

Tea Industry in China

How to do Business in China | June 26, 2017

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Executive Summary

As consumers in today's competitive market, we find the topic of "How to do Business in China" to be of substantial importance. While studying at our home University's in the Netherlands and United States, we often hear of China's advances in technology, and its efficient business practices. We are encouraged to stay up to date with news about China's economical growth and prosperity. In this paper we have researched the top industries that find the most success in China's massive market.

We began our research by analyzing different industries to see which flourished the most. In class, we learned many characteristics of the Chinese market, including its huge population, diverse background of cultures and ethnicities, and trends in today's consumer buying habits. One industry that has kept its steady growth is the Tea Industry. Today, China remains one of the leading producers of teas, along with being a top consumer of tea.

While, China has immersed into a "Face Consumptions Culture," which emphasizes their desire to purchase luxury commodities merely to show off and gratify their vanity, the Tea Industry holds on strong. The top luxury items in China include brand name garments, luxury gifts (handbags, watches, jewelry, etc.), and cars. We were initially surprised at these buying habits. Since coming to China, we noticed the copious amounts storefronts, ranging from six-story-high shopping malls to small shops on the street. It is amazing that China is able to maintain such a variety of different brick and mortars. In this paper we talk about the history of the Tea

Industry and its importance, its continued growth, and what the industry may evolve in to.

In class, we learned that when conducting business in South Eastern China, Tea is often served during negotiations, and businessmen often choose the teahouse as the place for negotiation. It is polite to serve those around you before pouring your own cup. If your Chinese hosts pour you tea, you may tap your middle and index fingers lightly on the table near the cup in appreciation (Mah, 2012).

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History of the Tea Industry

Serving and consuming tea has been apart of Chinese culture for centuries. It has a reputation for inspiring poets, writers, and artists throughout history, while also curing ailments, marking social status, and providing a unique flavor. It is not a surprise that it is one of China's most famous products. What is a surprise is that, with such a popular product, there is no world brand or trademark. We were curious to find out what keeps the industry alive in China today.

Being discovered 5000 years ago by Emperor Shen Nung, the tea industry began to grow rapidly between the 4th and 8th century. Up until the mid-17th century, the industry only sold Green tea. As foreign trade increased, Black tea was introduced through a special fermentation process. This allowed the tea to maintain its flavor and aroma longer.

Today, tea symbolizes China's history, religion, and culture. There are six established categories of tea, including green tea, black tea, white tea, Oolong tea, yellow tea, and dark tea. Students can study at the very selective Shanghai Tea Institute, where they must play the traditional Guzheng stringed instrument, perform a errorless tea-ceremony, distinguish between 1,000 different types of Chinese tea, and many more tea related tasks. This field of study shows the effort and skill it takes to truly know everything about the tea industry.

Tea's Global Popularity

Currently, tea is the world's second most popular beverage after water. While there are a wide varieties of different teas consumed, black tea accounts for more than 60 percent of the global tea production and consumption, followed by green tea.

While tea has symbolic and historical importance to China, around the world it is seen as a healthier alternative to soda, with other health factors. Ready-to-drink teas have developed popularity worldwide. According to IMARC Group, the global tea market has grown at a CAGR of 5.2% during 2009-2016, reaching production volumes worth 5.6 Million Tons in 2016.

Tea Branding in China

By looking at consumption and production, one can see that China is doing well without big name brands on their tea. As travelers to China, we have seen the immense effort that goes into growing and cultivating tea, while seeing less time spent on the marketing aspect of the business. Even so, the millions of tourists per year know China's history in producing tea and it is at the top of their to-do list when travelling. We have learned that tea is not only a beverage in China, but it is also an experience.

Market Trends and Global Tea Branding

As mentioned earlier, China does not have a trademark or brand on their famous tea selection, but other countries, such as the US, has capitalized on branding various types of tea such as Lipton and Snapple. The number of various tea types and flavors

has continued to grow to meet market demand and alternative teas, such as green tea, have started to catch up with traditional black teas. Sales are expected to grow further due to changing consumer needs and preferences.

Green tea is one of the tea varieties expected to gain market share in 2017, due to increased emphasis and awareness of its reported health benefits. Green tea health benefits such as anti-aging and anti-cancer properties have been widely reported in US health magazines and mainstream TV shows. This has also sparked a trend in tea brand promotion on social media.

While health benefits may account for the increase in sales of green tea, taste is still the most important factor for consumers buying tea and increased flavor options, as well as tea blends and fusions are expected to be a trend for US tea brands in 2017.

Specialized premium teas are also expected to grow, due to the increased public interest in locally sourced, ethical, and organic foodstuffs. Marketing and packaging is also set to evolve, in order to create a brand story that is appealing to consumers.

Specialty teas are currently enjoying a 10% year on year growth rate and the millennials in particular are showing an increased interest in new and unique tea products and there is currently a rash of new startups, such as Teabox and Teforia, targeting this influential market group.

Tea-infused alcoholic beverages are also proving to be a popular product with this age group, both on the supermarket shelves and on the menu in restaurants and bars nationwide.

Top loose-leaf and bagged teas (Individual brands)				
	DOLLAR SALES	% CHANGE VS. PRIOR YEAR	MARKET SHARE	% CHANGE VS. PRIOR YEAR
Lipton	\$273,980,224	-8.6	21.2	-1.3
Bigelow	\$159,530,736	7.7	12.3	1.2
Twinings of London	\$104,649,736	2.1	8.1	0.4
Private Label	\$87,204,432	-9	6.7	-0.4
Celestial Seasonings	\$72,621,912	-11.1	5.6	-0.5
Luzianne	\$62,637,944	-4.8	4.8	-0.1
Yogi	\$46,353,364	17	3.6	0.6
Tazo	\$43,827,920	-0.1	3.4	0.1
Tetley	\$29,623,856	-0.9	2.3	0.1
Keurig Cafe Escapes	\$24,061,524	-19.4	1.9	-0.4
Category Total*	\$1,295,713,152	-3.2	100.0	—
*Includes brands not listed.				
Source: Information Resources Inc. (IRI), Chicago. U.S. supermarkets, drug stores, mass merchandisers, gas and convenience stores, military commissaries, and select club and dollar retail chains for the 52 weeks ending May 15.				

Figure 1. Top loose-leaf and bagged teas (Beverage Industry, 2016).

Top canned and bottled teas (Individual brands)				
	DOLLAR SALES	% CHANGE VS. PRIOR YEAR	MARKET SHARE	% CHANGE VS. PRIOR YEAR
Arizona	\$668,621,120	-0.8	18.9	-1.7
Lipton Pure Leaf	\$582,117,888	28.1	16.5	2.6
Lipton Brisk	\$343,414,656	-2.1	9.7	-1
Lipton	\$323,893,984	3.5	9.2	-0.4
Gold Peak	\$275,543,552	42.6	7.8	1.9
Snapple	\$224,721,152	7	6.4	-0.1
Arizona Arnold Palmer	\$198,022,624	-6	5.6	-0.9
Lipton Diet	\$196,587,776	2.6	5.6	-0.3
Diet Snapple	\$177,739,968	-2.1	5	-0.5
Peace Tea	\$60,668,764	-9.2	1.7	-0.3
Category Total*	\$3,534,182,656	8.2	100.0	—
*Includes brands not listed.				
Source: Information Resources Inc. (IRI), Chicago. U.S. supermarkets, drug stores, mass merchandisers, gas and convenience stores, military commissaries, and select club and dollar retail chains for the 52 weeks ending May 15.				

Figure 2. Top canned and bottled teas (Beverage Industry, 2016).

Foreign Business Success in China

Seeing tea as a tradition in China, many international beverage companies have plans to interject their own spin on the tradition. Starbucks, a renowned beverage retailer has its eyes on China's tea market. It has brought several twists to the tradition in order to keep it up to date with today's consumers.

First, tea production in China is mostly plain tea leaves. There is no flavor variety with fruit or herb infusion. What Starbucks offers is something new. Their first two tea items are black tea with ruby grapefruit and honey and green tea with aloe and prickly pear. And there is plenty room for creativity to include teas with local ingredients such as lychee and goji berries. Chinese middle-class consumers are becoming increasingly health-minded. Tea with added health benefits will have a great appeal to them.

Secondly, teahouses in China are mostly mom and pop run businesses, with no national brands. People frequenting the teahouses are older generations who usually smoke and play Mahjong (a Chinese board game) (Wang, 2016). Younger generations are bigger spenders with a higher interest in trendy stores with free Wi-Fi, such as Starbucks.

The last thing Starbucks could bring to China's tea industry is new techniques of brewing. There seems to be a lack of modern tea makers and knowledge of tea-brewing techniques in China.

Another company eyeing China's markets is Lipton tea. Lipton, a foreign brand, has become China's number one selling brand. The tea is grown in China, processed in

China, and packaged in China by Chinese employees. As mentioned earlier, China's lack of branding has worked thus far, but Lipton has taken over as the brand in China. What Lipton can do that Chinese competitors have not done historically is to build a sophisticated business system, including sourcing, production, branding, cost control, and R&D (Leverage China, 2016). When Lipton entered the Chinese market in 1992, it brought with it the business techniques related to controlling the entire cultivation, production, and distribution process. Western marketing techniques had also taught them how to build a brand. More than just selling tea, they had a clear vision of becoming a market leader in China and they were able to do so by developing mutually supportive business systems that helped them reach every corner of the market while also building brand awareness among Chinese consumers.

Lipton definitely has the competitive advantage of producing and selling in China. Other foreign brands try to sell from abroad by having tea produced in China, then shipped out of the country and back again. This makes the product more expensive and less attractive to consumers.

Lipton's other advantage in the tea market was its introduction of tea bags. Tea bags are convenient and inexpensive. But, more than that, they are considered cleaner and safer. By focusing on these unique differences in their marketing and branding strategy, Lipton was able to attract young adults and white-collar workers who care about the cleanliness and food safety that Lipton guarantees.

Current Tea Statistics

The Tea Production industry has rapidly increased its share of China's beverage market over the past decade, from 7.0 percent of total domestic beverage volume in 2000 to 26.0 percent in 2015. Over the past five years, industry revenue has been increasing at an annualized rate of 10.7 percent to an expected \$22.1 billion in 2016. There are about 269 enterprises operating in the industry, with 70,611 workers.

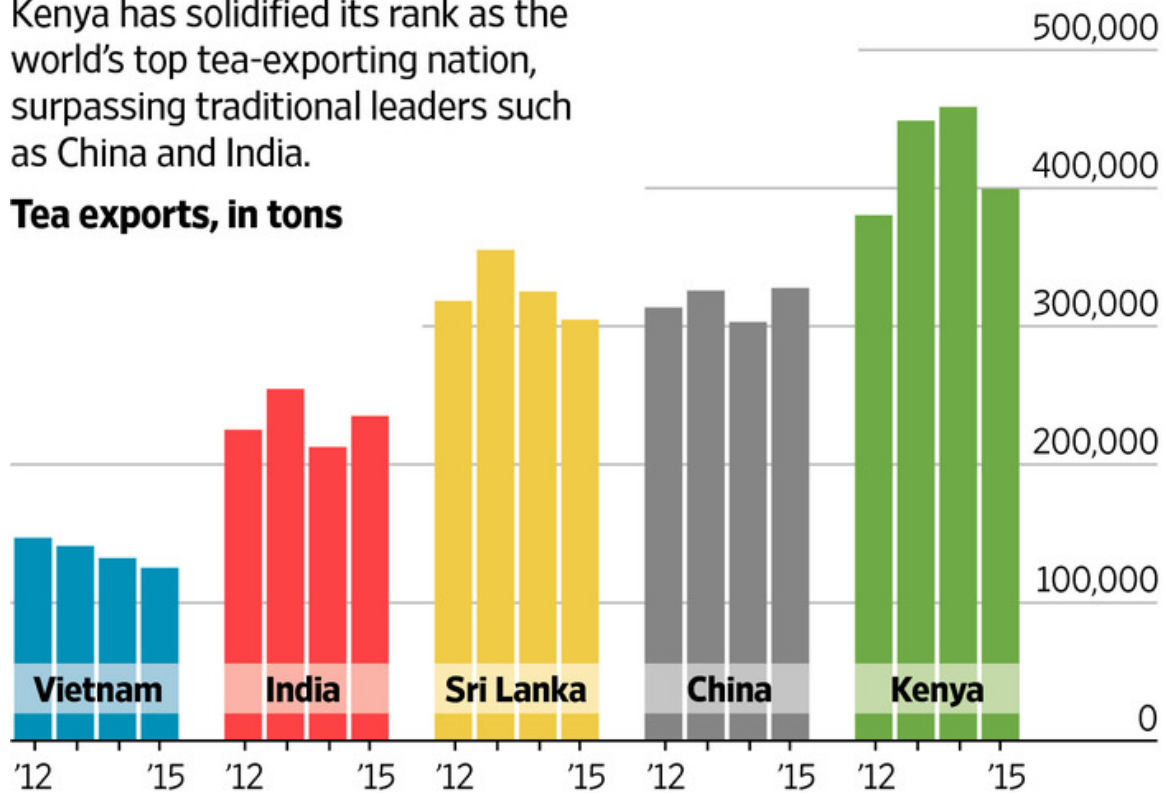
Strong industry performance has been the result of increased consumer health consciousness and the rapid development of herbal tea beverages. This industry is focused on the large domestic market; exports contribute only 1.2% to total industry revenue. In addition, very little tea is imported into China.

In 2016, the Tea Production industry's total revenue is estimated to be \$19.5 billion, of which 29.0 percent is expected to be from green tea beverages, 20.0 percent from energy drinks, 19.0 percent from black tea beverages, 10.5 percent from flower tea beverages, 8.5 percent from oolong tea beverages and 13.0 percent from other tea and soft beverages, such as herbal tea beverages. Green tea, black tea and flower tea beverages have been the most popular product types over the past five years. (Ibis World, 2016)

Hot Commodity

Kenya has solidified its rank as the world's top tea-exporting nation, surpassing traditional leaders such as China and India.

Tea exports, in tons



Source: International Trade Centre

THE WALL STREET JOURNAL.

Figure 3. Comparison of tea exports by tons (Africa on the Rise, 2017).

Risks and The Future of Tea in China

Today, China is ranked second among exporters of tea, behind Kenya. There are many factors that play into China's position such as climate change and water shortages to rural de-population and low wages.

Climate change is a major threat to the tea industry. Since it is a delicate plant, it must be able to grow in an environment with a steady climate.

Another threat to the industry is population growth, which China is ranked number one is population size. Pressure on agricultural land will inevitably rise, and tea will have to compete with other, more staple, crops. In addition to increase in population, wages tend to be low in the tea industry, with many workers struggling to survive on less than a realistic living wage. The scale and gravity of these threats has forced tea companies to work together.

Conclusions and Recommendations

The Chinese tea industry has a long history dating back over 5000 years ago, but maintains its traditions and culture. Many foreign companies have tried to penetrate the market and gain access to the millions of consumers in China, but Lipton remains the top brand competitor. We recommend that China continue to emphasize the history of tea and hold onto its symbolism. Not many countries can say they have a product that has survived centuries and maintains its value like tea in China.

While China should maintain the tea's traditional value, consumer's behaviors continuously change and evolve. In order to keep up with this phenomenon, we recommend the industry pay special attention and focus more energy on branding and continuously innovate by providing additional brewing techniques for the consumers on the go. We believe Starbucks had a great vision for its success in China's tea industry by enhancing traditional flavors with China's available fruits. Starbucks also created a chic modern atmosphere for younger consumers, including free Wi-Fi.

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