

Tea Marketing and Value Chain System in Indian Tea Industry

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Abstract

As the second largest manufacturer and consumer of tea, India plays a leading role in global tea market after China. The marketing of tea starts after production of final tea where different intermediaries participated in the market process. In this marketing process, the value addition is done for blending, packing and final marketing where handful multinational tea packers and brokers controlled the value chain. The value chain system determines the value of tea which includes the phases from tea leaf plucking from the bushes to final produce and sale for final consumption. At each stages of the supply chain, value is added to the tea leaves with associated cost. Tea Auction Centre plays a crucial role in the value chain system. Auction mechanism facilitates organised and reliable means of selling and buying of a large volume of tea in the specific time span. Auction organiser, Producer or Sellers, Brokers, Buyers, and Warehouse Keepers all participate in the process of auction. The brokers are the primary driving force in the auction process where large global corporations play an influential role as well. In this context, the purpose is to study how value addition is made at different level of production and marketing of tea, prevailing Indian tea auction system and related issues.

Keywords: Tea Industry, Value Chain System, Auction Centre, Issues

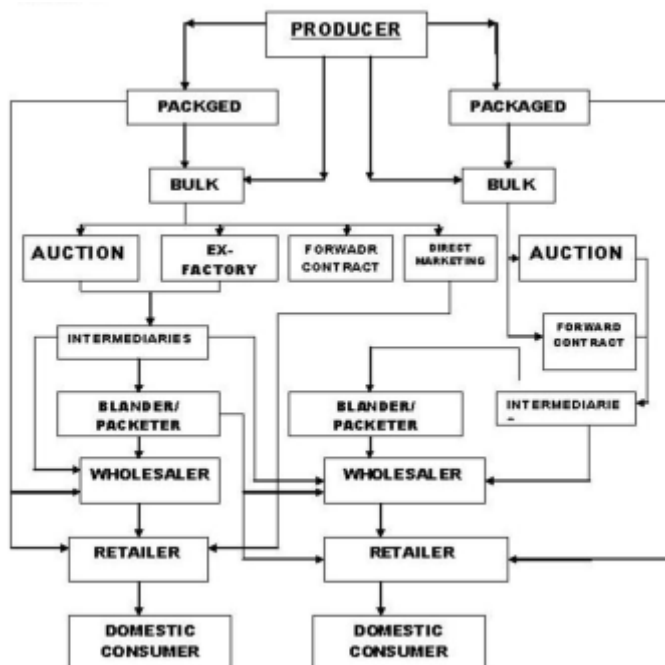
Introduction

India, second major tea producing country with 1390.08 million kgs production, second biggest consumer with a consumption 1116 million kgs and fourth largest exporter in tea consuming countries (Tea Board of India, 2019). In Indian tea industry, Assam is ranked as the largest tea producing state who contributes approximately 51% of total production and has the historical importance of growing tea before discovered by British. The tea plantation sector is mainly dominated both by large tea companies and medium size independent tea planters. But in recent past, the home-grown small tea growers have started plantation in abandoned land and that number is increasing day by day. The mushrooming growth of small tea growers shares an ample volume in total tea production of the country. Due to its global presence, the understanding of the market

mechanism from production to consumption through the value chain system prevailed in the tea market is important aspect.

The tea value chain covers the different steps since tea leaf collection from the tea bushes to manufacture final produce then made available for final consumption. The value addition is taken place at individual steps of the supply chain and includes related cost (Bora, 2003). This includes costs such as picking, sorting, packing, distribution, warehousing, adjustments in auction or direct selling, freight, interest, insurance, mixing, packaging, and the retailer's sales expense, among other things. Value addition occurs at the downstream stage in the advanced manufacturing and retail phases of the supply chain in almost all agricultural goods, which is also true in the case of tea (Chattopadhyay, 2001). Though tea is a ready-to-drink beverage, the downstream mixing, packaging, and marketing are the extremely rewarding, besides the major multinational tea packers and brokers dominate this portion of the value chain (Karmakar & Banarjee, 2005).

Figure-1: Value Chain of Tea Industry



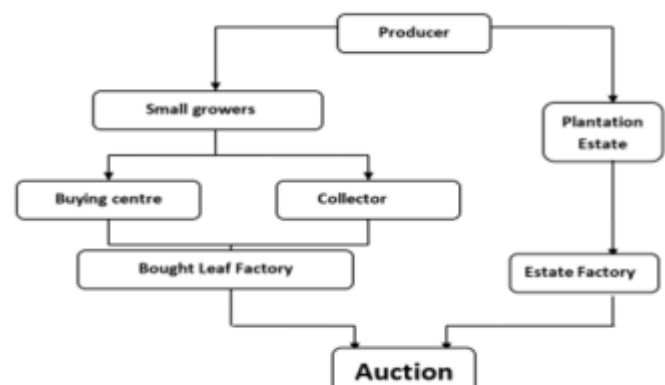
In the downstream level of supply chain, the concentration is very high. The 90% of the western tea trading is managed through Multinational Corporations and also 85% of global

produce is traded by them. The leading companies of Tea trading at the global level are Unilever (12% global market share, owner of the Lipton Yellow Label brand), Tata Global Beverage (4% share, owned Tetley brand), James Finlay (3% global market share), and Twinings (3%, owned by Associated British Food). Besides, the other important global tea traders are Van Rees, and Ostfriesische Tee Gesellschaft (OTC) and Teekanne (Larsen, 2016). Accordingly, these Multinational Corporations can significantly influence the retail price of tea globally. This also indicates that these MNCs are influential in keeping the low market price internationally and disturb the sustainability of the industry at large (Barthakur and Kripalini, 2005), (Wal, SOMO, 2008).

Tea Marketing in India

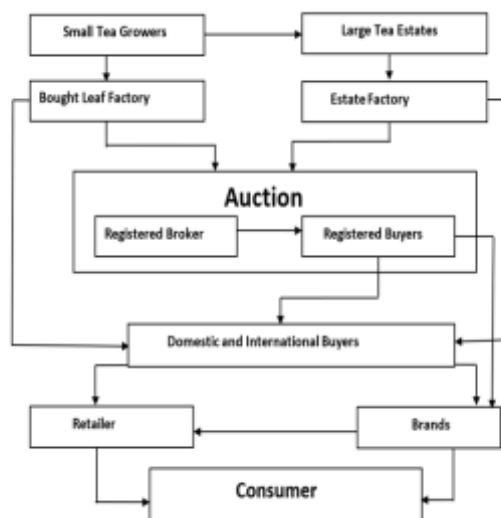
Tea is a valuable agricultural and manufacturing product, and like other products, it needs an appropriate channel of marketing for distribution. Tea is sold in three main ways i.e. through auction, ex-factory or ex-garden sale, and through forward contract (Kabtta, 2008). The tea marketing is done through primary and secondary market in India. Primary market networks aid in the distribution of made-tea from tea estates to bulkbuyers. It also describes how tea gets from producers to domestic or foreign buyers directly. This channel used to transport tea from producers to auction centres, where it was sold by brokers from producers to large buyers. The movement of bulk tea which is procured in bulk from the primary market via auction transaction to final consumers is part of the secondary marketing channel. Tea moves over wholesalers, commission officers, blenders, packers, and retailers as part of this chain (Lines, 2006).

Figure-2: Primary Marketing Chain of Tea



According to the “Tea (Marketing) Control Order, 1984”, producers were required to sell 75% of their tea via auction until 2001. Producers were granted the right to sell their tea through whatever channel they wanted after the order was repealed in 2001. However, auction trading has remained the most relevant marketing outlet for tea growers to date. Tea producers can range from small growers to large tea plantations (as per Tea Board of India, “producers having up to 10.12 hector of area under tea cultivation are treated as small growers and beyond that they are called big tea estates”). Tea leaves were once sold to collectors or buying centres by small tea growers. They send it to 'Bought Leaf Factory' (BLF) for further processing because small growers do not have access to processing facilities, while most large tea estates do. Tea is usually sold directly from the plant, either through an auction centre or to national or foreign buyers.

Figure-3: Secondary Marketing Chain of Auction



Tea Auction System in India

Auction mechanism facilitates organise and reliable means of selling and buying of a large volume of tea in the shortest time. In India, through public auction 500 million Kgs is sold yearly out of 800 million Kgs bulk packaged tea. Auctioneers, Sellers or Manufacturers, Brokers or Auctioneers, Buyers, and Warehouse Keepers all participate in the auction.

Following the successful London Auction, in Kolkata, the first tea auction centre was built under British rule on 27th December, 1861 which was the world's second-largest tea auction centre. Initially, the Kolkata Tea Brokers Association organised tea auction later the auction process was handed over to Kolkata Tea Traders Association. Out of the fourteen world's auction centres nine are located in India which are Calcutta, Guwahati, Siliguri, Jalpaigur, Amritsar, Cochin, two centres in Coonoor and Coimbatore.

Table No. 1: Tea Auction Centres in India

Opening Year	Centre	Auctioneer	Day of Auction
1861	Kolkata	Calcutta Tea Traders Association	Monday & Tuesday
1947	Cochin	The Tea Trade Association of Cochin	Tuesday & Wednesday
1963	Coonoor	The Coonoor Tea Trade Association	Thursday & Friday
1964	Amritsar	Kangra Tea Planters Supply & Marketing Cooperative Industrial Society Ltd.	Fortnightly or based on Arrival
1970	Guwahati	Guwahati Tea Auction Committee	Tuesday & Wednesday
1976	Siliguri	Siliguri Tea Auction Committee	Thursday & Friday
1980	Coimbatore	The Tea Trade Association of Coimbatore	Friday
2003	Coonor	Tea Serve	Wednesday
2005	Jalpaiguri	North Bengal Tea Auction Committee	Fortnightly

Source: Compiled from Tea Board of India

In the auction process, the whole auction mechanism is monitored by auction organizers and also publish auction sales reports. Sellers or manufacturers do not participate actively in the process. They hand over control of their tea to a concerned broker, who then sells the tea after tasting and grading it. The entire selling process is overseen by these brokers. They collect tea samples from warehouses and give them to buyers who have registered. They also have the power to accept or deny an offer for a specific lot of tea. Furthermore, without the permission of the brokers, a buyer cannot bring tea from the warehouse. In an auction, buyers are the tea bidders. Tea is stored in licenced warehouses, and the warehouse attendant is responsible for the tea. Brokers used to issue receipt of permission to buyer after the sale process at the auction was completed, allowing to collect the specified quantity of tea from the concern warehouse.

Large tea planters and small tea growers both produce tea. Tea farmers on a small scale do not have their own

processing facilities. They generally sell their green leaves to nearby large tea estates with their own factory or the BLF for additional processing. A part of the made tea is sold to ex-factory or foreign customers, while the majority of the made tea is sold at auction. After proper tasting and grading, registered brokers sell tea to registered buyers on the auction site. The majority of the auction buyers are large tea firms with their own blending, processing, and trading networks around the world. Lastly, retailers directly deliver packaged tea to final customer. As a result, when going from the actual manufacturer to the ultimate customer, tea goes through a number of phases. Every step of this marketing chain adds value to the tea. The majority of value addition in the case of tea, as with any agricultural commodity, occurs at the end of the marketing channel.

A specific auction can only be entered by licenced sellers, buyers, brokers, and warehouses. A warehouse serves the same purpose as a bank. For a certain amount of money, a manufacturer may store his product in a warehouse in return for the right to use it. After receiving tea from a vendor, warehouse management sends a notice of arrival and weighing to the concerned broker. Brokers inspect warehouses and gather tea samples that will be sent to qualified buyers. Brokers used to value tea after drinking it, and they would then write a report based on the industry trend and the quality of the tea. When this producer's tea is sold at auction, the buyers will show a permission receipt from the concerned broker to pick up the same quantity of tea from that warehouse.

Tea is sold to the highest bidder based on public uproar on the auction floor. A worried broker places a delivery order for tea from a factory to a specific customer. There are two styles of buyers in North India: cash buyers and credit buyers. A credit buyer has the right to pick up tea from the warehouse before the due date and without paying for it. A cash buyer, on the other hand, can only receive tea after paying cash. After subtracting his own fee, warehouse fees, then taxes, the broker pays the seller or producer. On behalf of the farmers, a single broker can sell tea from over 100 gardens. As a result, from tea tasting to delivery, brokers play a critical role in the auction system. Buyers are not in direct communication with sellers or suppliers. A small number of brokers manage the entire system.

With widespread computer network connectivity, an electronic bidding or e-auction system for tea has recently been created. On November 19, 2008, the world's first electronic tea auction, organised by the 'Calcutta Tea Traders Association' and the 'Tea Board of India', was held at Nilhat House, the headquarters of the country's largest tea auction company J. Thomas & Co. This electronic platform is expected to increase transparency in the auction process, ensuring that tea producers receive a fair price. The current auction process benefits producers by providing them with a broad marketing forum. Buyers benefit in that they are able to buy tea from a far wider range of gardens than they would be able to if they went from garden to garden exclusively. They can also observe their rivals' operations during the auction.

Since brokers are the primary driving force behind auctions, they wield tremendous control over how the system is operated. Again, in the case of Indian auctions, some large buyers wield tremendous leverage over the price of tea, such as Hindustan Lever, Tata Tea, and others. These buyers have a global network of manufacturing, mixing, packaging, and distribution. Other drawbacks to this scheme include a lengthier transaction period (approximately 34 days) and higher costs. Many industry insiders claim that big buyers on the auction floor worked with the broker to hold tea prices down. Auction is not an appropriate marketing means for beginners. Unknown buyers' bids are usually not accepted by brokers. As a result, new producers face stiff competition from existing sellers.

Tea Auction System and Related Issues in India

The tea market in India is experiencing yet another conundrum, which can be explained by the large price disparity between dealers and retailers (Choudhury, 2006). According to the International Labour Organization report, 2005, the major tea corporations are profiting from lower auction rates and higher selling prices for tea. The growing difference between consumer and auction prices is eroding tea producers' profit margins, but it is not being carried on to consumers in the form of lower prices of tea (Goddard, 2005). Similarly, in 2004, a study published by the Assam Government found it incomprehensible that the tea retail price has not fallen in tandem with the price of auction.

Intermediary margins are unquestionably excessive. Since 1998, the price compensated to plantation and small growers has decreased, while tea retail prices have risen. The average price of intermediate-class of tea sold in the Indian market has risen from Rs.85-90 per kg in 1999 to Rs.120-140 per kg in 2005, and it is still rising (Goddard, 2005).

Auction houses sell nearly 55% of India's total tea production, with the remainder sold by private sales. Auction houses remain an important part of the tea marketing scheme, even after the compulsory auction was abolished in 2001. The fact that the producers or growers are not directly involved in the selling process is a distinguishing feature of tea auction sales. The market's brokers (a small number of whom are licenced brokers in a particular auction centre) sell tea on behalf of the farmers. Unknown bidders are usually not accepted by brokers. Many tea industry insiders suspect that big buyers have worked together on the auction floor to keep tea prices down. In 2002, the Indian government commissioned an independent study that found a conflict of interest between buyers and brokers, along with cooperation among auction house buyers, which prohibited tea growers from getting a reasonable price at auction. Large purchasing companies use their market power due to their own distribution and marketing networks across the country and export tea after blending to slash the prices and do well from the current market's low prices; they are obviously benefiting from the current situation. Such strong buyers as Hindustan Lever, Tata Tea, Williamson Magor, and others have a huge impact on the demand and price of tea in India in general, and Assam tea in particular. These large tea firms, which compete in monopolistic markets in consuming countries, aim to keep prices stable at all times (Asopa, 2007). Other issues with the auction system include the longer processing time and higher transaction costs (such as warehousing, storage, and brokerage fees). The entire transaction process takes about 35 days to complete.

Conclusion

In the tea marketing, value chain system is a significant market mechanism. In each stage of tea production and marketing, value addition occurs. The supply chain's

downstream phases, such as mixing, packaging, and ultimate marketing are considered the most profitable. Large international tea packers and brokers regulate this aspect of the value chain, influencing the retail price of tea. Auctions, ex-factory or ex-garden sales, and forward contracts are all used to sell tea. Though, auction sale provides reliable means of buying and selling of tea, similarly large global marketers are profiting from lower auction rates and higher selling prices for tea where intermediary earns excessive margins. Generally, Brokers do not accept bids from unknown buyer and they are the driving force in the auction. The major tea corporations are. Consequently, new producer and marketer meet a strong challenge from already established players. Therefore, the regulatory mechanism should make stronger to provide the space for new comers.

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