

2010 STATS & TRENDS

Tea has continued to grow in the U.S. market, with the May 2009 Mintel report "Tea and RTD Teas" stating that U.S. tea sales rose 102 percent from 2003 to 2008. One side effect of tea's growth has been maturing palates in consumers; specialty tea professionals report that these changing tastes have led to increased interest in both high-end chai and pu-erh tea.

Since the first surge of interest in chai in the late 1990s, many manufacturers have entered the market, offering up a range of chai flavor profiles from sweet to spicy; the sweet variety fits with many Americans' taste preferences, while the spicy is closer to the authentic version that originated in India. Manufacturers such as Maya Tea, Rishi Tea and The Chai Co. make micro-brew chai concentrates, and all three report that sales have been rising. "Over the past probably six months, and in particular as it started to get a bit colder, we've just seen demand take off," says Benjamin Harrison, co-owner of Rishi Tea. "I think Americans in general are also starting to appreciate more complex, more interesting flavor profiles, be it in coffee or tea or chai. And so it stands to reason that the trend is now starting to take place in chai."

With premium chais carrying a premium price, it's somewhat surprising to hear of their success during a time of economic turmoil. "This is a very weird trend given the economic climate right now, but we are certainly seeing it first-hand," says Manish Shah of Maya Tea. Chris Merry,

co-owner of The Chai Company, says that many coffee and tea shops devoted to high-quality product lines are now extending that mind-set to chai. "Most cafés that are serious about being in the coffee business are very particular about the kind of coffee they want to serve," he says. "I think what's happening is they're just carrying that quality thing straight down their menu."



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Another beverage gaining more interest from U.S. consumers is pu-erh, a Chinese tea. Oakland, Calif.-based Numi Organic Tea recently introduced a line of pu-erh teas, and co-founder Reem Rahim says the move was made to address a rising trend. "We started getting a lot of feedback from our consumers asking us if we carried pu-erh," she says. "It also became a huge trend in China over the last five years. There was a big market surge on it and then it crashed, and it still continues to be a hot item."

Pu-erh also has been touted as one of the more healthful teas, with past studies linking it to reduced cholesterol and reporting it has 30 percent more antioxidants than green tea. Tea's health benefits are a major factor for consumers; the May 2009 Mintel report stated that 50 percent of respondents to its consumer survey cited antioxidants in

tea as a "major reason" why they drink it. Rahim says consumer response to the Numi line has been strong, and Harrison at Rishi Tea says his company is also seeing pu-erh catch on. "I

think it's kind of finding its legs, and definitely within the premium segment, we see a consistent increasing demand for pu-erh," he says.



away from their use. Whether they're switching to paper teabags, corn-based fabrics or something else, tea companies are keeping sustainability issues top of mind in the packaging realm. "I think



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"WE ARE SEEING MORE AND MORE SHOPS WANTING TO STEP UP THEIR GAME AND DELIVER **QUALITY PRODUCTS WITH ENVIRONMENTAL CONSCIOUSNESS.**"

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As consumer palates have changed, so too have the factors that go into purchasing decisions. The global movement toward sustainability has changed the way some consumers think about teabags. Pyramid sachet teabags were a hot item just a few years ago, providing a bigger pouch that allowed higher-quality, loose-leaf teas to make their way into teabags. But many pyramid bags were made of nylon—a nonbiodegradable, petroleum-based product—and some tea companies are moving

we have no choice but to figure out how we can do things more sustainably," says Rahim of Numi. "I think there's a movement for people to use less packaging and to be conscious of what a company's carbon footprint is."

Some tea professionals say the move away from teabags is leading more coffee and tea shops to loose-leaf tea. "You can serve loose-leaf teas without all the associated packaging," says Shah of Maya Tea. "We are seeing more and more shops wanting to step up

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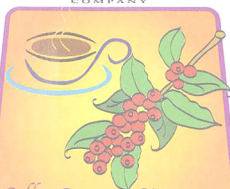
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their game and deliver quality products with environmental consciousness." Harrison at Rishi Tea says the environmental upside of loose-leaf tea has been a hot topic there as well. "There is minimal waste involved in the production or consumption of loose-leaf tea, and your per-cup price is often the same as a conventional teabag," he says. "You have a low-cost, high-value product that has a very responsible footprint."

As the tea market has developed, another rising trend has been consumers' desire to learn more about tea. "I think that education has been driving the industry for a while," says Beth Johnston, owner of Teas Etc. "I particularly believe that it is what's driving specialty tea. I think that educating consumers is something that we have to do industry-wide, because otherwise how do we move them from the typical bag tea to a better quality, better-tasting specialty tea?" Harrison of Rishi says in the past decade, he has gone from receiving relatively basic questions from consumers to now hearing from a knowledgeable base that wants to learn more. "We now routinely have customers asking us very specific, very technical questions," he says. "We love it."



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Harrison says he foresees tea education following a model similar to coffee, where much of the focus is placed on origin countries. "I think one of the trends that you'll see within education is a real growing awareness of a connection to origin," he says. "The leaders in the specialty coffee market are all focused on origin-based education and ongoing consumer education. I think the educational demand is maturing. And that's what you see happening in tea."

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Those educational interests range from origin to processing methods, health benefits and more. "People are reading labels more carefully," says George Jage, president of World Tea Expo. "They're more concerned about where something came from than ever before."

Retailers have a direct line to consumers through their shops, and tapping into that line of communication may be a wise move. "One way for consumers to learn more about tea is if they have a specialty tea shop in the community that does tastings and demos, just to talk about different types of teas," says Rubesh Jacobs, president of SRJacobs & Company, which manufactures the tea brand Plucker's Pick.

The U.S. tea market has long been dominated by ready-to-drink (RTD) beverages, which accounted for 47 percent of the market share in 2008, according to the May 2009 Mintel study. RTD was the fastest-growing segment in the tea industry from 2003 to 2007; according to Mintel, it averaged 19 percent growth per year. But its growth was derailed in economically tough 2008, when Mintel reports RTD sales declined 1.3 percent.

With so many choices available on the RTD market, some tea experts wonder if there's much room left for growth in the category. "We have all of the different fruit-flavored iced teas," says Jacobs. "We have a lot of combinations of fruit-flavored iced teas. We have a lot of herbal-infused iced teas and herbal drinks. I'd hate to say that everything that needs to be invented in the ready-to-drink category has been invented, but it's getting up there." Mintel reports that 224 RTD products were introduced in 2008, compared with 57 in 2003.

Though the RTD market may seem overcrowded already, that hasn't prevented powerhouse companies from making some large investments in RTDs: Nestle announced in March that it's investing \$15.6 million in Sweet Leaf Tea, while in February 2008 Coca-Cola bought 40 percent of Honest Tea. Mega-corporations have access to prime distribution channels, giving them a potential leg up on smaller companies entering the market. "I think that market right now would be a brutal one to compete in," says Harrison of Rishi Tea. "I think it's going to be incredibly difficult for new

FIGURE 1: TOTAL U.S. SALES AND FORECAST OF REGULAR AND RTD TEA, AT CURRENT PRICES, 2003-13

	\$MILLION	% CHANGE	INDEX (2003 = 100)	INDEX (2008 = 100)
2003	2,146	-	100	49
2004	2,424	13.0	113	56
2005	2,934	21.0	137	68
2006	3,477	18.5	162	80
2007	4,075	17.2	190	94
2008	4,340	6.5	202	100
2009 (FORE)	4,305	-0.8	201	99
2010 (FORE)	4,445	3.2	207	102
2011 (FORE)	4,690	5.5	219	108
2012 (FORE)	5,091	8.5	237	117
2013 (FORE)	5,551	9.0	259	128

SOURCE: MINTEL'S ESTIMATES BASED ON INFORMATION RESOURCES, INC. INFOSCAN REVIEWS/NATIONAL ASSOCIATION OF CONVENIENCE STORES

FIGURE 2: TOTAL U.S. SALES AND FORECAST OF REGULAR AND RTD TEA, AT INFLATION-ADJUSTED PRICES, 2003-13

	\$MILLION	% CHANGE	INDEX (2003 = 100)	INDEX (2008 = 100)
2003	2,510	-	100	58
2004	2,762	10.0	110	64
2005	3,233	17.1	129	74
2006	3,712	14.8	148	86
2007	4,230	14.0	169	97
2008	4,340	2.6	173	100
2009 (FORE)	4,271	-1.6	170	98
2010 (FORE)	4,344	1.7	173	100
2011 (FORE)	4,503	3.7	179	104
2012 (FORE)	4,792	6.4	191	110
2013 (FORE)	5,113	6.7	204	118

SOURCE: MINTEL'S ESTIMATES BASED ON INFORMATION RESOURCES, INC. INFOSCAN REVIEWS/NATIONAL ASSOCIATION OF CONVENIENCE STORES

brands to compete at the mass level that an RTD brand needs to compete at to really be successful."

But those competing in the RTD market say taste will be the deciding factor for consumers. Rahim of Numi Tea says that many popular RTDs are heavy in sugar, and the company's research indicates that there is still room in the market for unsweetened, "pure" teas; Numi is currently developing a pu-erh RTD. "I think there's room to introduce either drinks that are interesting and unique, or drinks that have a more refined palate or less sugar," Rahim says.

—CHRIS RYAN