

Tea trade in Kenyan markets: Effects of marketing strategies on sustainable domestic market and return to the smallholder tea enterprise

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ABSTRACT

Kenya is the third largest tea producer and the leading producer of black tea in the world. It exports over 99% of her tea as black CTC of which 88% is exported in bulk form while the rest as value added tea. Kenyan tea is acclaimed globally as a high quality product, available all year round. It is primarily used for blending tea from other origins hence lacks visibility in the world market. Kenya's domestic market is limited and accounts for about 5% of her total production. A drop in demand in any of her exporting market can lead to a major impact on her revenues from tea as well as the return to the smallholder enterprises. The processed tea is traded through three marketing channels namely; direct sales, factory door sales, and the tea auction in Mombasa. The Mombasa Tea Auction serves as a regional auction centre for the tea producing countries namely; Uganda, Tanzania, Rwanda, Burundi, Congo and Malawi thereby positioning Kenya as a major tea trade centre. However, the Mombasa Auction faces competition from the Dubai Tea Trading Centre (DTTC) posing a challenge for the Kenyan tea industry. It is because of this glaring competition that the Tea Industry needs to have plan B. This paper explores the effect of the marketing strategies on creating sustainable domestic markets and on the return to the smallholder tea enterprise in Kenya. The paper is guided by secondary tea sector data, field data obtained from smallholder tea farmers sampled from KTDA managed factories in the Nyeri and Kirinyaga counties. Interview reports from key tea sector stakeholders in Kenya were used as well. The paper indicates that the domestic market of the Kenyan tea is shrinking due to unfavourable marketing strategies. Brand awareness locally is ignored and all the efforts are geared towards foreign markets which are not sustainable. Promotion of the domestic markets would increase the brand ownership creating a competitive platform for tea and other beverages in the shop floors. This in turn would increase the smallholder earnings through increased sales volumes and improved prices. The paper recommends strategies that would increase awareness of tea locally to the advantage and benefit of the smallholder tea enterprise and ensure sustainability of domestic Kenyan market.

Key words: Domestic market factors, Marketing strategies, Return to smallholder tea farmer, Smallholder tea enterprise sustainability.

HISTORICAL DEVELOPMENT OF THE KENYAN TEA INDUSTRY

The first tea bush was grown in the Kenyan highlands in Limuru by British colonialists in 1903. Historically, the tea bush (*Camellia sinensis*) was imported from India by a British settler, and experimentally grown on a two-acre firm. Following its success, it was grown on a bigger scale in 1924. The large-scale tea cultivation mapped out the future direction into commercial tea production. By 1928 Kenya's Tea were being sold at the London Tea Auction, and by the 1950s, Kenya had become a significant player in the international tea market (The Highland Tea Company).

In 1950, the Tea Board of Kenya (TBK) was established under an Act of Parliament and charged with i) the promotion of the Kenyan tea industry; ii) research into all aspects of tea growing; iii) pest and disease control and manufacturing; and, iv) acting as an industry regulator whilst overseeing the harmony and promotion of the best interest of all stakeholders. In 1956, the East African Tea Trade Association (EATTA) was established in Nairobi to facilitate tea auctions for the region but later relocated to Mombasa in 1969. The objectives of this association, as highlighted in the EATTA constitution, were: i) To promote the best interests of the tea trade in Africa; ii) To foster and ensure the orderly sale of tea and the centralization of the trade in tea in East Africa; iii) To promote close relations within the Tea Industry; iv) To facilitate the settlement of disputes within the trade; and ii) To collect and circulate statistics and to maintain such records as may be of assistance to members in the conduct of their business.

The Kenya Tea Development Authority was established in 1960 as a sub-sector to enable the smallholders to participate. This was due to the fact that Kenyan tea was largely produced in the large-scale sector. However, after independence in 1963 the small-scale sector has considerably grown. Kenya Tea Development Authority is currently the largest agricultural employer with over 70,000 labourers. In 1998, the Kenya Tea Development Authority (KTDA) was liberalized hence ceasing to exist as a government corporation whilst changing its name to the Kenya Tea development Agency (KTDA).

In the last 40 years of operating, KTDA has increased production by smallholder farmers, with volumes skyrocketing from 13 to 300 million kilograms. Smallholder farmers currently command 60% of the tea produced in Kenya. The spiralling growth is also attributed to the liberalisation of the Tea Industry in 2000 that witnessed the abolition of tea planting licenses and improved research and development into high yielding clones.

Tea is the leading cash crop in Kenya and the country is currently the world's third largest producer of tea after India and China but the leading exporter of black tea. Tea contributes significantly to Kenya's economy. It contributes about 20% of the Kenya's total export earnings. It has the highest productivity (yield per unit hectare) compared to other major tea growing regions worldwide (Tea Research Foundation of Kenya, 2011). Since 2009, the Tea Industry was the highest foreign exchange earner raking in Ksh 92 billion in 2010. Kenya's major markets for tea in 2010 included Pakistan, Egypt, United Kingdom, Afghanistan, Sudan, Russia Federation and Yemen; the top four countries alone accounts for about 66% of total exports and this shows a high concentration of markets.

STATEMENT OF THE PROBLEM

Tea contributes directly to the objectives of the Economic Recovery Strategy (ERS) as a rural based enterprise. An estimated three million Kenyans (about 8% of the total population) derive their livelihoods from the Tea Industry (National Tea Policy, 2014). The crop also contributes significantly to the development of rural infrastructure.

There are many challenges that are facing the Tea Industry hindering sustainability and competitiveness. Some of these challenges include but not limited to low productivity, global oversupply of tea, political misinformation and interference, multiple taxation regimes, low incentives to investment in value addition, high cost of production, narrow market channels (overreliance of traditional market), differential green-leaf quality, low products diversification and governance issues with the institutions involved in the regulations and management of the Tea Industry.

In Kenya, the demographic shift of tea-takers has significantly changed. The country's population is highly concentrated on the younger generation of 20 – 45 years who are less interested in taking tea because of cultural factors such as attitude, perception and preferences/taste. The younger

generation is attracted to bold but simple brands, instant beverages such as soda, chocolate and coffee. Unless the habit of drinking tea is established among the young generation, income earning through domestic tea consumption would be doubtful. This, therefore, calls for the adoption of marketing strategies that will promote tea consumption to this generation through intensive promotion campaign such as intense road shows, social media, print media, television and radios.

According to Tiampati (2013), the current market for Kenya's tea is more concentrated abroad. Only 2% of her black Curl Tear and Cut (CTC) tea is sold in the factory door sale and 3% in direct sale local, meaning, only 5% of her black CTC tea is consumed locally. Above 14% is sold in direct sales overseas and 75% in the Mombasa Auction (Tiampati, 2013). However, concerns have recently emerged over the potential challenge posed by the rise of DTTC, which now auctions tea from six ACP countries and seven non-ACP countries (Execute Brief Update, 2012). These activities of the Dubai Tea Trade Centre (DTTC) have attracted business away from Mombasa, with major players such as Unilever, James Finlay and KTDA (which is the marketing agent for 500,000 small-scale farmers) all signing up to trade pacts with DTTC. KTDA representatives indicated that while they “still supported the Mombasa Auction, the interests of growers affiliated to KTDA come first.” What is clear is that the threat of collapse of the Mombasa Tea Auction has highlighted the need to reform the current arrangements to respond to changing global market realities.

THE CURRENT MARKETING CHANNELS IN KENYA

Tea in Kenya is usually traded in four major ways: direct local sales, 3%; factory door sales, 2%; direct sale oversea, 14%; and, Mombasa Auction, 79% (in 2012/2013 year) (Figure 1).

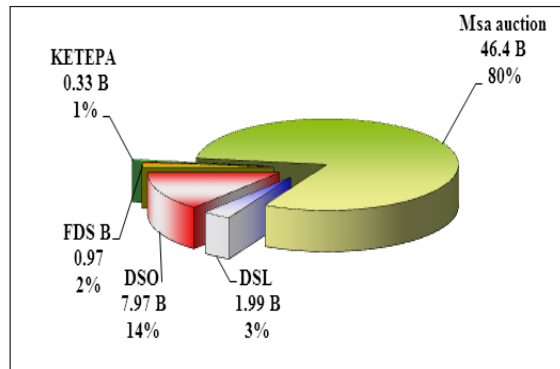


Figure 1: Market outlets for Kenyan tea.

Direct local sales

These are tea sales directly to local suppliers who buy the tea in bulk then repackage it in small quantities.

Factory door sales

These are sales mostly done at the factories tea shops. The major buyers are the small-scale tea growers who buy the tea at subsidized prices in small volumes.

Direct sales overseas

These sales made directly to the buyers situated in overseas countries.

Mombasa Tea Auction

The Mombasa Tea Auction is one of the eleven tea auction sites across the globe. It is held every Monday and Tuesday, with tea from up to nine East African countries available for buyers from around the world.

THE TRUE POSITION OF THE TEA INDUSTRY IN KENYA

Kenya's tea is traded through the EATTA which was founded in 1957. The country hosts EATTA which is the apex-body representing the Tea Industry in Africa. EATTA is made of members from Kenya, Uganda, Tanzania, Rwanda, Burundi, DR Congo, Malawi, Madagascar and Mozambique. The membership comprises of tea producers, buyers/exporters, brokers, warehousemen and packers. EATTA runs the Mombasa Tea Auctions at the Tea Trade Centre. This is the largest black CTC auction centre in the world with 32% of the tea exported to the world passing through the auction. Kenya has the port advantage thus trading of tea from all East African countries is through the weekly auctions organized by EATTA. Tea used to be auctioned in London until 1998 when the London auction closed and Mombasa became an international tea auction.

Mombasa Tea Auction is the second largest of the eleven worldwide tea auctions; after Sri Lanka, but it is the largest auction of CTC tea. The auction serves as a method of price discovery worldwide, and gives local factories serving smallholders direct access to the world market. The volume of tea sold at the Mombasa Auction climbed steadily between 1980 and 2011, increasing six-fold to over 300,000 MT. Of the tea sold at the Mombasa Auction, 72% is Kenyan, 16% is Ugandan, and the rest comes from other countries in East Africa.

In 2011/2012, Mombasa Auction traded 83% of the Kenyan black CTC tea amounting to approximately Ksh. 61.4 billion and in 2012/2013 traded 79% of the black CTC tea totalling to Ksh. 50.7 billion. However, Mombasa Auction is facing competition from DTTC posing a challenge for the Kenyan tea industry. The tea prices in Mombasa Auction have decreased by 30% since July 2013 and this is likely to impact negatively on the earnings.

WHY WE SHOULD MARKET TEA IN KENYA

Many of the countries consuming Kenya tea are in turmoil/war most of the time and this affects the returns (Plate 1).



Plate 1: Conflicts in major tea consuming cities.

HEALTH BENEFITS OF TEA CONSUMPTION

Tea is associated with relaxation, refreshing, relieving and pleasant activation of our bodies. Scientific research from around the world has also suggested that tea may have significant positive health benefits (Indian Tea Association, 2014; Lorenz, 2012; Chwan-Li Shen, 2012). It has long become clear that incidence of many diseases is closely linked to dietary habits. As a habit, in many parts of the world, people mostly consume black tea. Inquisitive scientific minds, in follow-up studies, started examining the effects of black tea. It was discovered in the recent studies that both black and green tea consumption may reduce incidence of heart disease (Lenore and Geffen, 2012). Also, black tea and green tea have been shown to possess similar effects in decreasing the induction of colon, breast and prostate cancer (Lambert, 2012). Laboratory studies have shown that tea and tea constituents, both polyphenols and to a lesser extent caffeine, have cancer preventive activity in a number of animal models and at different stages of the carcinogenic process (Lambert, 2012). The studies concluded that both black and green tea extracts may be equally effective in preventing cancer in humans.

Tea has also been historically associated with cognitive benefits such as mental clarity and concentration. Recent findings attribute these benefits to caffeine and theanine, two constituents of tea (Bryan, 2008; Einother, 2012). In addition, more studies provide a broader perspective on the effects of tea on psychological wellbeing. Across-sectional study showed that participants who consumed more tea felt less tired and reported higher levels of subjective work performance (Bryan *et al.*, 2012). Furthermore, tea consumption can positively affect mood and may improve creative problem solving, as compared to water (Einother *et al.*, 2012). Tea can also reduce hypertension and obesity (Lorenz, 2012; Chwan-Li Shen, 2012). In summary, these studies clearly demonstrate that black tea helps to improve cognitive functioning, and in particular attention.

COMPETITION FROM THE DUBAI TEA TRADE CENTRE

In Kenya, above 75% of black CTC tea is sold in the Mombasa Auction. However, concerns have recently emerged over the potential challenge posed by the rise of the Dubai Tea Trading Centre, which now auctions Tea from six ACP countries and seven non-ACP countries (Execute Brief Update, 2012). The activities of DTTC have attracted business away from Mombasa, with major players such as Unilever, James Finlay and even KTDA (which is the marketing agent for 500,000 small-scale farmers) all signing up to trade pacts with DTTC. KTDA representatives indicated that while they “still supported the Mombasa Auction, the interests of growers affiliated to KTDA come first.”

The amount purchased outside the auction system has risen from 20% of sales to 30%, and has seen only 30 of the 70 registered exporters active at the auction (Sanga, 2011). This has left about 18% of tea unsold each week (Sanga, 2011). According to the Chairman of EATTA, the reduction of buyers in the auction will reduce competition and lead to price crash." Due to "This challenge and the dwindling revenue from the tea enterprises, there is need to market and sell more tea locally to enhance farmers' earnings (Sanga, 2011). Although direct tea sales are pegged on auction prices, farmers are attracted to individual contracts because the costs of storage, transport costs and brokers' fee are all borne by the buyer.

DIVERSIFICATION

Almost 60% of the tea produced in the world is consumed locally (van der Wal, 2008). On the contrary, Kenya exports almost all of its national production. Kenya exports the black CTC tea. This brings a problem especially when the supply is very high as a result of overproduction of green leaf. Overreliance of the traditional market such as Pakistan, Egypt and UK (accounting to more than 65%) is also a great challenge especially when the countries are not politically stable.

Pakistan alone, for instance, imports 24% of the total tea export (Made *et al.*, 2009). The traditional markets are shrinking because of the high taxes relived on the Kenyan made tea. For example, Pakistan have begun to look out for other providing markets therefore reducing Kenyan tea imports from 91,000 tonnes in 2005 to 65,000 tonnes in 2006.

There is, therefore, a need to diversify markets away from the current high dependence five main export markets (Egypt, Pakistan, the UK, Sudan and Afghanistan). As noted from Mombasa Auction, about 18% of tea is unsold each week (Sanga, 2011). KTDA needs to encourage domestic consumption of Kenyan tea. Countries like India consume their tea more than they export (Kumar and Mittal, 1995; Misra, 1994; Pai, 1991; Mitra, 1991; Bandopadhyay, 1982). Almost 85% of the total households in India consume about 81% of the total tea produced in their country. In Kenya, only 5% of the tea is sold locally. Marketing techniques and strategies to ensure more tea is consumed locally by Kenyans should be put in place. Apart from advertising Kenyan tea to Kenyans through road shows, television, radio and social media, other appealing modes like packaging, branding and value addition should also be put in place. KTDA can also maintain close contacts with customers and their families and visiting and spending time with them to understand customer preferences and study their tea drinking habits. This approach can enable the Tea Industry to develop best tea to match customer requirements.

DEMOGRAPHIC SHIFT OF TEA CONSUMERS

The age structure of the population is represented by a number of categories: baby boomers which includes people born between 1946 and 1964, they are the most affluent and consume tea; generation X includes people born between 1965 and 1976, they are cautious on economic outlook and take tea but are careful on packaging, blending and branding; generation Y or echo boomers include those born between 1977 and 2000, are comfortable with technology and comprise of young adults (20s). This group do not take tea but can be made to drink in case good marketing strategies are put in place. They prefer instant things.

OVERSUPPLY OF TEA IN THE MARKET

According to KTDA, there is oversupply of tea in the world because of good weather resulting in lowering of the prices of tea in the tea market (Figure 2).

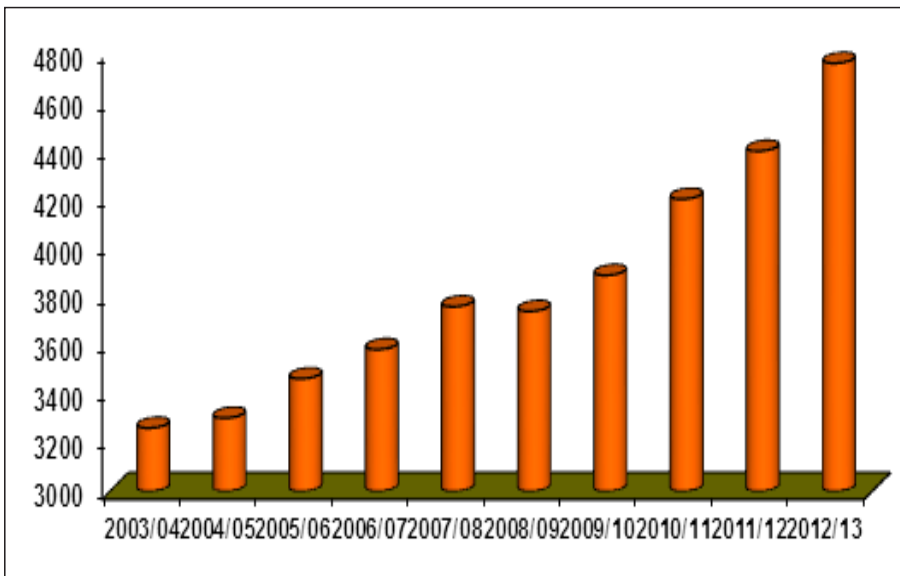


Figure 2: Global production of tea in million kilograms.

THE RECOMMENDED MARKETING STRATEGIES

Value addition and branding of Kenyan tea

Despite the fact that tea is the leading cash crop in Kenya, the country has continued to be a producer of processed tea at primary level with very little product differentiation and value addition. This has constrained growth in profitability. Although the volume of value added tea sales has been increasing, there is still need for promotion to increase sales by creating product diversity, increasing the profitability and providing job opportunities for Kenyans doing value addition. This will in consequent help Kenya achieve the goal of industrialization as envisioned in her Vision 2030. The need for value addition of the tea has become more necessary than before in a bid to provide the consumers not only in Kenya but worldwide with pure Kenyan branded tea, blended at source.

Value added tea is tea sold in small packets and bags; and include herbal tea, flavoured tea and green tea instead of black tea. At the same time, the increased consumer health quotient is boosting sales for the green tea and its variants such as mint, lime/ lemon and classic. Green tea has been marketed for many health benefits such as weight loss, effective against diabetes and cancer, healthier skin, stronger immune systems and assisting in hair growth.

Other value additions include flavoured tea, which can be herbal tea with lemons, lemon with ginger, honey bush, spearmint, peppermint, chamomile tea, yerba tea, tulsi and hol basil, and chamomile with lemon grass (Plate 2).



Plate 2: Flavoured tea.

Packaging

Packaging is the last stage of the production process. It is important in framing the business strategy because attractive and durable packaging is the main marketing tool used to increase the market share of the company. Tea can be packed in various ways and designs (Plate 3). While packaging tea, KTDA should cater for all generations, young to old. Some of the consideration is instant tea powder, tea bags. This tea can then be sold by the Tea Industry to the supermarkets and malls and other retailers through wholesale and even by a team of salesmen.



Plate 3: Beautifully packaged tea.

Blending

The consumers' tastes and preference are different. Due to this, different grades of tea can be mixed (blended) to meet the customer need and requirement.

Traceability and grade

Tea from different growing zones and grades have differing tastes and tea drinkers are well aware of this fact. The consumer may even be willing to pay a premium for tea grown in a certain area if this information is available especially in the package. The grade of the tea being sold is also an important accompanying strategy. It is noted that, while this strategy is being employed by KTDA packed loose leaf tea, their brands are not visible enough simply because they are not in retail stores.

Profitable markets

KTDA should identify the most profitable markets and tailor-make the tea to suit specific markets while assessing the present and future needs of customers.

Market segmentation

The customers of today are most discerning. They customer looks for a product which can meet all their present and future requirements at an affordable competitive price. They are also increasingly quality-conscious. Almost everyone would appreciate that no two classes of customers are alike. Therefore, in any environment or region, the potential clientele can always be classified into different homogeneous segments. Market segmentation differentiates customers with similar needs from those with dissimilar needs. It also provides a solid basis upon which the marketing strategy can be designed. Segmenting the market also helps to evolve a distinctive marketing package for each segment based on the needs of different customer segment. This in turn helps the marketer to cultivate in the customer's mind a perception of psychological preference resulting in greater satisfaction of customer needs which will result in higher returns to the small-scale farmer.

Benefit segmentation

KTDA can also adopt the strategy of benefit segmentation where segmentation is on the basis of the benefit that a customer seeks from consuming the tea.

Promotion campaigns

Domestic markets can be created through marketing promotion. The fundamental objective of a promotion campaign is to persuade the customer to buy the product in preference to other similar products available in the market.

Physical image

Packaging made tea should also be emphasized, for instance, an attractively designed product brochure or a catchy brand name which a customer can easily understand or a pictorial design which can represent a particular product (Plate 4).



Plate 4: Attractive and durable packaging.

Tea promotion

Several institutions are involved in tea trade and promotion, namely; TBK, EPC, EATTA, KTDA Ltd, and other tea companies. However, there should be adequate coordination among the institutions to avoid duplication of efforts and wastage of resources. In addition, there should be increased focus on Economic Diplomacy by External Trade Division in the promotion of tea through participation in tea trade missions, exhibitions, market intelligence and research, promoting partnerships and joint ventures, negotiation of bilateral/multilateral agreements and dedicated resources in strategic markets.

CONCLUSION

An extensive campaign and aggressive intervention is the only the first step to improve the domestic market, especially in the context of competitive participation from other countries. The current tea consumption in Kenya is about 0.65 kg per capita per annum, which is relatively low compared to most tea producing countries like China and India which consume over 1 kg per capita per annum. The low per capita consumption is caused by inter alia VAT on local tea, lack of awareness on health benefits of tea, and preferences for tea with high milk and low tea content.

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