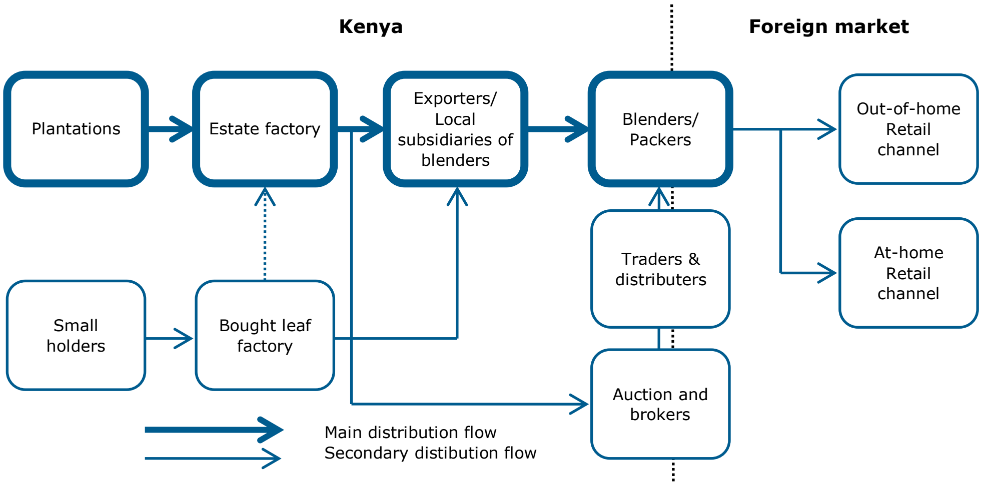
# Trade structure and channels for Kenyan orthodox tea

Orthodox tea is mostly traded through the main global trading centres. The imported orthodox tea is often blended and packaged in these trading centres and exported after value-adding processes.

## Trade channels

Kenyan orthodox tea is usually a plantation product, but it can also be produced by bought leaf factories. In the latter case, smallholders often sell their green leaves to middlemen, plantations or processors, often through contractual arrangements. Withering, rolling, fermenting, drying etc., takes place near production areas. Orthodox tea is often directly traded to blenders and packers in the EU market.

**Figure 1: Trade channels for Kenyan orthodox tea**




*Source: ProFound, 2013*

Orthodox tea is mostly sold directly through forward contracts and private sales by exporters. Producer benefits from direct sales can be considerable; they receive payment faster, endure less uncertainty about sales and price, and can avoid the charges associated with auctioning tea (*i.e.* broker fees, warehousing). On the other hand, the system appeals to blenders and packers, because it guarantees faster delivery (and therefore higher quality).

### Brokers and auction

In the case of Kenyan orthodox tea, brokers and the auction play a minor role between tea producers and buyers, as tea is mostly traded directly. The Kenyan auction centre for tea is located in Mombasa. This centre brings buyers (traders, agents and importers/blenders) and sellers (estates/small holder cooperatives) together, to determine the price through interactive competitive bidding. If bidding does not reach the desired price, the broker or producer can withdraw the tea from the auction. Brokers must be registered with the Kenya tea board in order to operate, thus limiting the number of auction houses where tea can be sold.

**Tea blenders and packers**

Kenyan orthodox tea imported into the EU eventually reaches tea packers and blenders or goes (in smaller units) directly to tea shops. As tea is mostly exported at a relatively early stage in the supply chain, the most lucrative value-adding activities, blending and packaging, accruing up to 50% of the consumer price, are carried out by blenders and packers in or near the end-market. Tea processing is less concentrated internationally than tea trade, but concentration on national markets can be extensive.

## Retail channels

The orthodox tea market can be divided into two retail channels in which tea is consumed:

- *At-home consumption:* The retail channel caters foremost to the in-home consumption. In the case of orthodox tea, speciality shops are the main outlet but supermarkets and grocery shops are also possible. Consumers (but also small companies) can purchase orthodox tea packaged or loose at:
    - Specialty tea shops,
    - Organic retailers,
    - Internet shops.
- *Out-of-home* – A proportion of the tea consumption takes place out of home. The main catering outlets are :
    - coffee /tea shops,
    - restaurants and hotels,
    - office utility services.

  In the case of Kenyan orthodox tea, coffee/tea shops, restaurants and hotels are the most interesting outlets in the out-of-home channel because of the relative high quality and price of the product. Office utility services commonly search for cheaper alternatives.

**Certified tea**

In Kenya, UTZ-certified and Rainforest Alliance mainly work with the larger mainstream players and brands and are mostly traded through the conventional CTC channels. Importers of organic tea are sometimes not specialised in tea imports, but in organic products in general. The trade structure for fair trade certified products is more or less comparable to the organic trade structure and partly overlaps in terms of companies.

## Price structure

Value addition comprises not only the different costs involved in coming to an end-product, but also price setting by the selling party (see box 1). Next to production and transport costs of orthodox tea, value addition at producer/exporter level can consist of certification schemes, *i.e.* organic or fair trade certification.

The price at which products are sold to retailers will include:

- the cost of ingredients, which also includes the purchasing price from the producer/exporter or the processing importer;

- transportation costs;
- production costs - *i.e.* making and putting the product into the container;
- labour costs;
- overheads including lighting, heating, administration costs of production;
- promotional costs - *i.e.* to raise awareness of the product;
- profit element to allow for reinvestment into the company and its products.

Finally, the different outlets, to which the manufacturer sells its orthodox tea, determine their own selling prices for consumers, based on a variety of factors. Currently, the price structure for orthodox tea indicates that the product is catering to a niche market. Margins for the actors involved in distribution and sales are high. Common prices at online webshops amount to approximately €30-45 per kg for orthodox teas (see module on Price and price developments). These retail prices are much higher than the export prices.

**Box 1: Indicative price structure orthodox black tea**

| | |
|---|---|
| ***Total production costs:*** | 5-10% |
| Tea plantation: cultivation, harvesting, fertilizing, weeding, pruning, etc. | |
| Processing: sorting, withering, breaking up, fermentation, drying, sifting, packing | |
| ***Brokers & auction:*** | 2-4% |
| ***Total transportation costs:*** | 4-5% |
| Export tax, port costs, transport | |
| ***Total manufacturing costs :*** | 30-40% |
| Marketing, re-packing, transport, warehousing. | |
| ***Retail:*** | 41-69% |

This survey was compiled for CBI by ProFound – Advisers In Development
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