CBI
Ministry of Foreign Affairs

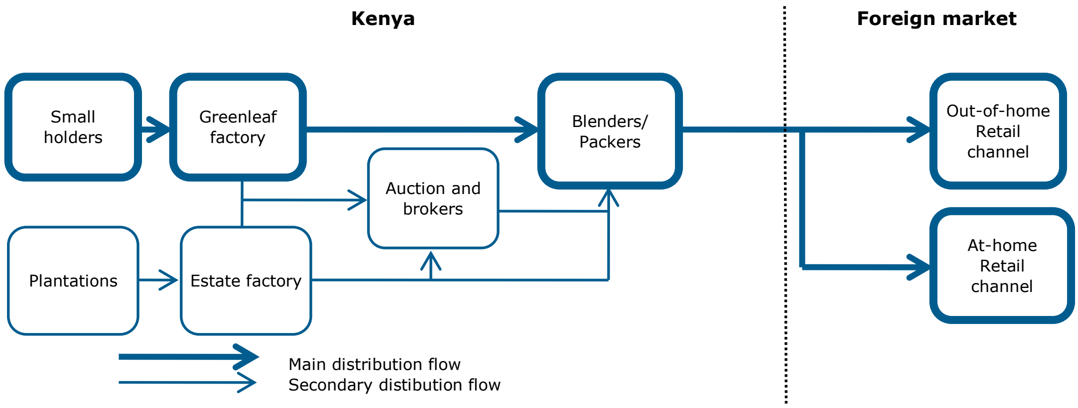
Trade structure and channels for Kenyan tea packed at origin

Tea packed at origin is, besides the basic processing, blended and packed in Kenya, adding value locally. Benefits from these activities can be considerable as the domestic tea industry will have a larger margin, while at the same time being more cost-effective.

Trade channels

The tea used for Kenyan tea packed at origin is mostly derived from small holders, but can also come from plantations. However, the latter are more often vertically integrated in larger companies which have their packing units abroad. Kenyan smallholders sell their green leaves to middlemen and processors, often through contractual arrangements. The initial processing, including withering, CTC production, fermenting, drying etc., takes place near production areas.

Figure 1: Trade channels for tea packed at origin



Source: ProFound, 2013

Direct trade

In the case of tea packed at origin, tea is mostly sold directly to the blender and packers without the intervention of brokers or the Mombasa auction. Producer benefits from direct trade are often considerable; they receive payment faster, endure less uncertainty about sales and price, and can avoid the charges associated with auctioning tea (broker fees, warehousing). Likewise, the system appeals to blenders and packers, because it guarantees faster delivery (and therefore higher quality).

Compared to the conventional tea supply chain, the tea does not leave the country in bulk packaging. Tea blenders and packers are situated in Kenya, whereas these would normally be located in the destination market. As a result, the most lucrative value-adding activities of the tea supply chain, blending and packaging, accruing up to 50% of the consumer price, are carried out in the country of origin. On the other hand, importers profit from lower blending and packaging costs, which outweigh the transportation and storage costs.

Brokers and auction

In the case of tea packed at origin, brokers can sometimes be a link between tea producers and blenders or packers, since they communicate information regarding supply and demand. In the case of Kenya, brokers must be registered with the Kenya Tea Board in order to operate. As a result. the number of auction houses where tea can be sold is limited. New buyers have limited chances of entering the system, because unknown buyers are only marginally allowed to trade at auctions. Kenya's auction centre is located in Mombasa. The auction system is similar to other major global auction centres, bringing 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 price desired, the broker or producer can withdraw the tea from the auction.

Retail channels

The market for bagged tea can be divided into two retail channels:
- *At-home consumption*,
- *Out-of-home consumption*.

Both retail channels have different types of brands available for the consumer, offering well-known brands, private label brands and discount brands. Each of these brands is presented in their own style and price segment. If you aim to be present in a foreign market with your own brand or under a private label in these channels, be aware that you also would have to offer a complete tea assortment. This means you would have to offer rooibos, herbal infusions and aromatic teas next to green and black teas.

Figure 2 Examples of packaging per type of brand in the Netherlands

Known brand | Private label brand | Discount brand

Source: DE Masterblenders, 2013; Sligro, 2013; AMS, 2013

At-home consumption

This channel is becoming increasingly diverse and accounts for around 70% of tea consumption. Next to the old-fashioned tea-for-a-pot bags, single cup tea bags (often in tagged double chamber with envelope) are particularly prevalent, next to loose-leafed (often premium) tea. Tea bagged in pyramid sachets are also seen more often on the market. Moreover, the variety of brands, flavour etc. has increased tremendously the past two decades. Consumers (but also small companies) can purchase tea in these forms at:
- Supermarkets (see table 1 for the largest supermarkets in Europe),
- specialty tea and coffee shops,
- organic shops.

Table 1: Top 24 of European retailers, turnover in € billion, 2012

Rank	Retailer	Turnover	Headquarter	Rank	Retailer	Turnover	Headquarter
1	Schwarz (e.g. LIDL)	69.5	Germany	**13**	Systeme U	21,1	France
2	Tesco	65.2	UK	**14**	Migros	20.7	Switzerland
3	Carrefour	56.2	France	**15**	Ikea	19.9	Sweden
4	Aldi	55	Germany	**16**	Mercadona	19,1	Spain
5	Rewe	49.7	Germany	**17**	Euronics	16,5	Netherlands
6	Metro	45.4	Germany	**18**	El Corte Ingles	16e	Spain
7	Edeka	45	Germany	**19**	Kingfisher	13.1	UK
8	E.Leclerc	44	France	**20**	Ahold	12.1	Netherlands
9	Auchan	41	France	**21**	Tengelmann	12	Germany
10	ITM (e.g. Intermarché)	34	France	**22**	A.S. Watson	9.8	Netherlands
11	Sainsbury	30.2	UK	**23**	Casino	9.7	France
12	Morrisons	22,3	UK	**24**	Marks & Spencer	8.3	UK

Source: retail-index.com (2013)

Out-of-home consumption

A proportion of the tea consumption takes place out-of-home, amongst other locations in restaurants, coffee bars, cafes, at work etc. However, since your exports of tea packed at origin are mostly interesting for retail channels that focus on large and continuous orders, these smaller orders from restaurants and coffee/tea bars are not the most interesting channels for exporters of tea packed at origin.

Consumption at work is of great importance. This market segment is partly provided for by the same retailers as the at-home segment. However, large companies often have tea vending machines, which is of limited interest for exporters of tea packed at origin. This market is dominated by a limited number of companies. Your best chances are with the small and medium-sized companies as they still buy tea at retailers, distributors or Cash& Carry wholesalers.

This survey was compiled for CBI by ProFound – Advisers In Development
in collaboration with CBI sector expert Joost Pierrot