FINDINGS		OPPORTUNITIES AND RECOMMENDATIONS
ALL COUNTRIES		
A lots of competition	− High market saturation	− Search for USP, innovative products − Strong brand construction − Search for new sales channels and market segments: e.g. corporate buyers, HoReCa.
Value for money brands	− Consumers choose cheap tea	− Affordable but good quality offers
Low quality tea	− Popularity of low quality tea (no reasons to spend a lot on tea)	− Consumers education
Consumer trends	− Healthy lifestyle and appeal of healthy products, including teas	− Offer of healthy teas with relevant positioning
RUSSIA		
Tea market stagnation	− High market saturation and a lack of opportunities for growth	− Further category promotion and development (incl. market players' consolidation) − Search for new sales channels and market segments: e.g. corporate buyers, HoReCa.
Sales decrease	− Switching from tea to coffee − Decreasing consumption can partially be caused by the economic crisis	− Search for innovative products relevant to the target audience − Search for new consumption occasions
Pricing strategy	− High price sensitivity − Currently used strategies: o the same prices as competitors have or even lower o striving to maintain stable prices o loss-leader or minimum pricing o product-bundle pricing o maintenance of approximately similar prices in different POS − Price promo	− Use of pricing strategies which are relevant to the business goals
Almost total dependence on import	− Import of the raw material as well as materials for packaging - heavy dependence on the currency exchange rate	− Reduction of the dependence, e.g. investment in local production of packaging materials, search for local suppliers

KEY FINDINGS		OPPORTUNITIES AND RECOMMENDATIONS
Relations between producers and retail chains	− Conflict of interest can be identified. A lack of win-win solutions	− Development and implementation of win-win solutions, e.g. instruments of category management
Consumer trends	− A desire to economize and looking for bargains	− Affordable but good quality offers
	− The tea category does not seem to be appealing to young people	− Search for new products and ideas based on the Millennials' needs − Use of digital technologies for promotion (e.g. social media, etc)
Consumers' educational gaps	− Despite the long tradition of tea consumption, some educational gaps: differences between teas, brewing, etc.	− Educational campaign to increase the culture of consumption
State- related issues	− Issues of anti-counterfeiting − Raw delays in the customs	− Consolidated efforts of the main market players to overcome possible shortcomings in the system
EGYPT		
Economic Breakdown	− Due to economic breakdown customers tend to limit their consumption.	− Market players' consolidation for further category promotion and development − Search for new sales channels and market segments: e.g. corporate buyers, HoReCa.
Distribution	− Dealers / Distributers are more distinctive than retail chains. − Before retailers there are brokers, which distribute to the wholesalers/distributers and wholesalers distribute to retailers, where the product finally reach to the consumer.	− Search for opportunities to eliminate brokers in such a price sensitive market. − Search for new opportunities to sell directly to key accounts
Pricing strategy	− High price sensitivity − although the price leader is the market leader − Price discrimination in different geographical locations. − Retailers strive to maintain stable prices even after the price shifts of producers	− Use of pricing strategies which are relevant to the business goals
Almost total dependence on import	− Import of the raw material as well as materials for packaging - heavy dependence on the currency exchange rate	− Reduction of the dependence, e.g. investment in local production of packaging materials, search for local or geographically near suppliers
State- related issues	− Issues of anti-counterfeiting − Raw delays in the customs	− Consolidated efforts of the main market players to overcome possible shortcomings in the system

KEY FINDINGS		OPPORTUNITIES AND RECOMMENDATIONS
UNITED KINGDOM		
Hard to add value	− Jostling to find own space in a busy market	− Niche brand story − Attractive packaging − Starting to manufacture own teas
New products are copied	− Companies jump at new trends quickly so as soon as a new product is on the shelf	− Always trying to think of the next thing first, playing cards close to chest
Lack of market maturity	− Consumers does not seem being educated in terms of tea understanding, but happy with their low quality black tea	− Consumers education: o To convince new customers that the extra money is worth spending o To engage the customer in something new and interesting o To let people hear the stories about the brands and the different teas o To prevent them ruining the product (and brand) by making it in the wrong way – over brewing/infusing etc. o Staff can be good at this but finding reliable staff who work hard and leave customer with a good impression is proving difficult for one respondent – particularly as they take on more staff as that becomes harder to manage. o To challenge the perception that the taste of herbal/green tea isn't very good
Consumer trends	− More focus on sustainability, environmentally friendliness	− Offer of sustainable, environmental products and packages
Distribution	− No major wholesalers or trader − Mostly direct sourcing from the country of origin	− Create more value within − Chance to work with the source − Require too much effort to sustain the supply chain
Legislative obstacles	− Strict legislative policy in terms of marketing claims	− To be careful with product claims − To exclude any opportunity for consumers confusion
Expensive shipping	− Shipping is a factor limiting competitiveness through cost	− Consolidation of purchases into one shipment to ship instead of send by air, going to middle man wholesaler, use of export agent to consolidate shipments.

I Country specific findings – Russia

Table 2: Russia – main findings, opportunities and recommendations

KEY FINDINGS		OPPORTUNITIES AND RECOMMENDATIONS
Tea market stagnation	− High market saturation and a lack of opportunities for growth	− Market players' consolidation for further category promotion and development − Search for new sales channels and market segments: e.g. corporate buyers, HoReCa.
Sales decrease	1.Switching from tea to coffee − Decreasing consumption can partially be caused by the economic crisis	− Search for innovative products relevant to the target audience − Search for new consumption occasions
Pricing strategy	− High price sensitivity − Currently used strategies: 1. the same prices as competitors have or even lower 2. striving to maintain stable prices ○ loss-leader or minimum pricing ○ product-bundle pricing ○ maintenance of approximately similar prices in different POS − Price promo	− Use of pricing strategies which are relevant to the business goals
Almost total dependence on import	− Import of the raw material as well as materials for packaging - heavy dependence on the currency exchange rate	− Reduction of the dependence, e.g. investment in local production of packaging materials, search for local suppliers
Relations between producers and retail chains	− Conflict of interest can be identified. A lack of win-win solutions	− Development and implementation of win-win solutions, e.g. instruments of category management
Consumer trends	2.A desire to economize and looking for bargains	− Affordable but good quality offers
	− Healthy lifestyle and appeal of healthy products, including teas	− Offer of healthy teas with relevant positioning
	− The tea category does not seem to be appealing to young people	− Search for new products and ideas based on the Millennials' needs − Use of digital technologies for promotion (e.g. social media, etc)
Consumers' educational gaps	− Despite the long tradition of tea consumption, some educational gaps: differences between teas, brewing, etc.	− Educational campaign to increase the culture of consumption
State- related issues	3.Issues of anti-counterfeiting − Raw delays in the customs	− Consolidated efforts of the main market players to overcome possible shortcomings in the system

1.1 General points

- According to the experts, the Russian tea market volume is about 160-180 thousand tons a year. It has decreased in the past few years.
- The market continues to stagnate due, on the one hand, to the economic crisis, which still has a considerable impact on the consumer, and, on the other hand, to the changing consumer preferences (please see 5.2.3 for a more detailed coverage).
- Meanwhile, the Russian tea market can be characterized as saturated and highly competitive as well as relatively established in terms of its rules and main players.
- Producers can be considered as some of the main players in the tea market. There are few market leaders with the largest market share (~80%): Orimi Trade (Russia's largest producer, the main leader), Unilever, MAY, SDS-Foods (Ahmad Tea). The other producers have to adjust their activities (including in terms of pricing policy):

> *"The Russian tea market is a classic example of oligopoly. There are only a few main competitors in the market, which set trends and dictate the rules."*
>
> Source: Russia interview notes

- As for the local tea-growing industry (Krasnodar region), it seems to be small and does not influence considerably on the Russian tea market.
- Retail chains also seem to be very important players as producers' sales lie in their hands. In some cases retail chains tend to impose their terms and conditions on the producers (especially on the not top five):

> *"We sell a tea pack at 200 rubles to a retail chain, and then they set a price of more than 500 rubles for it. We get practically nothing from this deal, it is because the retail chain forces us to sell the product to them at a minimal possible price with almost no margin, whereas their own mark-up exceeds 100%."*
>
> Source: Russia interview notes

- The government's role does not seem to be an active one in terms of tea market regulation or business support. The state primarily attempts to control and regulate retail business (their relationship with the producers and margin prices).
  - At the same time, the Government is actively pursuing the policy of strict customs control of tea imports. Most of the respondents mention that there is no smuggled or illegally imported tea in Russia (counterfeit product is made of legally imported raw materials)
- The most influential public and non-profitable organizations in the Russian tea market are the Rusprodsoyuz (Association of Manufacturers and Suppliers of Food Products) and the Rusteacoffee Association (its general director Ramaz Chanturia is one of the key opinion leaders in the Russian tea industry). These organizations are engaged in lobbying the industry interests with the governmental authorities, arranging for information support, etc.
- Although the producers seem to be more focused on retail consumers, the experts evaluate the segment of corporate buyers and HoReCa as quite promising and

interesting for their companies because such contracts mean guaranteed sales. The following entities were mentioned among the largest buyers:

- airlines and transport companies (e.g., Russian Railways),
- large industrial enterprises (Severstal, NLMK),
- big banks (like VTB24)
- local and global fast-food chains like McDonalds and Kroshka-Kartoshka.
- As for state organizations, their potential is evaluated ambiguously (due to the experts' unsuccessful experience of participation in state tenders)

1.2 Pricing of tea

- Price sensitivity is high especially due to the economic crisis (consumers strive to economize and look for bargains). Even a small change in price creates a significant change in demand:

> *"If we raise the price of our best-selling SKU by 10%, its sales may fall by 30-40%."*
>
> Source: Russia interview notes

- Due to the current market situation and specific business goals, the producers actively use the following pricing strategies:
  - the same prices as the competitors (primarily the market leaders) have or even lower:

    > *"Like overall pricing in the consumer goods market (from mobile phones to milk, everybody looks at each other). You can call it cartel agreement or use other words, but price is formed by the market leaders"*
    >
    > Source: Russia interview notes

  - striving to maintain stable prices (e.g. it was used by Orimi Trade for Greenfield and Tess brands)
  - loss-leader or minimum pricing (in economy segment, e.g. by unknown brands)
  - product-bundle pricing
  - prestige pricing (rarely, in premium tea segment, e.g. Kantata chain and others)
  - maintenance of approximately similar prices in different channels and points of sale
- Different price promo (primarily special offers at lower prices) should be pointed out as very widespread:

> *"There is a variety of products on the shelf these days, and people just don't buy tea without a discount or promo event."*
>
> Source: Russia interview notes

1.3 Tea perception and consumption

- Tea can be regarded as the national beverage. Currently, over 90-95 per cent of the population consume tea:

> *"The importance of tea in Russia is huge, enormous… In Russia, tea was consumed, is consumed and, I hope, will be consumed for a very long time… Russian people are used to it, really! At the moment, there is hardly a family that can do without tea for a single day. Everybody drinks tea"*
>
> Source: Russia interview notes

- The state tea included tea in the minimum consumer basket of goods and services and the list of socially important products.
- Most consumers prefer black tea (including flavoured black teas; ~70-80 per cent of the market). The second most used type is green tea, which accounts for 15-20 per cent of the market, whereas herbal teas make up just about 5 per cent of the tea market.
- Consumption frequency: from one to several cups a day
- Common additions (in the order of importance): sugar, lemon, milk, honey and mint. Nevertheless, the beverage can also be consumed plain.
- Tea is not a self-dependent beverage. The most popular way to drink it is hot with different cookies, chocolate, candies, cakes, sandwiches, pastries, etc.
- There is an intraregional specific, according to the experts. Due to local cultural and national differences, consumer preferences and consumption behaviour can vary considerably in some regions:

> *"The highest rates of tea consumption in Russia are observed in Bashkiria and Tatarstan. That is due to the Muslim population, they drink less alcohol. They consume more than 2 kg per year per capita, while average index throughout Russia approximates 1.5 kg"*
>
> Source: Russia interview notes

- Substitute products: in addition to coffee, juice, compote, carbonated and non-carbonated soft drinks can be considered as the competitors. In a few cases alcohol (in particular beer) was characterized as a substitute.
- Despite the long tradition of tea consumption, some educational gaps seem to be common among the Russian consumers. E.g.: tea users are not likely to be aware of differences in product growth locations or correct tea brewing:

> *"Everybody knows that there are different sorts of coffee, e.g. Arabica or Robusta. If you ask a consumer to tell Assam tea from Ceylon tea or Kenyan tea, they will not be able to do that"*
>
> *"I know a lot of people who dip the tea bag in water just for 2-3 seconds, and when the water gets a bit darker, they throw the tea bag out and drink their tea"*
>
> Source: Russia interview notes

1.4 Local trends and developments

1.4.1 From consumers' perspective

- Although consumers continue economizing, there are some improvements in the economic situation (especially in Moscow) and income stabilization
- Switching from leaf tea to tea bags (especially in large cities). The product fits the faster pace of life better and meets consumers' expectations in terms of convenience of use and time saving approach:

> *"Home consumption is moving towards using tea bags only. The position of tea bags has considerably strengthened in the past few years compared to tea leaves… We are always in a hurry and don't have time."*
>
> Source: Russia interview notes

- Switching from tea to other beverages, primarily coffee (mostly large cities, young people)
- Soviet nostalgia -> appeal of particular Soviet products and brands including tea (mentioned by one expert)
- The trend of healthy lifestyle contributes to the interest in healthy products in general and healthy teas (green, fruit, herbal) in particular. Nevertheless, this trend has a niche character.
- Consumers are becoming more educated and sophisticated -> it can be assumed that high quality of tea will become more important

1.4.2 From producers' perspective

- Increasing competition reinforces the search for innovations:

> *"Everybody looks for something they could surprise or astonish with, so that it would be tasty, interesting, healthy… The market is already saturated. The only thing we have to do now is come up with something interesting and attracting attention."*
>
> Source: Russia interview notes

- Severe price competition, a need for cost reduction ->usage of lower-quality, but cheaper raw materials ->decline in the quality of tea
- Offer of a larger quantity of tea per pack for a better price:

> *"Some time ago the producers put 25 and 100 tea bags into a package. These days they start offering other packages: with 40, 150, 120, 200 tea bags… Let's assume that 100 tea bags cost 200 rubles, and 150 tea bags cost 230 rubles. So, a buyer is psychologically ready to pay extra money for getting more product."*
>
> Source: Russia interview notes

- Launching loyalty programs for brand users (Ahmad Tea)
- Cross-promotion development

- Usage of modern digital technologies to promote tea brands and products (from social media to e-book as a gift in promo)
- Consumers search for new experience -> new approaches to the retail and HoReCa sector:
  - development of tea boutiques, tea rooms (outlets of "showroom" type), where different teas can be tasted
  - offer of tea lists with a wide tea assortment by some restaurants

> *"Tea rooms are currently emerging, where you can come and taste exquisite, expensive sorts of tea, which cannot even be served in a restaurant. That's a trend. You can also have some buns or rolls there, if you like, but it is mainly tea that is served there."*
>
> Source: Russia interview notes

1.5 Market access and competition

- Most of the producers (especially producers of several brands) identify their target audience as regular tea users; mostly females aged 25-55 (as they are responsible for purchasing foodstuffs for their families).
- According to the brand strategy, some single brand producers describe their target audience more accurately, e.g. they determine the age range more precisely (e.g. 35-45), use income grades, specify attitude towards tea, etc.
- The main company strengths are related to:
  - Reliable company and product brand image
  - Long history of presence in the market (means high level of competence and great experience)
  - High level of product quality (high-quality raw material, natural flavourings, reliable suppliers, etc)
  - Product lines (with interesting flavours attracting consumers)
  - Tea packing in Russia (if relevant) ensures a higher level of flexibility, helps to be proactive and react promptly to market changes, customs duties are lower compared to packed tea
  - Tea packing in the country of origin (if relevant) is associated with a higher level of quality
- In terms of weaknesses the following aspects should be listed:
  - Dependence on the currency exchange rate and costs of raw materials:
  - A lack of product uniqueness:

> *[Moderator] Everybody mostly offers the same products?*
>
> *[Expert] Yes, they do. There is nothing hyper-unique, which would immediately conquer the market."*
>
> Source: Russia interview notes

- Low profitability (a part of respondents)
- A lack of marketing budget (in some cases it is combined with the target's low awareness of the brand benefits)
- Distribution: low presence in retail, especially in retail chains (medium-sized and small companies)
- Tea packing in Russia: long lead times in raw material delivery
- Tea packing in the country of origin (means high customs duties)

- According to the experts, the factors decreasing competitiveness are as follows:
  - Overall economic situation and decreased purchasing power in Russia
  - Market stagnation
  - High customs duties on packed tea
  - Retail chain policy (disadvantageous contract terms).
  - Risks of insufficient quality of delivered raw materials
  - Lack of local producers of packaging materials or their insufficient quality
  - Long lead times in delivery and risks related to the transportation of raw materials (bulk tea can be detained in the customs):

> *"Everything that crosses the Russian border can face some kind of issues and be delivered with a delay"*
>
> Source: Russia interview notes

  - Too expensive equipment and its repair

- Mechanization and automation level of tea-packing plants is evaluated as rather high (imported and local equipment is used) at all stages of production. At the same time the equipment used can be rather old and require replacement or upgrading (mentioned by 1 respondent, a local small company):

> *"At the moment, it is not the most technological of what is available in the market. The production line we have in Krasnodar is rather old. It was last upgraded in 1995 or 1996. It is rather old equipment. But it is still running"*
>
> Source: Russia interview notes

1.6 Constraints and obstacles

- Stagnation, high market saturation and a lack of opportunities for growth. The limit of product consumption seems to have been reached. It is hardly conceivable that Russian people would consume tea in a larger volume or more frequently:

> *"The market does not have much potential for growth. There are no opportunities for quantitative growth because the market cannot grow infinitely."*
>
> Source: Russia interview notes

- The Russian tea market is mainly based on import (import of the raw material as well as materials for packaging), thus it depends heavily on the currency exchange rate
- Conflict of interest between producers and retail chains. According to the producers, retail chains impose inappropriate contract terms (the obligatory condition for contracting can include a request to grant a large discount and significant purchase price reduction or a demand for private label production)
- Conflict of interest between producers and distributors (mentioned rarely): small producers have no control over distributors' prices. As a result, the product's price can differ considerably:

> *"Some distributors don't work honestly and don't comply with their obligations: they can dump our products to some retailers, which results in situations when in some places our products are half price compared to elsewhere."*
>
> Source: Russia interview notes

- Counterfeit teas. Most of the respondents are aware of their company brands being counterfeited. It is supposed that tea counterfeiting is not widespread but a few experts take a different view:
- Shortcomings in the law enforcement system and some legislative gaps can make anti-counterfeiting difficult for tea producers:

> *"During the years of my employment with Impra, we faced the issue of our product being faked 3 times. Regretfully, it ended up in nothing, anyway."*
>
> Source: Russia interview notes

- In some cases the producer can ignore the facts of its brands being faked and do nothing:

> *"Actually, who will travel to the North Caucasus in order to find the producer and sue him? Nobody. It's useless."*
>
> Source: Russia interview notes

2 Country specific findings – Egypt

Table 3: Egypt – main findings, opportunities and recommendations

KEY FINDINGS		OPPORTUNITIES AND RECOMMENDATIONS
Economic breakdown	– Due to economic breakdown customers tend to limit their consumption.	– Market players' consolidation for further category promotion and development – Search for new sales channels and market segments: e.g. corporate buyers, HoReCa.
Distribution	– Dealers / Distributers are more distinctive than retail chains. – Before retailers there are brokers, which distribute to the wholesalers/distributers and wholesalers distribute to retailers, where the product finally reach to the consumer.	– Search for opportunities to eliminate brokers in such a price sensitive market. – Search for new opportunities to sell directly to key accounts
Pricing strategy	– High price sensitivity – although the price leader is the market leader – Price discrimination in different geographical locations. – Retailers strive to maintain stable prices even after the price shifts of producers	– Use of pricing strategies which are relevant to the business goals
Almost total dependence on import	– Import of the raw material as well as materials for packaging - heavy dependence on the currency exchange rate	– Reduction of the dependence, e.g. investment in local production of packaging materials, search for local or geographically near suppliers
State- related issues	– Issues of anti-counterfeiting – Raw delays in the customs	– Consolidated efforts of the main market players to overcome possible shortcomings in the system

2.1 General points

- Although tea is a popular beverage the market growth rate of tea is relatively low and prices can not kept stable over the last two years after the revolution due to fluctuations in dollar rates. Since the raw material is direct import, the prices are in foreign exchange. Rate changes affect the cost of the price sensitive product directly causing changes in the selling price of the product. This is a barrier for the small producers if they cannot manage the FX rate changes properly.
- The main players dominate the market and there are barriers to entry for the new players in many aspects.
    - The country is not attractive to invest for new players due to economic situation for the time.
    - Fluctuations in foreign exchange rates have impact on small producers as discussed above
- There are many players in the market, yet the three main players dominate the Egyptian tea market. The global players Lipton and Al Arousa dominate the business. However, local player, El Gawhara, the third in the consumption, experienced in the food industry with strong distribution chains developed their influence over the years.
- "When we started there were well known competitive brands. Moreover, numerous tea companies started their business the same year as we did. However, some companies shut down whereas some terminated their tea business. Of course in the beginning we (El Gawhara) didn't gain much"

> *"There are many companies which appear in the market and then they disappear like Taj Almoulok. We are familiar with it as a baking powder brand. Later on, they changed the form and offered tea in jar and after that they disappeared. The main players in tea market are Al Arousa, Lipton and Al Gawhara. There are also Ahmed tea and Mahmoud tea. There are many brands but the popular ones in Egypt are few."*
>
> Source: Egypt interview notes

- Although the economic difficulties the price leader Lipton is also the market leader. Actually the price ranking is the market rank as well. Therefore, being strong in distribution, operating in the 28 regions of Egypt, is a distinctive power in sales. Advertising to build brand recognition as well as product and technological development to attract different market segments are important as well.
- Direct export brands and illegal imports are also players, but they do not have significant effect. The three main players have significant differences in taste. The others' taste is not appreciated as much as these three.
- The climate of Egypt is not appropriate to grow tea leaves since they require high humidity. Therefore there is no local tea-growing industry. Instead of producers, the importers of the raw material regarded to have impact on the market since they can influence the price. The raw material comes from Russia, India, Pakistan, Sri Lanka,

and Kenya. The companies have quality assurance procedures run on their own especially for the import raw material.

> *"They import tea from India, Pakistan, and Kenya. The best tea is from India and Sri Lanka, but they usually import from India."*
>
> Source: Egypt interview notes

- The tea production/packaging is a 5 step production. The leaves come in containers from abroad. They put these leaves in machines and then they steer it in a circle way to get the final product and then wrap it. High humidity during transportation was used to be a problem ruining the raw material, but not anymore.
- Dealers/distributers are more distinctive than retail chains. The dealer profit margins may vary on company basis.

> *"Of course, traders are the main element in the distribution process. Lipton will not be able to distribute its product without traders."*
>
> Source: Egypt interview notes

- Retail chains are the last stop before reaching the consumer. Before retailers there are brokers, which distribute to the wholesalers/distributers and wholesalers distribute to retailers, where the product finally reach to the consumer. Besides, local retail chains have more sales potential than global ones like Carrefour especially for price sensitive groups.

> *"From Lipton to agents, then from agents to traders. Let's say the supermarket purchases a kilo for 105 L.E., me, as a wholesaler, receive it for 102 L.E., so I can sell it to the market for 105 L.E. why do I get that 3 L.E. discount? Because I purchase in large amounts. A supermarket would purchase 1-2 kilos, but I would purchase 100 kilos, so the producer has to reduce the price 2-3 L.E., so I could sell to the supermarket for 105 L.E."*
>
> Source: Egypt interview notes

- Horeca sales are promising with potential for growth.
- Government have quality assurance procedures on consumer protection, yet it is not dedicated for tea it is a general policy of protection by ministry of health. Producers run their own quality control programme. The government's regulations may cause barriers to entry for the new comers. Moreover, there are brokering activities and commissions. Respondents suggest that the government may have an active support on imports to reduce prices.
  - Government procedures on import cause raw materials to wait at the customs increasing the import delivery time and costs

> *"Sometimes, the customs ask for more money to let the products to in."*
>
> Source: Egypt interview notes

  - It is a commodity and taxes overall including the customs have impact on the price of the product.

- The cost of imports of the processing equipment of tea has also impact on the price overall.

2.2 Pricing of tea

- Although the price leader is the market leader, customers are price sensitive on the brands they buy due to the political issues on economic power. Consumers strive to economize and look for bargains especially for the rural areas where income per capita is lower.
    - However, pricing is critical. If the price is too low there is the risk of being considered to be poor in quality.
- Since the product is price elastic, niche lines are not much popular in consumption in nationwide.

> *"Some parts of the country will be not able to afford flavoured tea at all."*
>
> Source: Egypt interview notes

- Price discrimination in different geographical locations is valid due to income levels of the location, but the price differences are not dramatic, since it may cause perceptions on poor quality.

> *"It's all linked together for example Zaiton has poor and rich people. So I have to make sure that if the product is 1,5 at one area then it has to be 1.25 at the other. And it shouldn't be very different from each other or else customers think the quality is bad and/or they won't buy something that expensive"*
>
> Source: Egypt interview notes

- It is not a seasonal product. It is consumed all year long however, in cold weather consumption increases. Due to increased demand prices get to increase.
- Traditional pricing strategies and competition rules are distorted for the market leaders.
    - Top two players "literally agree" on price shifts.

> *"The biggest two companies follow each other. When Lipton's prices increase, so does Al-Arousa's at the same day. I mean they literally agree upon raising prices."*
>
> Source: Egypt interview notes

-
    - Retailers strive to maintain stable prices even after the price shifts of producers
        - Cash is the king. Therefore, wholesalers/retailers are willing to lower their margin to have more sales and cash returns. With the cash on hand they can invest on more profitable lines.
        - Wholesalers/retailers stock before the price shifts and sell lower than the company set price gaining cash again.
    - Placing promotional items with the product
    - Economies of scale through changing the size of the product

- For new lines promotional prices are required since the product is highly price elastic. Free sampling is the alternative way for promotional activity, but price deductions are more relevant.

2.3 Tea perception and consumption

- Egypt's tea consumption is an integrated part of the Egyptian culture. It is regarded to be an addiction like cigarette:

> *“Other drinks can be linked to age and health, but not tea! Some beverage consumption may be linked to the level of income. However, tea is for both poor and rich”*
>
> *“It is a hot beverage for low price”*
>
> Source: Egypt interview notes

- There are now 4 types of tea, black, green, orange, and white. Black tea is the most popular followed by green tea since it is regarded to be healthier than black. Herbal tea or fruit flavored tea are less popular.
  - Black tea is regarded to be the cause of anemia
  - Green tea is considered to help digestion and useful for diet
- Consumption frequency: from 3-4 to several cups (10-15) a day
  - On Thursday and Friday it is consumed more (may be the weekend for Egypt)
  - During Ramadan it is consumed more to help digestion after fasting
- Common addition is usually milk especially during the mornings and evenings and for kids:

> *“Tea with milk is generally consumed in the morning or before sleeping or at family gatherings at night, and may be with sandwiches”*
>
> Source: Egypt interview notes

- An expert pointed out that with the additives like milk and etc the product is regarded to be a new beverage but not tea. Also this new beverage will not be as affordable as tea.
- Tea is a self-dependent beverage. It is mostly consumed plain, but bread cracks and some snacks may accompany.
- On behalf of taste, Lipton’s tea is regarded to be very dark and heavy; whereas Al Arousa’s tea is regarded to be reddish and light.
- Substitute products: the Egyptian coffee, Turkish coffee or Nescafe & espresso.

2.4 Local trends and developments

2.4.1 From consumers' perspective

- Switching from leaf tea to tea bags (especially in large cities).
- Niche trend of healthy teas due to interest in healthy lifestyle.

2.4.2 From producers' perspective

- Over the years, number of flavours increased (like orange tea). Shisha and Ahmet Tea are a niche brands for fruit flavoured tea (strawberry and apricot). Lipton has fruit flavoured lines as well.
- Packets became bigger
- Tea itself got stronger.
- Alternatives in percentage of caffeine (i.e. white tea) are launched.
- Tea based products like ice tea are launched. Ice tea is a seasonal product and a direct substitute for carbonated soft drinks.
- Beads tea is something new.
- Although the producers seem to be more focused on retail consumers, the experts evaluate the segment of out of home quite promising and there are innovative presentations of tea on streets. However, there is only opportunity for the main players since they are strong enough to provide corporate discounts and offers.

> *"I sometimes see young men sell tea in the streets as the is basic I may be hungry but I drink tea before I eat"*
>
> Source: Egypt interview notes

- Teas in bottles may be introduced to the market.
- Three leading companies may act together to increase the wallet share of the category.

2.5 Market access and competition

- The main company strengths are related to:
  - Reliable company and product brand image
  - Long history of presence in the market (means high level of competence and great experience)
  - High level of product quality (high-quality raw material, natural flavourings, reliable network, etc)
  - Product lines (with interesting flavours attracting consumers)
  - Strong distribution network
- In terms of weaknesses the following aspects should be listed:
  - Dependence on the currency exchange rate and costs of raw materials:

- Issues on price versus quality comprehension
- Low profitability
- Government regulations on import duties
- Distribution: too many channels in such a price sensitive
- Tea packing in Egypt: long lead times in raw material delivery
- Tea packing in the country of origin (means high customs duties)

- According to the experts, the factors decreasing competitiveness are as follows:
  - Overall economic situation and decreased purchasing power in Egypt
  - Fluctuations on foreign exchange rates especially USD
  - High customs duties on packed tea
  - Distributor price policy
  - Risks of insufficient quality of delivered raw materials
  - Lack of local producers of packaging materials or their insufficient quality
  - Long lead times in delivery and risks related to the transportation of raw materials (bulk tea can be detained in the customs)
  - Too expensive imported equipment

2.6 Constraints and obstacles

- Due to economic breakdown customers tend to limit their consumption. They switch to lower quality brands. Value for money is more important than ever.
- The Egyptian tea market is mainly based on import, thus it depends heavily on the currency exchange rate
- Conflict of interest between producers and distributors. According to the producers, distributors impose inappropriate margins selling the product less than the producer price to gain cash immediately.

> *"If I purchased a package of 100 Kg from the company, I will get it for 100 L.E./Kg, and if I purchased a package of 200 Kg, I will get it for 99 L.E./Kg until we reach the highest package. Then Lipton offered me a bonus to reach a certain target. Reaching the target is hard for me, so I sell the kilo for 103 L.E. while the company sells it for 105 L.E., so I could reach the set target. That is considered a conflict of interest."*
>
> Source: Egypt interview notes

- Getting around the bush to lower costs
  - Some under the counter producers do fake production imitating existing brands with the same logo and same packaging with prices lower than the real ones
  - Some producers produce tea without license to avoid tax and the production is poor in quality since there is no standards to meet

- Some experts believe that to lower prices some brands mix saw dust with tea and then pack it to sell.
- Some import lines may be expired in their own country and exported to Egypt for small firms' use.
- For out of home use, there is a chance that these low quality and low price products may be mixed with the leading brands to maximize the profit.

3 Country specific findings – United Kingdom

Table 4: UK – main findings, opportunities and recommendations

KEY FINDINGS		OPPORTUNITIES & RECOMMENDATIONS
Hard to add value	– Jostling to find own space in a busy market	– Niche brand story – Attractive packaging – Starting to manufacture own teas
New products are copied	– Companies jump at new trends quickly so as soon as a new product is on the shelf	– Always trying to think of the next thing first, playing cards close to chest
Lack of market maturity	– Consumers does not seem being educated in terms of tea understanding, but happy with their low quality black tea	– Consumers education: o To convince new customers that the extra money is worth spending o To engage the customer in something new and interesting o To let people hear the stories about the brands and the different teas o To prevent them ruining the product (and brand) by making it in the wrong way – over brewing/infusing etc. o Staff can be good at this but finding reliable staff who work hard and leave customer with a good impression is proving difficult for one respondent – particularly as they take on more staff as that becomes harder to manage. o To challenge the perception that the taste of herbal/green tea isn't very good
Distribution	– No major wholesalers or trader – Mostly direct sourcing from the country of origin	– Create more value within – Chance to work with the source – Require too much effort to sustain the supply chain
Consumer trends	– More focus on sustainability, environmentally friendliness	– Offer of sustainable, environmental products and packages
Legislative obstacles	– Strict legislative policy in terms of marketing claims	– To be careful with product claims – To exclude any opportunity for consumers confusion
Expensive shipping	– Shipping is a factor limiting competitiveness through cost	– Consolidation of purchases into one shipment to ship instead of send by air, going to middle man wholesaler, use of export agent to consolidate shipments.

3.1 General points

- The biggest tea companies were frequently named as Tetley and Unilever (PG Tips and Lipton), and Typhoo. Yorkshire Tea was also mentioned in the Black Tea market.
    - The biggest players in the green/herbal/fruit infusion market were named as Twinings, Clipper and Teapigs.
    - Other companies mentioned were Yorkshire Tea, Whittingtons, Fortnum and Mason, T2

> *"I'd say the biggest ones are probably PG Tips in the UK, and Tetley, but they're very much focused on black tea, whilst we're more about green and herbal tea. Clipper and Teapigs are probably the main ones in green and herbals."*
>
> Source: UK interview notes

- The tea companies source and sell tea in several different ways according the type and size of the business and depending on the product.
    - Ingredients sourced directly from grower: some black teas are sourced directly from the grower sometimes through an auction in the country of origin. Herbs and other natural ingredients for use in blended teas may also be sourced directly from the grower. This gives assurances of quality and cuts out a middle man. Suppliers are sourced by the MDs themselves at the smaller companies. They look online and use social media (one mentions Facebook, LinkedIn) to connect directly with tea / herb growers and their representatives and are sent samples. One MD will travel to meet the growers to understand more about the company and the product, to check quality and gain reassurances. One other chooses from the sample based on quality of taste and target price point. Bigger companies may have a sourcing team that goes to visit farms directly or to meet new farmers. Tea and ingredients tend to be sourced from a wide range of farms across lots of different countries.

> *"Because we're organic and everything we do is organic we have to be quite specific about the farmers we use, so either we will go to farmers and help them become organic or we will find organic farmers and go with them."*
>
> Source: UK interview notes

-
    - Buy teas already blended from third party tea producer (based in Germany). Some companies buy their tea from a third party blender that has already sourced and mixed the products. This is the case for some sellers of herbal and fruit or flavoured teas. This can be a cheaper option than sourcing direct. But for one company this isn't a very satisfying process as there is little traceability of the product.
    - None of the companies we spoke to buy their tea wholesale in Britain. According to one company, there are not that many bulk wholesalers within the UK itself. Some of the names mentioned include: Reginald Alms, Woodhams, Ringtons, Edinburgh Tea and Coffee co. Even these may not necessarily source from origin themselves and may also buy from Germany and do their own blending.

- Once the tea is purchased from the grower, wholesaler (or blender) it may then be blended into the tea companies own recipe (Unilever, In-fusion, Pukka) before being packaged into own brand packaging or white label if being sold unbranded. Sometimes this is done in-house at their own factories (Unilever, In-fusion) or is outsourced to a third party blender and/or packer (Pukka, Pekoe, Yumchaa). From there the tea is sent to company warehouses for storage/distribution to customers/shops/distributors.
- Selling white label tea is seen as a good way to make money without being involved in the bunfight of direct to consumer retailing.
- The major supermarkets were mentioned most often as the biggest buyers of tea. Some names are: Tesco, Sainsburys, Waitrose, Ocado, Morrisons, Aldi, Lidl
  - Other 'buyers mentioned included buying 'agents' such as Ringtons, Canton Tea, Jing Tea, Suki Tea, Nothing but Tea, Finlays, Unilever, Tata
- 'Corporate' buyers included (one-off mentions) small independents and corporate firms or tourist destinations.
- The role of the Government in the UK tea industry tends to be in ensuring health and safety is adhered to by putting certain controls and legislation in place regarding the claims that can be made on packaging, what constitutes 'organic' or 'Fairtrade', as well as ensure relevant health and safety warnings (e.g. this tea may be hot). Generally there's a sense that companies need to be very careful about the claims that they make on the packaging both in terms of the quality and origins of the products as well as the potential benefits.
  - One thinks that the Government is trying to increase trade with Asia which could have benefits.

> *"They are very much behind us to make sure that whatever we claim on the pack is sufficient, justified and obviously quality control. I think all the usual things that you'd expect would be in the interest of the government."*
>
> Source: UK interview notes

- Although it was felt that there is research done into tea in the UK, respondents are unsure as to the presence of specific tea research centers in the UK. There was a feeling that lot of the research into actual tea was done in the country of origin. The tea testing in the UK tends to be either market research with consumers into things like taste, brand packaging, brand messaging, etc. or testing focused on the composition of the tea, e.g. the amount of caffeine present, the number of calories, nutritional information, etc. One off mentions of companies that do this type of 'testing' are SSRL and EUROFINs (not tea specific). One respondent seemed to think there was a lot of testing which helps with quality, ideas, concepts, how to make the tea, storage, lighting, drying process, roasting, etc.

3.2 Pricing of tea

- Fluctuations in the price of tea does happen due to:
  - Poor exchange rates vs Euro (and tea tends to be traded in USD or €)
  - Fluctuations in currency. Doesn't hedge on currency, so they do experience fluctuations in terms of price of tea they buy. But they set a retail price and aim to stick to it
  - Natural disasters / bad harvests / war affecting availability of tea / ingredients
  - Generally, although the price of tea changes, the retail price remains the same at least on a yearly basis. All aim to absorb these fluctuations and this is possible usually due to:
    - High margins (not commodity teas)
    - Annual price increases (single mention)
    - Prediction tools (single mention)
    - Good relationships with suppliers absorb any fluctuations (single mention)
- On the other hand gifting (especially Christmas, Mother's Day) can be a good time to increase margins through offering slightly different products packaged slightly differently.
- One company plans to increase prices after absorbing a 25% increase on the price of tea over the last year. But will need to differentiate product packaging to justify it to the consumer.

> *"We are still absorbing because we hit quite a high price point for where we sit in the market we've had to absorb it. We will be putting the prices up soon but we have to do things for that we have to justify it rather than just putting up the prices."*
>
> Source: UK interview notes

3.3 Tea perception and consumption

- In the UK, tea drinking is extremely common, even 'ingrained' in the culture. Most of the population is tea consumers. The product is regarded as a part of traditional culture and a kind of a habit, not a 'treat' but the norm, almost like a staple/basic. At the same time tea drinking is associated with relax, comfort, feeling of good factor, coziness.

> *"It's essential, it really is. It sounds crazy but it's essential."*
>
> *"They don't really consider it a treat or anything, they just see it as a more interesting alternative to water."*
>
> Source: UK interview notes

- Black tea can be considered the market leader. However there is also a good portion of the market which appreciates the health benefits of green tea and various herbal teas.

- Most drinkers drink 'low quality' teabag tea. Loose leaf tea drinking is much less common.

> *"Teabag tea is one of these things that you a cup of with a friend. It's a relaxing thing, a feel good thing but it's not valued as a product."*
>
> Source: UK interview notes

- Although large swathes of the population are satisfied with their 'low quality' tea bags, it is thought by some that there is a proportion of 'fine' tea drinkers. They are very in to their tea and like to know about it.
- Consumption frequency: from one to several cups a day
- Tea tends to be drunk during the day and afternoon (as well as the morning); however, people may tend to go for coffee first thing to get the caffeine pick-me-up. Due to being a staple one respondent thinks that it is seen to be a bit boring. Tea (as most people know it) is not 'theatrical or exciting". Herbal tea is thought to be drunk more in the afternoon.
- Common additions: tea is predominantly drunk black with milk and sometimes also with sugar. The teabag is put in the cup, boiling water is poured over the top and the tea bag is either left for a few minutes or it is stirred or squeezed and taken out. Then milk (usually semi-skimmed milk) is added on top. One respondent described the popular black teas as quite strong in taste as the addition of milk helps to take away the bitterness.
- Substitute products: For some, coffee is the main competitor, but even so, they are seen to appeal to different types of people and fulfill a different gap in the market. Coffee is much more of a morning drink, "a morning pick-me-up" whereas tea is drunk throughout the day. Coffee shops are also a bit more of a treat or experience for people.
    - Besides water or juice can be considered the substitute – and that tea is drunk in place of water. One respondent talks about energy drinks / supplements in some ways being competitors as tea manufacturers try to muscle in on the health trend, e.g. powdered drinks, iced tea. Also anything based in the same flavours: fruits, ingredients, super fruits, etc.
- Role of traditions and habits. There is a sense that UK people know what they like and tend to stick to it, that black tea is such a part of the culture that rather than convert them to other types they need to target different segments in the market – e.g. those who want to try new things. Even that people are more likely to choose the type of tea that they grew up with in the family home. One mentions that there is a need to create a habit rather than ask people to change one. One says it's about getting the British consumer to see tea as something different, like a fine wine or single malt whisky.

> *"Need to get people into a habit rather than change a habit".*
>
> *"The British consumer needs to start perceiving the value of tea as something different than just being a cheap teabag that they can buy in a supermarket."*
>
> Source: UK interview notes

3.4 Local trends and developments

3.4.1 From consumers' perspective

- People being more adventurous and more willing to try new things (compared 20 years earlier)

> *"20 years ago there was only breakfast tea I the UK and now there's hundreds and hundreds of different flavours. I think people are more willing to try more interesting things than they were 20 years ago."*
>
> Source: UK interview notes

- Healthy living trend and relevance of tea as a health benefit (including to younger audiences). This mirrors the current trend of healthy living in the UK at the moment. In particular the green tea and herbal tea markets are thought to be doing well as a result of this. Therefore, teas which aid things like digestion, sleep, energy, etc.

> *"Herbal tea will have a much bigger place within the hot drinks market I think"*
>
> *"We're seeing a lot younger people trying our teas and taking interest in the health benefits as well so I think that's a trend that will continue."*
>
> Source: UK interview notes

  - However, companies need to be careful about the claims they make regards health benefits of tea as they have to be proven to be true and there has to be a tangible benefit.
  - Also those teas aren't necessarily appealing to traditional black tea drinkers, though one has noticed that the decaff black tea is growing due to being seen to benefit the customer

- More focus on sustainability, environmentally friendliness, rain forest aligned, organic, ethical, etc. –> use of relevant package (more recyclable / sustainable e.g. unbleached teabags)
- People becoming more discerning and price points driving up the price of commodity tea might lead to more take up of finer, more artisan teas (following on from the coffee trend). One also mentions the current government drive to 'austerity' means people are buying more affordable luxuries, including nice tea.

3.4.2 From producers' perspective

- Several respondents mention that there is a big and growing market for flavoured teas – both fruit teas and herbal infusions. There are some very different and interesting flavours around which are starting to attract new kinds of tea drinkers – those looking for something new and different.
- Nicer, better, packaging (sealants, windows, aesthetically pleasing)

> *"Format has changed, packaging has changed. People want a lot more visibility of the product."*
>
> Source: UK interview notes

- More specialty/luxury – following the artisan coffee trend / as an affordable luxury item
- Tea producers follow some of the recent trends in a coffee market (a couple of the respondents).
  - Practically this might take the form of developments to the product itself such as nitrogen tea or fortified tea. Or the way tea is drunk – i.e. tea shops taking off in the way coffee shops have.

> *"Whatever the coffee market is trying to do tea usually follows"*
>
> Source: UK interview notes

- Other one off mentions include:
  - Tea 'gifting' – nice pots, packaging, tins
  - Ecology of tea
  - International teas such as Moroccan, Vietnamese
- It is supposed that people may start to bore of coffee (coffee shop experience) and turn to interesting new tea products instead.
- Some assumptions of future developments:
  - the theatrical element of tea has potential to take off – e.g. teas that change colour

> *"I think when selling tea you have to create theatre so you need to sell it as such and you need to sell then the dream, 'when you have this tea you're going to have the best time with your friends'."*
>
> Source: UK interview notes

  - The connection of tea and alcohol (tea as part of an alcoholic cocktail)

3.5 Market access and competition

- The main company strengths are related to:
  - Strong brand images (have a story behind the product)
  - Keeping dynamic
  - Keep the eye on the competition and understand their position

> *"We watch the space, we watch competitors, we do market research… constantly challenge our status quo as they say."*
>
> Source: UK interview notes

  - Established customers make distribution easy
  - Packaging works well and keeps the tea fresh

> *"I think we're quite lucky in that we don't have to worry about things going off and getting things out the warehouse as soon as possible."*
>
> Source: UK interview notes

- For one small company production is simple and they are in a position to be able to upscale quickly. Generally this respondent thinks that suppliers are looking to outsource abroad where it's cheaper to set up and for labour.

- In terms of weaknesses the following aspects should be listed:
  - Changing blends can be complex with local teams wanting different things at different times.
  - Higher price point of product (hard to break into new audiences, especially younger audiences)
  - Insufficient flexibility: changing the format of the tea (big companies) would be a huge investment on the manufacturing side so there would be questions asked around whether the business case is worth it – whether the potential market is big enough to justify the investment.
  - Blenders providing the wrong mix
  - Impossibility to fulfil orders in case of extra demands
  - Producing large inclusion tea is difficult for one large company (the machines that they use to produce their tea/teabags would break it down too much)
  - Lacking pride in flavoured tea products which are produced elsewhere
  - Not enough storage space so can't distribute in big quantities
  - Struggling with orders due to rapid growth (one off mention)
  - Not a big enough customer base to use third party (mentioned by small company)
- According to the experts, the other factors decreasing competitiveness are as follows:
  - Shipping is a big cost which means bringing in enough to make it worthwhile.
    - One company says they need to try to consolidate their commodity teas and ship by sea rather than air to ensure cost is justified (lower margins).
    - For one, when you consider the costs involved, it is simply too expensive to source and ship ingredients separately hence they have to buy from a third party blender (which means the product is less differentiated).
  - If trialling a new product for example you don't want to order too much in case it doesn't sell, but at the same time you want to order enough if it does and not has to wait 6-8 weeks for new supply.
  - Difficulties bringing products into the UK which can be time consuming.
  - Transport and duty costs can make it un-cost effective to ship to overseas customers, meaning potential loss of custom (one company)
  - Availability of particular products used in making the teas – which could be natural or otherwise, e.g. flooding, hurricanes or war. For example, one company is currently having trouble obtaining one of the types of mint they use in their three mint tea. So then they can't call it 3 mints (legal issuers) and can't make

enough to fulfil orders. There are currently also issues with obtaining Darjeeling tea and Madagascan Vanilla.

- A lack of organic suppliers (a supplier turns out not to be organic and there are the issues involved with finding a new supplier and it not impacting production too much.)
- Struggling with orders due to rapid growth (one off mention)
- Late delivery of packages from third party mean distribution can be delayed (one off mention)

- Mechanization and automation level:
  - For those producing in-house the biggest company is fully automated. The smaller company has eventual plans to automate but currently the process is manually done in house. Automation is the next big step but is also a huge upfront cost. The MD thinks that the first step will be to outsource and then bring it back in at a later date.
  - Others use third party blenders (JS note – I assume that this would be automated). One company describes it as efficient.

> *"It's all blended, put in a bag, salad string on tag on and packed into boxes in a matter of minutes."*
>
> Source: UK interview notes

3.6 Constraints and obstacles

- Difficulty of jostling to find own market space in a busy, competitive market place:
  - Hard to add value to a product when you're buying tea in because the tea is the same – smaller companies can't afford to go direct so they are buying the same products and repackaging. Therefore the value has to come from the brand and brand story which can be hard to find/develop.

> *"It's very difficult to get a unique selling point when you buy tea from a catalogue in Germany. If you look at what [small companies] are selling it's the same teas over and over again but slightly labelled differently and with different branding. So you're buying brand rather than buying product as such."*
>
> Source: UK interview notes

  - Companies also jump at new trends quickly so as soon as a new product is on the shelf it's open to being copied, so it's hard to differentiate and make your brand stand out (Pukka). 'Tea hunters' are mentioned by one, so need to play cards close to chest. Competitors bringing out similar products can take away from your own uniqueness or market share.

- 'Low quality' market place: huge swathes of the population are perfectly happy with their low quality black tea

- In general for smaller companies, particularly loose leaf, they identify a lack of market maturity when it comes to understanding tea and what they are buying. Such the need to educate consumers is recognized

> *"I think it's struggling to make people understand that actually [herbal and green tea] does taste good and it's not just another slight hint of rose in hot water, it's tasty."*
>
> Source: UK interview notes

- The 'layers' that need to be gone through in order to get a product to market (so legislation working against acting as dynamically as the tea companies would like. It takes time to get things done. But they understand everyone is on the same playing field.

- The conflict between the tea companies themselves. As some of the larger companies have bought the smaller companies selling other types of tea (e.g. Unilever buying Pukka), Tata global buying Tetley one company feels that these larger companies are now dominating each side of the market – their 'black tea' presence gets them into the supermarkets and the market is monopolized.

- Legislative obstacles. Particular concerns relate to organic produce. If a product is claimed to be organic it has to be proven to be organic to a certain percentage all the way through the supply chain so producers need to verify this and be confident that is the case. This may involve helping farmers to become organic. One respondents mentions that the EU has quite stringent regulations e.g. Pesticide residue and China in particular have problems with this so when buying direct they need to satisfy ourselves they are organic or use an export agent who can get the relevant paper work – need extra insurance.

- Also need to be careful that you don't trick the consumer in any way particular when it comes to potential health benefits. These need to be verified. One company mentioned a lack of parity across markets as companies exporting their own tea to the UK do not always seem to be held to account so much which puts the UK producers at a disadvantage – they are not able to compete on a level playing field as the exporter can make wider claims.

- Finally, as part of the ETP (Ethical Tea Partnership) there can't be any issues with workers' rights / conditions (one respondent). This can make it tricky as to make it worthwhile to do an inspection in e.g. Turkey, a number of organizations would need to come together to make it worthwhile. The ETP ensures proper housing, wages, schooling, sanitation, protection from chemicals etc. from workers and is really important to this particular company.