



# Trends and segments for Kenyan tea packed at origin

Bagged teas are becoming increasingly popular in almost all regions of the world. If Kenyan exporters of tea connect with the trends and requirements for bagged tea from these markets, Kenyan tea packed at origin could be a very interesting export product.

## Trends on the market

### **Convenience: increasing demand for tea bags**

Currently, there is a trend in Europe for more convenience products and this trend is present in the tea industry as well. Loose-leafed tea is seen as a specialty product and as a product that requires more work and time to brew a cup of tea. In most European countries, with the exception of Northern Germany, tea bags take up at least 90% of the tea market. The remaining 10% consists of loose leaf tea packed and sold in speciality stores for which packaging is not relevant. If Kenyan tea producers can pack tea at the same quality as the packing industries in Europe, they could tap into this trend.

A similar trend exists outside of Europe, although in many countries, especially in Asia and the Middle East, loose-leafed teas are still dominating these markets. However, in the USA, for example, most tea is sold in tea bags. Even in China, a country which in general prefers orthodox tea as opposed to tea bags, the popularity of teabags is increasing.

Kenyan exporters should be aware that different shapes of tea bags are used in different countries (Figure 1). For example, in the UK single-chamber tea bags are more common, whereas the standard in continental Europe is double-chamber teabags with a string and envelope. There are also different sizes of teabags for brewing a cup or a pot of tea. A rising trend in most regions in Europe but also in the USA is pyramid tea bags, because customers want to see the loose tea in these teabags. Producers should align the model of tea bags they produce with what is demanded on the market in question. In general, consumers prefer tea bags without staples, as this more convenient.

**Figure 1: Examples of tea bags and sachets**



Source: IMA Industries, 2013; Pukala Polska, 2013; Mariage Freres, 2013

### ***Few teas are packed at origin***

Kenyan tea, especially CTC, is mostly used in blends, which originate in different countries. In order to pack these blends in Kenya, teas from other tea-producing countries need to be shipped to Kenya. This results in extra costs and sometimes also in significant import tariffs between the countries. When this results in increasing freight costs, this could outweigh the savings that can be made due to the lower labour costs in Kenya so that it becomes more feasible to pack the tea in the destination markets. This is the case for many companies in Europe. Single-origin teas, on the other hand, could benefit from the lower costs of packing at origin, since extra transport costs do not apply. Therefore, it is more viable to pack single-origin teas in Kenya.

However, whether the teas are single- or multiple-origin, shipment of packed tea is still more expensive than shipment of unpacked tea. Teabags take up about four times as much space as unpacked tea, resulting in significantly higher freight costs.

### ***When is packed at origin a good proposition?***

Most Kenyan tea is exported in bulk; many companies prefer to pack the tea in the consumer markets, to keep flexibility and control of packing. Nevertheless, tea packed at origin has become more common in the last decade. Packed at origin can save costs for retailers, but this has to weigh up to the higher risks related to packing at origin. As retailers have steady supply chains available in Europe, there is no urgency to change suppliers. Therefore, you need to convince them that you have a reliable partner which can serve the retailer according to his requirements.

In Sri Lanka, India and, to a lesser degree, China and Kenya, multinationals and local companies operate packing factories which can meet the requirements for export to Europe and North America. They have been able to partner up with European and North American retailers to export private label packaging to these foreign markets, because:

- of their constant supplies at a (relative) low price on which retailers can rely;
- they have a quality management system in place that secures the quality according to the standards of the European and North American buyers.

In many cases, a double chamber bag and the freedom to choose the quality of the tea are minimum requirements which you have to meet as a tea packer. It is therefore important that you keep a close eye on your buyer's requirements and have direct communication with your buyer. Inform your buyer as to what you can, but also what cannot, deliver in order to prevent disappointments for both sides. For more information please read the module 'Compliance with buyer requirements'.

### ***Consumers buy known tea brands***

Many tea plantations in Kenya are owned by a few multinational companies. As explained in the module on buyer requirements, these brands prefer to pack their teas in Europe, to keep control of quality and to be more flexible with their stock. Moreover, in many countries in Europe, tea consumers generally prefer to buy known tea brands as they have little knowledge of the different origins and qualities of tea. There is currently little demand for other brands.

In Europe, most tea is sold through supermarkets. These large retailers have a lot of power and in general do not stock tea brands for which there is not enough demand in the market. Therefore, they might be reluctant to stock these special, packed at origin brands. Kenyan tea exporters serving the mid-range to high-end segment could try to make contact with specialty shops, which might



be more willing to stock lesser-known brands which are packed at origin. Kenyan tea packers aiming for the low-end segment could tap into the opportunity to pack private label teas for supermarket or Cash&Carry chains (serving catering companies and offices); these mainly compete on price. For private labels in particular, it would be an advantage to have a lower cost price compared to private label teas packed in or near the end-market. In addition, supermarket and Cash&Carry chains often contract their private label tea packers for several years, making it hard for these companies to switch at once to a Kenyan tea packer.

The exact proportions between branded and private label teas is unknown. However, keep in mind that most supermarkets and Cash&Carry chains offer both branded and private label tea bags.

### ***Kenya origin mark is not well-known***

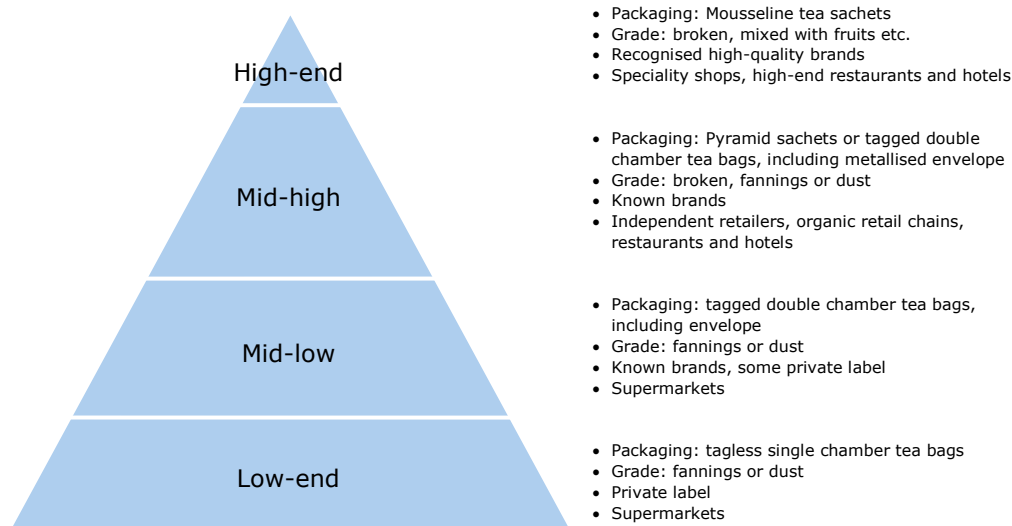
Industry sources indicate that the Kenya origin mark is not well-known outside of Kenya. Kenya itself is not always recognized by the public as a major tea-producing country. Hence, it would not add value to put a Kenya origin mark on the product. In addition, the origin mark would also diminish the flexibility of tea blenders. If a tea packaging carries this mark, the company loses the flexibility to source from and pack in countries other than Kenya. Since this would restrict European tea companies in their selection of tea blends, they are reluctant to specify the sources of their tea blends. If a new source is identified for a tea blend or an existing source becomes unavailable, the company would need to change all packaging and labels.



## **Segments**

The segmentation of bagged tea is shown in Figure 2. The mid-high to high-end segment is only accessible for bagged tea if you are able to bag your tea in pyramid or mousseline sachets. Furthermore, double chamber tea bags need to be tagged and preferably presented in metallised envelopes. Regarding the quality of the tea, a high quality dust, fannings or broken leafs are required for mid-high to high-end segment. In the high-end segment broken leafs are sometimes mixed with fruits. Currently, Kenyan tea packers are unlikely to fulfil the requirements to deliver to these segments. They are recommended to focus on the mid-low to low-end segments, even though they can realise the requirements for the higher segments. Moreover, these segments compete on quantity and costs, making Kenyan packers potentially attractive for potential buyers. The low segment is characterized by lower quality dust and fanning and simple packaging, in many cases for the supermarkets' private labels.

**Figure 2: Segmentation of bagged tea**



Source: ProFound, 2013

### Useful sources

- Information about the developments in the tea industry can be found at online-magazines such as Just Drinks (<http://www.just-drinks.com>), and Food and Drink International (<http://www.foodanddrinkinternational.co.uk>).
- International Tea Committee - <http://www.inttea.com> and The European Tea Committee (ETC): <http://www.etc-online.org> provide information and statistics on the EU tea market.
- Tea Trends - <http://www.teatrends.com>

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

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