Ozone Friendly Tea, But Supply Chain Development?

When The Sunday Leader invited me to pen a key thought on the economic landscape that is unfolding in Sri Lanka, I was at the launch of a landmark event where Sri Lanka was the 1st ever country to receive "Ozone Friendly Tea status" from the Montreal Protocol.

By Rohantha Athukorala

The award’s significance was that with this certification and the Geographical Indications (GI) protection that the country is pursuing in the key 40 markets, Ceylon Tea is set to become a USD 2 billion plus category for Sri Lanka. Ceylon Tea marketing model is an example to the world on Private-Public-Industry working.

Logic

The logic being that the certification mark can be used to market the country's tea under the tag “Ozone Friendly Tea” which means that Ceylon Tea is produced and manufactured in a manner that does not harm the environment. This unique positioning will create a distinctive position in a global consumer’s mind, thereby making Ceylon Tea a top of the mind brand. With this unique positioning the propensity for a global consumer to pick a Ceylon Tea brand becomes greater, resulting in overall demand increasing. Over time, if the quantitative value can be garnered up to this tag, given that there is a high elasticity in this area of environmental responsibility, we can command a consumer price premium that will be good for the industry.

Mexican Tequila

Apart from Maxar’s nice one of the market analysis cited globally as a category brand that has taken the world by the storm is the Mexican Tequila. Apart from the unique positioning, the marketing has been done in our mind. We have the GI that has also helped in establishing a premium pricing that indicates the possibilities that have opened up to shaping the category brand Ceylon Tea in the near term. Together with the 10 million dollar marketing and positioning fund that is being set up annually, in my view the demand chain agenda for Ceylon Tea is a masterclass that can be adopted for a successful private-public partnership.

Replating the remedy?

One can argue that replating is the way forward, but given the overall financial pressure and the cost of replating being high, this option becomes financially non-viable. The corporate sector’s current replating rate is around 0.07% as against the 3% that is stipulated by TIR. Based on TIR’s estimate, the corporate sector has to replat 21,839 ha. of tea in the short and medium-term in order to have the right kind of mix of tea stock. This means that an area of 2,250 ha. of tea will have to be replated so that within other years the right kind of mix stock can be obtained.

The alarming point to note is that this is not implemented with urgency, venues will drop from the current 125 million kg around 80 million kg in the corporate sector which indicates the supply chain focus which is reducing in the area of replating application for great agricultural practices to be followed, research reveals that overall crop sector’s fertiliser utilisation has dropped from 32% to 25% between 1990 and 2006, which gives us an indication of the discipline that is being adhered to at the ground level.

Quote: A worker’s wage which was around Rs. 60 in 1980 is today Rs. 447 with EPF and ETF, a 650% increase. However, consumer prices have not increased proportionately to cover those costs that questions the industry’s profitability.

While the demand side orth

Productivity issue

This volume drop by the corporate sector needs further analysis given that if overall productivity levels had improved then the output reduction can be justified to rationalisation. But based on research data, productivity levels have declined from 1.46% per year to 1.40% in 2003, which calls for a logical analysis and appropriate action such as diversification in any case.

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Directional Change

From the above analysis the need of the hour is to quick decision making to sort out the key issues and move forward. If the extension of the lease period to 60 years and developing a strategy to drive replating and productivity enhancement is not done, all the focused developments in the demand end will be waste in my view.

From a more long-term point of view it is clear that a new business model in "Corporate sector Tea" is required. The good news is that this is currently being worked on this new strategy but this requires strong policy reforms that can support this hardline approach. This model includes a highly diversified entity that has business lines in commercial for- eign,; greening, mini hydro, eco-tourism, palm oil, mineral water bottling, dairy farming and vegetables; biofuel cultivation for the export market and other entrepreneurial ventures based on marketable needs. Another option will be to develop an export arm in a typical "Will Do" manner by acquiring a successful export company which has a proven track record of the money earned by the exporter will come into the P&L of a corporation. This includes from production to warehousing and logistics to global marketing just like the agency farming days. This will require competencies in many areas which needs a new generation of tea entrepreneurs to specialise.

Conclusion

Here’s a key insight that has come from a discussion with a Sri Lanka or a model country in the world of tea but from a supply side we do have considerable challenges that needs to be addressed. The thoughts expressed are the writer’s own based on his doctoral research and not this view of the positions he holds in the Private-Public or in the International Public sector.