by the Tea Board providing these events were included the Board’s approved list;

(ii) 50% of cost of insertations of advertisement through various media as promotional programmes would be eligible for reimbursement;

(iii) Exporters of quality orthodox tea brands to Russia and other CIS countries would be provided specific proposals are placed before the Tea Board for necessary approval.

(iv) Besides, the exporters were also provided with necessary facilities to display their products in international festivals where the Tea Board would present with its own stall.

b) Since 1997, the Tea Board, India participated in various fair and exhibitions held at different countries.91

c) To improve the image of tea from India in the global market, the Tea Board, India introduced an Optional Assurance Scheme for exporters and importers of Indian tea.92

d) A delegation comprising manufacturer-exporters and trader-exporters of North and South India took part in ‘buyer-seller meet’ organized by Tea Board, India’s Dubai office, in September, 2000.93

In fact in the whole succession of managing of marketing mix, promotion represents the most underprivileged connection. Vis-à-vis the aggressive marketing campaign by exporters like Kenya and others, the Indian tea industry it appears, has by and large left itself to the mercies of the vacillation in international market and the whims and dictates of the global tea cartel including giant, multinational tea trading conglomerates. Particularly noticeable was that failure of Indian tea industry to create for itself a popular brand image. There had been, of course, some stray efforts in this direction like the one relating to launching of the "Nargis" brand. However, these efforts, as it is indicated from data, had a little practical impact on the export picture.

93 Ibid, p-23.
6.1 LIBERALIZATION AND THE NEW CHALLENGES

Changes triggered by the liberalization

Liberalization, as is commonly understood, is a process which is triggered and carried forward in a country by series of policy changes, the ultimate aim being to allow greater freedom and space for economic and business decision making. Although the process is currently sweeping across the globe covering almost all the nations – both developed and developing, it was only during the nineties of the last century that the process made a beginning in most developing countries.\(^1\)

Indeed, the process of economic liberalization everywhere is marked by a number of shifts – from ‘State’ to the ‘market’, from ‘regulation’ and ‘control’ to increased openness and freedom of decision-making. These shifts, in turn, pave the way for entry of many new players in the market, to increased competition, particularly among the producers and sellers of goods and services, and thus to the gradual transformation of the erstwhile “seller’s market” to a market where consumer becomes central and supreme.\(^2\)

Naturally, liberalization everywhere brings with it a number of new challenges. The marketers try to cope up with these challenges by suitably modifying, adopting, remodeling or developing their operational strategy. It calls for restructuring of the processes in every aspects of the game.\(^3\) The process of restructuring may involve redefinition of the mission, resetting of goals, refixation of targets and a renewed focus on developing core

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2. Ibid.
competencies. Only after the industry (or a firm) decides its core competencies, it can look around or outwards, look to customers and their desires, look to its revival and then can transform its vision and mission into reality.*

The challenges in-built within the process of liberalization are highlighted briefly in the following paragraphs.

**Deregulation and openness**

In a liberal economy, the government has a minimum role; market is the most powerful force in such economy. Where Government intervention, regulation and restriction also would be least, such economy is characterised by its openness. So in a liberal regime, industries or companies must decide what areas they want to be in and from which to get out smoothly. In this liberalized regime, the economy has been transformed so that it has become unrecognisable in comparison with the economy in seventies and eighties. Most of the controls and regulations are dismantled. Foreign enterprises have now much wider scope. Even foreign trading firms are now permitted to function in India. Foreign companies are free to invest in India. Foreign exchange transactions on current account can be carried out in a virtually free market.^

In a liberalized economy, new challenges faced by individual exporters as well as by industry and, to overcome these, appropriate strategies supported by responsive control system are required. Restructuring may take many different forms, of which the following are seen as important^:

i) Joint ventures and collaborations with international partners.

ii) Organisational Downsizing.

iii) Mergers and demergers.

iv) Establishing brand equity.

At any rate, to succeed in the global market, competitiveness of the industry has to be improved. Higher productivity, better quality of the products, product diversification and innovations in product and process of technology are required. Companies have to enter

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^ Ibid, p-472.
^ Ibid, p-443.

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into strategic alliances not only for bringing in state of the art technology but also to reduce costs, improve efficiency and penetrate the global markets with joint efforts.7

Compulsion to go global

After the process of economic liberalization starts, all the Indian industries have to take lead and initiative in bringing about globalization of the economy. To go global a corporate as well as an industry must consciously shift the paradigms which govern the way it conducts it business, right from organization structure and vision to investment in basic research for development and marketing.8

Consumer focus

In the past, business has shown little loyalty to its customers and that is the real reason for restructuring the sheer struggle for survival in the market place where the customer now demands much more than mere efficiency.

Major changes in the government policies have demolished the protective walls. Hence, stormy waves of competition are stirring up the already choppy seas of liberalization leaving marketers no choice but to promptly restructure, reengineer, reinvent and recognize themselves.9

Now marketers adopts a market-oriented business philosophy where guiding principle becomes "it is more effective to make what customer wants to buy than to sell them what a marketer wants to sell". Thus, planning and co-ordination of all company activities rotate around the primary goal of satisfying customer needs. Customer-oriented marketing approach points out that the primary task of a business is to study needs, desires and values of the potential customers, and on the basis of latest and accurate knowledge of market demand, the producer must produce and offer the products which will give the desired satisfaction to the customers.10

Product innovation and diversification

Consumer-orientated marketing indicates the shift of customer to new taste and preference besides the traditional one. So product innovation and diversification is indispensable.

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7 I. C.Dhingra: The Indian economy- Environment & Policy, Sultan Chand & Sons, New Delhi, 2005, p-692.
Product diversification refers to the production or distribution of more than one product-line which may be related or unrelated to each other. An innovation is considered as a successful invention. ‘Innovate or perish’ is a current slogan which has rich meaning for business operating in a liberalized economy with consumer-oriented marketing. In such economy, all growth industries have an important role for product innovation and diversification in their marketing plan. Innovation alone assures growth and survival while consumer-orientation assures survival. The process of product planning and development, which covers the search for new products and new innovations as well as the improvement of existing products, is always required for product innovation in the changing situation of the economy.\textsuperscript{11}

**Branding and value addition**

In a consumer-oriented economy, product diversification and innovation moves towards value-addition and brand loyalty of the product. In a situation when customer demands for new and diversified product, marketers are compelled to produce branded value-added items (with innovative or value-added package) to survive in the market. Establishment of brand loyalty is necessary to outcompete other competitors and to survive in the immense competition of liberalized economy. For establishment of brand loyalty appropriate promotional campaign is also necessary along with consumer satisfaction. A suitable promotional campaign is indispensable to inform, persuade, convince and remind people about the presence of the product.\textsuperscript{12}

In what follows, we try to sum up the Indian tea industry’s response to the aforesaid challenges thrown before it by the process of economic liberalization.

**6.2 Opening up of Indian Tea Market to Imports**

Ever since the opening up of the economy, India’s tea imports had been increasing slowly. The tea imported to India is mainly of the orthodox variety imported mainly from Indonesia, Vietnam and Sri Lanka. However, imports as a percentage of domestic tea consumption has not so far been very significant. Table 6(i) below highlights the consumption and import of tea in India during the period, 1981-2001.

\textsuperscript{11} Ibid, pp-225-227.

Table 6 (i): India’s Tea Imports and Domestic Consumption

(in Million kgs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Domestic Consumption*</th>
<th>Import as % of consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>NA</td>
<td>360</td>
<td>--</td>
</tr>
<tr>
<td>1982</td>
<td>NA</td>
<td>372</td>
<td>--</td>
</tr>
<tr>
<td>1983</td>
<td>NA</td>
<td>386</td>
<td>--</td>
</tr>
<tr>
<td>1984</td>
<td>NA</td>
<td>400</td>
<td>--</td>
</tr>
<tr>
<td>1985</td>
<td>NA</td>
<td>415</td>
<td>--</td>
</tr>
<tr>
<td>1986</td>
<td>NA</td>
<td>431</td>
<td>--</td>
</tr>
<tr>
<td>1987</td>
<td>NA</td>
<td>446</td>
<td>--</td>
</tr>
<tr>
<td>1988</td>
<td>NA</td>
<td>462</td>
<td>--</td>
</tr>
<tr>
<td>1989</td>
<td>NA</td>
<td>480</td>
<td>--</td>
</tr>
<tr>
<td>1990</td>
<td>NA</td>
<td>500</td>
<td>--</td>
</tr>
<tr>
<td>1991</td>
<td>NA</td>
<td>511</td>
<td>--</td>
</tr>
<tr>
<td>1992</td>
<td>1.17</td>
<td>524</td>
<td>0.22</td>
</tr>
<tr>
<td>1993</td>
<td>1.12</td>
<td>537</td>
<td>0.21</td>
</tr>
<tr>
<td>1994</td>
<td>0.56</td>
<td>550</td>
<td>0.10</td>
</tr>
<tr>
<td>1995</td>
<td>0.83</td>
<td>562</td>
<td>0.15</td>
</tr>
<tr>
<td>1996</td>
<td>1.88</td>
<td>580</td>
<td>0.32</td>
</tr>
<tr>
<td>1997</td>
<td>2.97</td>
<td>597</td>
<td>0.50</td>
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<tr>
<td>1998</td>
<td>5.98</td>
<td>615</td>
<td>0.97</td>
</tr>
<tr>
<td>1999</td>
<td>9.99</td>
<td>633</td>
<td>1.58</td>
</tr>
<tr>
<td>2000</td>
<td>13.43</td>
<td>653</td>
<td>2.06</td>
</tr>
<tr>
<td>2001</td>
<td>17.18</td>
<td>673</td>
<td>2.55</td>
</tr>
</tbody>
</table>

Note: *Domestic Consumption estimated data available from various issues of Tea Statistics published by Tea Board, India.

NA means Not Available.

Source: Tea Digest, Tea Board India, 2004; and Tea Statistics, Tea Board India, Various Issues.

It is evident from the Table 6(i), that although tea imports in India had increased manifold during the first decade of liberalization, 1992-2001, it has still now only an insignificant share of the domestic tea consumption.

As a sequel to the process of liberalization, quantitative restrictions on tea imports were removed from March 2001. However, customs duty was raised from 35% to 70%, and
subsequently to 100%. In addition, the industry started encouraging orthodox tea production as an import substitution strategy to reduce imports.\textsuperscript{13}

The trend of tea imports pertaining to the more recent periods show that India's tea imports declined significantly from 31.8 million kgs in 2004-05 to around 18.7 million kgs in 2005-06. The decline was mainly because of imposition of strict quality norms by the government on re-export of imported tea.\textsuperscript{14}

On the whole, thus it appears that the implication of increased openness for tea industry in terms of tea imports has so far been only marginal.

6.3 REGAINING EXPORT MARKET ORIENTATION

As mentioned earlier in the section 5.4, share of tea export from India in domestic tea production had been consistently declining over the period, 1981-2001. In spite of having a share of around 28% of world's tea production, India accounted for only 13% of world's tea exports in 2001. Indeed, India's international competitiveness in tea exports had been continuously on the decline. From being a pre-eminent supplier of the world's tea, India had lost ground to its competitors virtually in every export market. In the early 1980s, Indian tea exports accounted for around 40% of the domestic production. By the end of 1980s, the share of the tea exports fell to 30%.\textsuperscript{15} The decline continued till 1994 when exports accounted for only 20% of the domestic production of tea. Thereafter, the proportion of exports improved to around 24% of the domestic production during 2003.\textsuperscript{16}

However, exports had again declined to 17.5% of production in 2005. India's tea exports had declined at a 3-year CAGR of 4.1% in volume terms during 2004-06. Although exports are marked by significant yearly fluctuations, India's tea exports have declined over the long-term.\textsuperscript{17}

A severe challenge prevailed in the export market regarding lack of proper quality control by the Indian tea producers. Indian tea is often hurled with criticism from many a corner for not maintaining the proper quality and high standard. Often importers are disappointed

\textsuperscript{14} ICRA Sector Analysis – The Indian Tea Industry, 2006, ICRA Ltd., New Delhi, p-11.
\textsuperscript{15} Tea Statistics, Tea Board India, Various Issues.
\textsuperscript{16} Ibid.
\textsuperscript{17} ICRA Sector Analysis, op. cit., 2006, p-38.
due to discrepancy in actual consignment with the sample quality. Market feedbacks, as collected by Accenture, a consultancy firm, commissioned by Tea Board of India, were not in favour of Indian exporters. Sometimes they failed to maintain the promised quality and sometimes they were not able to deliver the consignment timely and satisfactorily.\(^\text{18}\)

The product quality of tea depends on the rainfall and other seasonal factors for which the quality standards of Indian tea, particularly North Indian tea, fluctuate from season to season and create a problem of proper standardization and quality control of tea in the various export markets. Seasonality of Indian crop and lack of commitment to exports vis-à-vis domestic market are the biggest service issues with Indian tea producers and marketers. This feedback was unanimous across all markets particularly received from UK, Germany, Iran, Egypt, UAE and Russia where Indian tea have some prospect for export. In contrast, Kenya and Sri Lanka are completely export oriented and provide reliable and consistent service through-out the year. Overall, in the export market, services provided by Indian players are not satisfactory. In competition with two established competitors, Indian exporters are lagging behind in every aspect. In the question of 'year-long availability' Kenya and Sri Lanka are very much consistent whereas India's performance is not satisfactory.\(^\text{19}\)

For deterioration of quality of production, the prevailing scenario of aged bushes has been creating an immense problem. The tea bushes can provide best leaves at 15-35 year of their age. The over-aged (more than 40 years) tea bushes adversely affect the productivity as well as quality of production. This is especially true for Indian tea in general and South Indian tea in particular. In India more than 47 per cent of tea bushes are over-aged. Naturally, quality of tea from these over-aged bushes fails to maintain desired standard. This problem can be solved through planned replantation and rejuvenation. Tea Board in India is moving towards the right direction to solve this problem by creating SPTF (Special Purpose Tea Fund), from where funds will be dispersed to the selected gardens for replantation and rejuvenation purpose (50 % in the form of loan, 25% in the form of subsidy and rest 25% to be contributed by the owner of the garden).\(^\text{20}\)


Of course, improper quality control and inefficient management has emerged as lack of importers’ confidence on Indian tea in the global market. Indian exporters are lagging far behind from competitors of Sri Lanka and Kenya as they fail to attract ‘reliability of exporters’ due to delay in shipment, cases of mismatch of actual and sample shipment and lack of credibility in some markets. In the matter of ‘consistency of quality’, India’s performance is poor because of quality issues like poor grading, sifting, etc and inconsistent quality through-out the year. Kenya is the best available option for the importers in this regard.  

Concentrated portfolio in export market is another threat for Indian tea. India’s export market portfolio has been highly concentrated on few countries. Only five countries accounts for nearly 82 per cent of India’s tea export in 2001-02, namely, Russia, Poland, UK, Iraq, and UAE. Compared to this, Sri Lanka has a well diversified portfolio for its export market.

Indian tea exports suffered due challenges from the ecological front. Indian tea industry has been suffering from some natural disadvantages like soil infertility, severe pest attack in the different seasons which pave the way for huge utilization of fertilizer and pesticides. Due to this, Indian tea had been criticized from the point of view of health. Further Indian tea is also criticized for low focus given on research and development (R&D) activities in the field of clonals, replanting of plant compared to Sri Lanka.

Indian tea export has been suffering due to course plucking, quality deterioration and BLFs’ (Brought Leaf Factories) activities. Indian tea is also facing the problems of coarse plucking which leading towards deterioration in products’ quality. The golden rule of plucking “two leaves and a bud” is not maintained by most of the manufacturers, especially during off-season. BLFs are very much active in South India and Assam which insist pluckers for coarse and hard plucking which is the obvious reason for quality deterioration of Indian tea.

6.4 DEVELOPING CONSUMER ORIENTATION

Indian tea export has been declining sharply over the years. One of the most important factors in this regard is dissimilar product mix compared to the world market. If we
consider the latest product mix of tea produced in India and world production scenario, this fact will be clear. The product mix of world was divided into: Black Tea – 1345 million kgs and Green Tea – 227 million kgs for the year 2006 where black tea was divided into CTC – 645 million kgs and orthodox – 700 million kgs, but Indian product mix was divided into Black Tea – 946 million kgs and green Tea – 10 million kgs. Black tea is divided into CTC – 856 million kgs and orthodox – 90 million kgs.

From the above mentioned data it is apparent that Indian product mix highly focuses on CTC variety of tea ignoring the orthodox and green tea demand. Indian producers are not accelerating the production of orthodox tea in lieu of the world demand. It is noteworthy here, that the Indian climate and other factors also do not support green tea production favourably. Thus Indian producers are not in a position to target the prevailing green tea market.

Next challenge is related to the changing preference of Russia/CIS countries which are the largest export tea market of India. After fragmentation of former USSR, for next few years the consumers of CIS countries, due to financial instability, shifted towards CTC variety where India’s strength has been lying since 80s. But the consumer preferences of these countries now again have shifted back towards traditional Orthodox tea where India has given a lesser emphasis as per current product mix. Due to this reason, since 2003, India has lost her position as the largest exporter in Russia/CIS countries to Sri Lanka where producers largely emphasize on manufacturing Orthodox tea.

Indian tea has been facing problems regarding its product mix from the domestic market as well as from the international market. The domestic demand is indicating its preference towards the CTC varieties (mentioned earlier in section 4.3) whereas most of the traditional India’s tea importers have been concentrating on Orthodox varieties (mentioned earlier in Section 3.6). Indian tea producers, on the contrary, are intent on the CTC production since 80s. That is, most of the producers are targeting only the domestic market where competition is relatively less; giving little attention towards export market.

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6.5 MANAGING DISTRIBUTION CHANNELS IN A COMPETITIVE MARKET SCENARIO

Regarding marketing channels, Indian tea industry highly relies upon the traditional auction system of marketing of tea. The other means of direct marketing channels viz., ex-garden or ex-factory sales and sales through forward contracts etc., are not properly used by most of the producers. In the era of liberalization, when the marketing is highly consumer oriented, without directly interacting with the consumers, their taste and preference cannot be properly assessed. But through the auction system, which is system where hardly producers meet the consumer, understanding the appropriate taste and preference of the ultimate consumer is a remote possibility. But till date, auction is the prime channel of marketing of Indian tea, although its proportion in the total channel mix is losing some importance.\(^{28}\)

India has seven auction centres which are currently operating in tea business situated in different parts of the country. So marketing of tea from a particular point is not possible, and importers, who are interested in Indian tea, have to run to different parts of this vast nation. On the other hand, the concentrated outlet facilities in Kenya and Sri Lanka are more convenient to them.\(^{29}\)

Another problem lying with Indian exporters is non-availability of marketing information. With the parameter ‘ease of imports’ India’s performance is poor because of multiple auction centres with disaggregated volumes and poor infrastructure, lack of information sharing on primary sale and absence of formal feedback channels. Performance of Sri Lanka and Kenya, on the other hand, are very good as their auction system is concentrated at a few centre, enabling foreign players to easily participate in the auction and collect sample as well as confirm order easily. Again, these two countries have negligible domestic demand and they are very much dependent on export marketing to dispose off their products.\(^{30}\)

Several problems are associated with the logistic management of tea export from India. Indian Auction centres are not so well connected to the ports which have made a major obstacle for distribution of Indian tea. In comparison to Kenya and Sri Lanka, India is not in a comfortable position regarding distribution of tea for exports. Major ports are situated far


\(^{30}\) Ibid.
from auction centres in India. Moreover, due to inefficiency of port infrastructure, particularly long ‘lead time’ before shipment due to procedural delays and long ‘detention period’ in some ports, creates severe challenge to export.31

6.6 VALUE ADDITION AND IMAGE BUILDING

In the export market, value-added teas from India have great potentialities as is indicated from export price realization of value-added items like packet tea, tea bags and instant tea from India (mentioned in the section 5.4). But the proportion of these value-added items in the total export mix of tea from India is quite insignificant during the study period, 1981-2001. Most of the tea exported from India had been exported in the bulk form with the minimum margin of profit. This was an immense challenge faced by the Indian tea industry regarding not responding properly to the desired need, taste and preference of the consumer in the global market. At this juncture, Indian tea industry has failed to reach the core aspect of marketing concept where consumers’ taste and preference are the prime factor for production.

Another problem of Indian tea industry is its limited promotional efforts in the export as well as in the domestic market. As India is the largest consumer of tea in the world, the major part of her production is absorbed by the domestic market. As a result, the promotional aspects of Indian tea are not properly emphasized. To promote Indian tea in the foreign markets sufficient steps are yet to be taken. Where as India’s two established competitors viz. Sri Lanka and Kenya as well as some growing competitors like Indonesia, Malawi etc. are following aggressive strategy to capture the attention of the consumers of different foreign markets.32

Most intense problem for the industry comes in the form of tarnished image of the Indian tea by the imported tea blended in EOU’s (Export Oriented Units) and FTZs (Free Trade Zones). Tea blending in EOU’s and FTZs often hampers the image of Indian tea in the international market. Dishonest blenders and BLFs are responsible for the degradation of quality of teas in the other market. They import low grade teas from countries like Indonesia, Nepal, Bangladesh etc., and blend with Indian teas and sell the outcome in the international market as Indian teas. These teas drastically affect the image of the Indian tea.33

32 Ibid, p-49.
33 Tea India, December, 1993, p-3.
The imports of tea from other countries had been increasing in the period of economic liberalization in general and after March, 2001 in particular when Government removed quantitative restrictions on imports of tea. The quantity of imported tea had increased from mere 1.37 million kg in 1992-93 to 21.89 million kg in 2002-03. Over 80 percent of imported tea was from Orthodox producing countries like Sri Lanka, Indonesia and Vietnam. Vietnam was the largest source accounting for 55 percent of the total imports. This trend implied that there is a dearth of Orthodox teas of certain grades and quality in India for re-export to markets like Russia, Iraq and UAE. But most of these are cheap teas and re-exporting these teas are affecting India's quality image. The ITA has proposed for quality checks of all teas entering India even if they are for re-export. This apprehension assumes significance in the light of past experience with Russia/CIS. The ITA has requested the Tea Board to move regulatory authorities such as the Directorate General of Foreign Trade and the Development Commissioner to offset the necessary procedural amendments towards incorporating the aspect of 'multi-country origin' declaration in the case of products going out as blends of Indian and imported teas of other origins.

Indian tea has failed to establish a brand image "Indian Tea" in export market. India has its vast domestic market for tea, as a result many producers/traders are satisfied enough to operate in the domestic market with only a few of them having interests in export marketing. Again, those who are involved in export marketing and Tea Board, India (the supreme body of Indian tea for promotion) have taken limited promotional measures to promote Indian tea as a whole in the international market. Firms operating from Sri Lanka and Kenya, on the other hand, were united along with their respective Tea Boards and had been made sufficient promotional measures to establish their tea image as a whole in different tea importing countries.

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