

'I drink 12 cups of Detox tea a day': Kendall Jenner reveals how she stays slim during Fashion Week.

Detox Tea

Herbal teas are a fantastic way to increase water intake in the body, while benefitting from their medicinal properties. Each tea has different benefits depending on the nature of the herb being used. Aim to drink detox teas between meals, as consuming large amounts of fluid while eating can dilute the beneficial digestive juices. It's also best to drink them while hot to get the most from the essential oils contained within them. The more is drinking herbal teas, the more one shall see the benefits.

Detox Tea Business

Fitness is a term which is on the top of search list on the internet or in other data, worldwide. Not only in the U.K, but also people around the world are keen to know much about it. There has been a trend over the years, whereby people have changed their lifestyle by joining health centers, gyms, or by just switching over herbal products and commodities, in order to keep themselves fit and healthy. **Detox Tea** is one of the supplement, which is in high demand nowadays and not only the common people, but also celebrities to prominent personalities have developed its drinking habits, and it is gaining popularity every now and then throughout the world.

It's high demand can be deemed as an opportunity for entrepreneurs to startup their venture into it, to gain better returns and margins in business. There lies a wide range of variants, within the detox tea segments and are also gaining huge popularity among the various segments of the society.

Detox tea is available in form of tea bags and in powdered form, and it's high consumption makes it as one of the top rated product in the fast moving consumer goods segment in the market. The price of detox tea ranges from GBP 5.99 to as high GBP 35.99 in the British market, and giving an indication of an average price of GBP 20.99.

Procurement: In-house purchase or Import?

As far as In house purchase, i.e buying from wholesale dealers in the U.K. is concerned, the price can range from GBP 10.00 to GBP 20.00 (VAT extra), while, if imports are considered, then

there are various countries, which are either producers of Detox tea or they are in association of various companies which sell this product globally at a very lower price, which may range from GBP 2.40 to GBP 10.00 (custom duty and VAT extra), for 250 grams. These countries are China, India, etc. The import duty on this product is 3.20%, if bought from outside EU([source: https://www.gov.uk/trade-tariff/commodities/0902100000#overview](https://www.gov.uk/trade-tariff/commodities/0902100000#overview)). Import duty is imposed on CIF Value. Right now, Detox Tea is a zero rated VAT product in UK.

| Particulars | Cost(average) | Customs | VAT | Total |
|------------------|---------------|---------|------|--------|
| Inhouse-purchase | 15 | - | - | 15 |
| Imports | 6.5 | 0.21 | 1.34 | 8.0496 |

(all figures in GBP, and VAT paid **may be** refundable, as per local laws)

Decision: Imports are preferable, net advantage per unit is GBP 6.95

Determining Target Price: Pricing Policy

Good pricing strategy helps to determine the price point at which one can maximize profits on sales of the products or services. When setting prices, a business owner needs to consider a wide range of factors including production and distribution costs, competitor offerings, positioning strategies and the business' target customer base. While customers won't purchase goods that are priced too high, the venture won't succeed if it prices goods too low to cover all of the business' costs. Along with product, place and promotion, price can have a profound effect on the success of your small business. Penetration strategies aim to attract buyers by offering lower prices on goods and services. While many new companies use this technique to draw attention away from their competition, penetration pricing does tend to result in an initial loss of income for the business.

Over time, however, the increase in awareness can drive profits and help small businesses to stand out from the crowd. In the long run, after sufficiently penetrating a market, business ventures often wind up raising their prices to better reflect the state of their position within the market

| Product Pricing: Detox Tea | | | |
|----------------------------|--|---|------|
| Procurement cost (CIF) | | £ | 6.50 |
| Import Duty | | £ | 0.21 |
| VAT input | | £ | 1.34 |
| Total COGS per unit | | £ | 8.05 |

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| For 12000 units- assuming sale of 1000 units per month | | | |
|--|---|------------|--|
| COGS for 12000 units | £ | 96,595.20 | |
| Carrying Cost-opportunity @10% | £ | 9,659.52 | |
| Amazon FBA @ 15% | £ | 14,489.28 | |
| Website (including shopify) | £ | 150.00 | |
| Website maintenance | £ | 100.00 | |
| Freebies | £ | 9,600.00 | |
| Other Fixed cost | £ | 500.00 | |
| Commissions | £ | 12,000.00 | |
| Delivery | £ | 12,000.00 | |
| Total Cost of Sales | £ | 155,094.00 | |
| Profit Margins @30% | £ | 46,528.20 | |
| Total Sales | £ | 201,622.20 | |
| Sales Per unit | £ | 16.80 | |

Thus the selling price per unit comes out to be **GBP 16.80** (output VAT is 0%) for **250 grams**.

Break-Even Sales

Break even point is a point, where the firm sell its product at a no profit no loss. The synergies or economies of scale are achieved one the firm sells more quantities above this level.

Selling below this level means, the firm is selling running in loss and it is not in a position to cover even its fixed costs through its gross revenues.

The more a firm sells above this level, the greater margin of sales is achieved. And to maximize its profit, a firm needs to focus on how to sell more and more quantities to the consumers.

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An analysis of Break Even point is:

| Overall Break-even for 12000 unit | | |
|-----------------------------------|------------------|--------------|
| Sales | | £ 201,622.20 |
| <u>Variable Cost</u> | | |
| | Procurement Cost | £ 96,595.20 |
| | C.Cost | £ 9,659.52 |
| | AmazonFBA | £ 14,489.28 |
| | Freebies | £ 9,600.00 |
| | Commissions | £ 12,000.00 |
| | | £ 142,344.00 |
| Contribution | | £ 59,278.20 |
| Contribution p.unit | | £ 4.94 |
| <u>Total fixed cost</u> | | |
| | Website | £ 150.00 |
| | Web maintenance | £ 100.00 |
| | other fixed cost | £ 500.00 |
| | | £ 750.00 |
| Overall Breakeven(units) | | 151.83 |

The Break even point in units comes out to be 152 units approx, which means by selling 152 units of Detox tea, the shall be break-even, i.e. it shall be neither earning profits nor shall it be incurring any losses, hence, to maximize it margin of sales, the firm should sell more and more above this level.

Analysis of Projected Sales

| Detox Tea: Sale via Total Quantity 12000 units | | | | | |
|--|----------------|----------------|-----------------|--|--|
| <u>Particulars</u> | <u>Ranking</u> | <u>Weights</u> | <u>Quantity</u> | | |
| Amazon | 1 | 4 | 4800 | | |
| E-bay | 2 | 3 | 3600 | | |
| Own Website | 3 | 2 | 2400 | | |
| Gym/FC | 4 | 1 | 1200 | | |
| | | 10 | | | |

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The ranking on various sales channel has been given after research by various tool on the internet.

The analysis in the table given shows that Amazon is the highest rated and preferred channel by the customers to shop. This is followed by Ebay, then by selling with own website and then by physical selling, i.e. through Gyms, Fitness/health centers, Doctors, etc.

*Other websites like Bonanza, Etsy, Depop, Folksy can also be taken into consideration, including **teaandmore.co.uk** (specialized exclusively in tea)

Why Own Website?

To establish one's brand in the market, having own website by a business venture is must. There are several website developers, yet Shopify is rated as one of the top, because of its services. It provides online space to the client to develop online stores and also gives an option to integrate payment gateway for receiving payments.

Products can be shipped even outside the U.K., by entering into a tie-up with courier companies to facilitate delivery.

*For local customers, next day delivery option can be given, or an option of delivery in 24 hours can be provided, by making a tie-up with one of the courier companies in the area.

For this, the following points need to be considered:

- Builds trust in the customers
- Develop a feeling of confidence about the product in the market.
- Direct selling, no middlemen in between the channel of selling.
- Direct reviews and feedback system.
- Receive payment directly through payment gateway, i.e. online.
- Can solicit the customer to order more, via bulk deal.
- Creates an everlasting impact on Amazon customers about the product and business.
- Very easy to launch a wider product range in future.
- Creates an impact on Investor and potential customers.

Physical Selling?

This can be achieved by having talks with wholesalers, supermarkets, gyms, fitness centers, hospitals, Nutrition and health centers, giving them commissions and other incentives and asking them to endorse the product, i.e. Detox Tea to their respective clients.

This will help the product to flourish, and people will be able to see and look at the product physically, they can look at the shape and size of the product, it's contents, price, and its vitality. This will have an impact on them, and they may turn into actual users of the product. This makes a feeling and ethos of presence of product in the market.

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| Profitability per channel of sale: Marginal approach | | | | |
|--|---------|----------|----------------------|----------|
| | | | Procurement cost p.u | £ 8.05 |
| Particulars | Amazon | Ebay | Own Website | Gym/FC |
| Quantity | 4800 | 3600 | 2400 | 1200 |
| S.P. p.u. | 16.8 | 16.8 | 16.8 | 16.8 |
| Total Sales | 80640 | 60480 | 40320 | 20160 |
| <u>Expenses</u> | | | | |
| Procurement cost | 38640 | 28980 | 19320 | 9660 |
| FBA @15% | 5796 | 4347 | | |
| Freebies | 3840 | 2880 | 1920 | 960 |
| Commission | | | 2400 | 1200 |
| Website | | | 250 | |
| Carrying Cost | 3863.8 | 2897.85 | 1931.9 | 965.95 |
| Other fixed cost | 200 | 150 | 100 | 50 |
| Total | 52339.8 | 39254.85 | 25921.9 | 12835.95 |
| Profit | 28300.2 | 21225.15 | 14398.1 | 7324.05 |
| Total profit as per Marginal Approach is | | | | 71247.5 |

As per ranking given to various online selling channels based on their relevance, the above table has been prepared. It shows the profit to be earned by the business venture through various online selling channels, having variation in the quantity sold, and comparative costs incurred in selling the product through them.

*The above draft is made for a standard unit of 12000 units a year, 250 grams each, assuming 1000 units to be sold every month.

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Calculating Discounts:

To generate potential in the market about the product and to maintain sales in off seasons, the business should offer some discount to its customers. But what shall be the amount of that discount, at maximum number, which is to be given?

This answer is achieved by following analysis:

| Profit analysis | | |
|----------------------------|--|----------|
| Pricing Approach | | 46528.2 |
| Marginal Approach | | 71247.5 |
| Difference | | 24719.3 |
| Difference p.u. | | 2.059942 |
| Difference as a% of SP p.u | | 0.122616 |

The profit of the business has been calculated by 2 approach, i.e. Pricing approach and Marginal approach. The pricing approach showed a lower profit because of the fact, it counted all the cost in one go, whereas the marginal approach showed a higher profit because, the sales were channelized into various platforms, depending upon their potential and market relevance.

The sale price per unit was calculated by the pricing approach as it is more relevant, and gives the business a little more margin to lower its sale price p.u. by a certain percentage, in order to increase sales.

The above analysis shows a difference between the profits calculated by the mentioned approaches and that is **GBP 24719.30** in total, which comes out to be around **GBP 2.05** (approx).

The business can lower its sale price per unit by GBP 2.05, so as to arrive at a new sale price $\text{GBP}16.80 - \text{GBP}2.05 = \text{GBP}14.75$, giving a discount percentage of **12.2 % (approx)**. Thus the maximum discount the firm can give is 12.2%, and it should regulate by giving discounts but that should not exceed 12.2%, as calculated above.

Optimal Number of Orders per year:

| Economic Order Quantity(EOQ) | |
|------------------------------|--------|
| Order(units) | 12000 |
| Ordering Cost | £ 2.00 |
| Carrying Cost p.u. | £ 0.80 |
| EOQ | 244.19 |
| No. of orders per year | 49.14 |

Ordering whole quantity at once is not a wise option. This shall lead to cumulative carrying cost, and other expenses, such as rent to store the products. Also there is a high risk of damage to the quality, and furthermore, it involves blocking of the cost into inventory. The analysis for **Economic Order Quantity**, or **EOQ**, shows that the firm should order approximately **244 units** in one order, and a total of **49 orders a year** to reduce costs in ordering and it will also help the firm to circulate the flow of money order by order.

VAT

Detox Tea is a zero rated VAT item, which means that there shall be levy of 0% VAT on sales. But the problem arises with the input VAT which has already been paid by the business owner in the process of importing of Detox tea into U.K., and that too 20%, which is around **GBP 16080.00**, and it calls for a concern since it is a huge amount to ponder upon.

However, this amount of input VAT can be refunded by following certain compliances of **HMRC**, but the important point to note is the business owner shall have to register himself with HMRC for VAT purpose. Refund shall not be given to a non VAT registered party.

Steps of registration with the Government:

1. Apply for an EORI number, for import purposes.
2. Get an EORI number.
3. Import the goods.
4. Pay Custom duty at C.I.F (Cost Insurance Freight) Value.
5. Pay VAT @ 20% on (C.I.F value + Import Duty).
6. To Claim this VAT refund (on sale of Zero rated VAT products), register with HMRC.

*To Sell on Amazon and Ebay and other online platforms, one has to go for voluntary registration for VAT with HMRC, irrespective of the threshold limit of turnover.

A look at the Competitors:

At the top of list, brand **Bootea** makes its place, and it is selling at a very high prices for 250 grams of around **GBP 30.00 to GBP 35.00**. the very next competitor is **Kusmi tea**, which is selling **250 grams** for **GBP 25.00**.

The firm has an enormous opportunity to penetrate the market with it's price i.e. GBP 16.80 and achieve the synergies and economies of scale, provided it should be consistent with it's pricing policy.

Points to Consider:

To boost the sales, the firm should give some freebies like free sipper or free mug, which are available at a cost as low as **GBP 0.80**.

- It should give a small e-book to the customers e-mail or a physical book, as the case may be to it's customers, as a free gift, or give it to fist 100 customers.
- It should undertake certain measures to boost sales by giving discounts, as calculated above.
- It should try to focus more on own website and physical selling, in order to grow and expand, to make it as an advertisement through word of mouth.
- The firm should ask it's customers to subscribe on it's website, this will help to keep its customers in touch and to retain them.
- It should try to contact parties in the market for bulk deals, and giving them the products at a cut rate after deducting discounts, as calculated above.
- A process of regular feedback and reviews should also be done.

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