



Tata Tea Limited (A)

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This case was prepared by Ulrike Wiehr, the Boston Consulting Group MBA Fellow, under the supervision of Amitava Chattopadhyay, Professor of Marketing at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Financial support from R&D INSEAD is gratefully acknowledged.

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Introduction

On a hot, sultry day, Mr. R.K. Krishna Kumar, CEO of Tata Tea, sat deep in thought, struggling with the question of how to take his company, the second largest tea company in India, into the new millennium. Industry experts believed that India's tea industry, so far sheltered from global competition by protectionist government intervention, would soon be deregulated. International players were expected to break into the market, and Tata Tea's management feared that its archrival and market leader, Hindustan Lever, the Indian subsidiary of Unilever, would benefit from this development.

To avoid being marginalized, Tata Tea would have to find ways to grow – but how? And where? Were there possibilities for further growth in the Indian market? Could it use its brand that was so popular in India to penetrate other markets and segments, or would it need a more international, upscale brand? And, if so, would it be realistic to build up this brand on its own or would an acquisition be the better solution? Such an opportunity had recently surfaced: Tetley Tea, the No.2 brand of tea globally, was up for sale. Tata Tea had to decide if it would make a bid. Mr. Krishna Kumar knew that he had to make a decision soon.

Tata Tea

Tata Tea was a part of the Tata Group of companies – one of the largest and most highly regarded family-owned conglomerates in India. The group's tentacles spread across a wide range of industries including chemicals, electricity and steel, through telecommunications, hotels, and financial services, to watches, cars, tea, coffee and spices. The group consisted of 80 companies, some of which were privately held by Tata Sons, the group holding company (e.g., Tata Consultancy Services, India's largest software services company), while others like Tata Tea, Tata Motors, Tata Steel, and Tata Chemicals were listed. The Tata name was used as a corporate brand across the majority of the group's companies. Exceptions included Voltas, Indian Hotels Company (Taj group), Rallis India, VSNL, and Titan Industries.

Tata Tea was one of the largest tea companies in the world and the second largest seller of packet tea in India. In India it owned 54 tea estates with 25,700 hectares under cultivation. Most estates had on-site processing facilities and six had packaging facilities. In addition, there were six packaging facilities outside the estates where tea bought at auction was blended and packaged (see Exhibit 1 for Tata Tea's profit and loss and balance sheet).

Products and Brands

Tata Tea used 80-90% of its tea production for its own branded tea products. The balance was sold through public auctions or directly exported. In addition, the company manufactured instant tea in its plant in southern India, the biggest instant tea facility outside the US. It supplied instant tea to companies across the world and had been the principal supplier of instant tea for the "Snapple" brand since 1995.

Tata Tea's success was built on its "from tea bush to tea cup" philosophy. By owning plantations and effectively integrating across the supply chain, the company guaranteed the freshness and quality of its teas to the consumer. To reinforce the freshness promise, in the mid 80s Tata Tea had introduced the polypack, a packaging with superior barrier properties. "This was probably the first time in India that consumers were offered garden-fresh teas produced, packed, and sealed on plantations, and it contributed to the growth in popularity of packet tea sales in India," said CEO Krishna Kumar. Between 1985 and 1998 Tata Tea's market share grew from 3% to 21% of the Indian market, while the market size for branded tea grew from 125 million kg to 280 million kg. Tata Tea spent about US\$1 million per year on R&D. Its research in agronomy had led to quality and efficiency gains at its plantations.

Tata Tea sold different blends catering to regional tastes in India. These had been developed on the basis of studies of consumer preferences in different regions (see Exhibit 2 for key brands). For example, in southern India, where dust tea was popular, and a premium product, the *Chakra Gold* and *Gemini* brands were sold. *Brahmaputra*, a strong Assam tea was launched in northern and western India. In 1999 Tata Tea entered the economy segment with the *Agni* brand; the first brand to be launched nationwide with aggressive promotional campaigns. While each brand was distinctly packaged, the packet design bore the Tata group logo and name. It also prominently featured the phrase 'Asli Chai – Asli Taazgi,' or, 'Genuine tea - Genuine freshness.'

Sales and Marketing

Tata Tea's packet tea products were sold throughout India through a network of over 600,000 outlets consisting of supermarkets, grocery stores, and roadside stalls. Most of the points of sale of this vast network were in larger villages, towns, and cities; Tata Tea did not have a significant direct distribution network in smaller towns and villages. Given that the rural population of India was estimated at 629 million, Tata Tea believed that considerable opportunity existed for increasing rural sales. To this end, the company was test-marketing a "video on wheels" program: a truck with a video screen that moved through such areas showing commercials and selling packet tea.

While packet tea and the bulk of Tata Tea's other tea products were sold domestically, some tea was sold internationally in the form of bulk tea and instant tea. In 1999, exports amounted to 12% of sales and went to 15 customers in the US, Europe, the Far and Middle East, Russia, and Japan. Instant tea was entirely produced for export, with 88% going to the US. Looking to increase its exports, Tata Tea formed a joint venture with Tetley to produce tea bags, which were exported under the Tetley brand to Poland, Russia, and the Confederation of Independent States. Tata Tea's share of total Indian tea exports was 3.5%.

The Tea Industry

76% of all tea produced was black and the remaining 24% was green. India was the largest producer, accounting for 28% of world production, followed by China (24%), Sri Lanka (10%), and Kenya (9%). Between 1995 and 1997, the average annual production was approximately 2.6 billion kg, and 1998 set a record of 2.86 billion kg produced worldwide.

Tea was grown in 30 countries, with 2.4 million hectares of land under cultivation. The global supply of tea was limited as there was little additional land available that was suitable for cultivation. Growth in production, 1.7% annually, came from increases in productivity.

Given the slow growth in production, the price of tea had grown at an annual rate of 8% to 10% over the past 10 years. At Indian auctions, the price of tea per kilogram had risen from Rs.11.26 in 1975 to Rs.104.62 in 1998. However, after the peak of 1998 which saw record harvests and prices, the price fell to Rs.97.20 per kg in 1999.

The Tea Industry in India

India produced 870 million kg of tea in 1998. With approximately 420,000 hectares under cultivation, it produced a wider variety of teas than any other region in the world, including Darjeeling tea, known as the 'champagne of tea'.

India's tea exports had remained steady in terms of tonnage from the 70s through the 90s at approximately 200,000 tonnes per annum, with 37% consisting of packet tea. However, the value of exports grew ten fold between the mid 70s and mid 90s. India exported most of its tea to the CIS (70% of exports of packet tea), and 21% to the Middle East. Some 2,800 tonnes were exported as tea bags, mainly to the CIS (52%), Poland (25%), and the Middle East (9%) (see Exhibit 3, Table 1 for export destinations).

Notwithstanding its size, the competitiveness of the Indian tea industry had been eroded and the country fell from first to fourth in export volume (Exhibit 3, Table 2). The Indian government was to be held partly responsible as it kept the industry highly regulated and sheltered from international competition. India did not allow imports of tea, although the import ban was expected to be removed in 2001. The government levied higher taxes on tea than on manufactured goods; agricultural and central income taxes took away about 50% of the income.¹ Further cost pressure came from wage regulation in India.

Competitiveness was further eroded by the fact that India's tea bushes were the oldest in the world, making them less productive. Yields in India were 2000 kg/hectare compared to 2400 kg/hectare in the newer gardens in Kenya. Replanting would mean foregoing five years of yield until the new plants matured, which exceeded the financial resources of most planters. To counteract this, the Indian government planned to lift restrictions on foreign ownership of tea companies in 2000.

Tea Consumption

Between 1995 and 1997, the countries with the highest annual per capita consumption of tea were Ireland (3.2 kg), the UK (2.5 kg), Turkey (1.8 kg) and Iran (1.8 kg). India was the largest consumer of tea in terms of total consumption, but per capita consumption was relatively low at 0.66 kg per year (see Exhibit 3, Table 3).

1 Source: www.teatrend.com

In developing countries, where per capita consumption of tea was relatively low, total consumption as well as consumption of higher-value teas was expected to increase in the decades to come. Consistent with this, the value of tea sales grew by 14% between 1993 and 1997 with the highest growth occurring in Asia (49%) as well as the emerging regions of Middle East and Eastern Europe (36%) and Latin America (33%).

In developing Asia, tea was ubiquitous. It was appreciated as an everyday, economical drink, prepared at home or bought at road stalls, and consumers were very price-sensitive. But while the tea tradition continued, there was increasing competition from soft drinks among the more affluent customer segments, especially within the younger population. Tea also faced increasing competition from coffee as the trendier, upmarket alternative, often available in stylish coffee bars. This raised concerns about tea acquiring an 'old-fogey' image.

In India, growth in branded teas was estimated by Tata Tea to be around 10% per annum in the coming years. However, independent estimates suggested that tea prices were starting to rise beyond the reach of certain classes of people, which could slow future growth.

In the developed countries, the market for tea was mature and the key sources of growth included branding, competitive pricing, and product innovation. The average growth expected in Western Europe and Northern America was about 1%. Significant markets among the Western countries included the UK and Ireland where tea enjoyed immense popularity as an all-day, everyday hot drink. However, while helping to maintain sales volumes, this image had acted against the introduction of more expensive alternatives. Elsewhere, notably the US and continental Europe, consumers increasingly valued a more sophisticated image of tea. In countries like France and Germany, tea was regarded as a special or occasional drink with a higher social status, and thus flavour and origin were more important than in the UK.

Developed country consumers were becoming increasingly health-conscious and tea was expected to benefit from this trend as it was seen as the healthy alternative to coffee. In the US and Europe, scientific studies had stimulated interest in the health benefits of black tea which contained vitamins, minerals, and antioxidants that were believed to be effective in maintaining oral health and in reducing the risk of cancer and heart disease.

Tea's increasing popularity with consumers had spurred a high rate of new product introductions (75%).² More varieties and blends with an appeal to connoisseurs, including origin-specific or perfumed teas, had been introduced. In markets where tea was valued as a special, high-end product, consumers increasingly saw loose-leaf tea as the experts' choice. The only exception was the UK where loose-leaf tea was associated with older consumers. Among the fastest growing tea products was green tea in tea bag form (sales grew at 27% in 1999), ready-to-serve tea (44%), and Mate (191% growth in dollar sales). In 1999, Unilever launched a new range of flavored green teas called *Chae*, and Premier Beverages started to sell a new green tea blend under its *Typhoo* brand. The popularity of tea had also led to new outlets such as tea bars gaining importance. In the UK, Tetley opened "Gaffer's" and Unilever opened a teashop called "Ch'a". In the US, the number of existing bars was expected to double to 200 by 2002. This was projected to help sales of premium teas grow by more than

2 www.productscaan.com

50% annually over the coming years.³ Tea had also moved, as an ingredient, into other categories such as energy bars, chocolates, chewing gum, and cosmetics.

Competition

Tata Tea's largest competitor in the domestic market was Hindustan Lever, a subsidiary of Unilever. Hindustan Lever was the largest seller of branded teas in India with a market share of 40% (compared to Tata's 21%) and a turnover of Rs 19 billion in the beverage category in 1999. It produced only a small percentage of the tea it sold, and bought the rest at auctions. In 1999, however, it acquired Rossel Industries, an Indian company with several tea gardens. There were seven other Indian companies that together had a market share of 15% of the Indian packet tea market. The remainder of the market was made up of regional brands.

Hindustan Lever's key brands were Brooke Bond and Lipton, both of which were re-launched in 1998 with improved taste and infusion attributes. Altogether, seven brands of Hindustan Lever were among India's top 10 brands, which occupied strong positions in the economy, popular, and premium price tiers for both dust and leaf tea (see Exhibit 4). The company was India's largest tea exporter, accounting for about 30% of the country's exports.

Unilever had made significant investments in its Bangalore-based International Centre for Beverages to pursue consumer-relevant R&D, as well as in other innovation projects for blend reengineering and supply chain integration. It had also set up a Brooke Bond Tea and Health Information Centre with the objective of collecting and publishing scientific information on the health properties of tea, especially its beneficial effects as an antioxidant.

Worldwide Competitors

Nestlé, Sara Lee, and Unilever, along with Tetley, were the main competitors in the international arena. The brands competing against each other varied in the different markets (see Exhibit 5). In the UK, the *Tetley* brand competed against Unilever's *PG Tips* which were neck-and-neck in terms of volume (20%), but Unilever dominated in terms of value (25.4% vs. Tetley's 22.4%). Other competitors had considerably smaller market share. While outside the UK the sale of private labels, in terms of value, was 70% that of Tetley, in the UK private labels accounted for 24.1% of the market by value, some 7% higher than that accounted for by Tetley. In the US, Unilever's *Lipton* brand had a 50% share; other competitors included R.C. Bigelow, Twinings, and Tetley. In Canada, key competitors included Tetley and Unilever's *Red Rose* brand. In France, Australia, Poland, and Russia, competition was primarily between Unilever, Tetley, and regional/national players. Worldwide, Unilever was the market leader with a 39% share compared to Tetley's 7%.

As branding became increasingly important, spending on marketing had risen. To manage costs, Unilever, with its Lipton brand, had announced that it would leverage the global brand name to unify marketing messages, reduce advertising costs, and launch brand extensions.

3 Quoted from Tom Vierhile, "Tea, the number two beverage" in *Health Products*, Vol. 46, 2000.

Tetley's Teas

At the beginning of the nineteenth century, brothers Joseph and Edward Tetley began to sell salt and tea from the back of a packhorse on the Yorkshire moors. In 1856, they opened a store in London and the company extended its services to blending and packing. In 1888, the company established a distribution agreement with an American agent for Tetley's Teas. Soon Tetley's Teas was established as a major trade name in America, and the American operation became one of the largest packet tea distributing organizations in the world.

Tetley launched the first tea bag in the UK in 1953 and soon became convinced that the tea bag was the way forward. It put significant resources into refining the design and tea-bag sales rose from 450 tonnes in 1960 to 5,000 tonnes in 1968. Today, some 85% of tea consumed in the UK is in tea bags. In 1989, Tetley launched the round tea bag and a further innovation, the drawstring tea bag, in 1994. In 1998, Tetley began selling the *Tetley* brand range in laminated, resealable packaging, which would eventually replace traditional cardboard cartons. Research expenditure in 1999 was £1,395,000.

Operations Today

Tetley was the world's second largest tea company. It produced 20 billion tea bags per year and generated sales of £263.6 million in 1998. It blended, packed, marketed, and distributed tea, principally in the UK and the US, and operated with three distinct geographical divisions: Great Britain and Ireland (54% of revenues), US (26%) and International (20%). The international division included operations in Canada, Australia, France, Poland, and Russia and exported to more than 30 countries (see Exhibit 6 for profit and loss and balance sheet). Tetley operated five manufacturing facilities in the UK, US, and Australia as well as a joint venture with Tata Tea in India that produced tea bags. The expected growth in Tetley's key markets was 1%. Tetley paid a 30% corporate tax rate in the UK.

Tetley had centralized tea buying in its UK head office where global blend requirements were assessed. Tea was bought direct from manufacturers or via auctions in Africa, India, Sri Lanka, and Argentina, where agents who received a 2% commission, purchased on behalf of Tetley, and arranged logistics. Tetley purchased more than 1 million kg of tea each week

Blending was an important part of Tetley's operations. As no single estate produced enough tea of a consistent standard over a 12-month period to meet Tetley's requirements, it was necessary for the company to buy from a wide range of tea estates to ensure a consistent quality product. Final blends could be made from up to 40 different teas.

Products and Brands

Tetley produced more than 60 black tea blends, which catered to different tastes in local markets. The company had developed a tea grading system to ensure product consistency. Tetley produced high quality blends for hot consumption in the UK (see Exhibit 7). In the US, where consumer tastes were different, it also produced black tea for brewing iced tea.

In addition to standard black teas Tetley produced specialty teas such as Earl Grey, as well as fruit-flavoured (e.g., orange) black teas. The company also made plain and flavoured green teas, decaffeinated teas, and herbal infusions (e.g., camomile). Tetley also supplied iced tea concentrates and ready-to-drink iced teas. It sold 92.5% of its tea in the form of tea bags.

The company used the *Tetley* brand worldwide, and sales under this flagship brand accounted for 85% of sales in 1999. In mature markets, *Tetley* was positioned at the upper end of the mass market but, in developing markets, it was positioned at the premium end of the market.

Sales and Marketing

In the UK, Tetley's tea bags were available in all major retail outlets, including Tesco, Sainsbury, Asda, Safeway, Somerfield, and Morrison's supermarket chains (see Exhibit 8 for prices of Tetley's tea and private label teas). In 1999 retail sales accounted for 64% of Tetley's branded sales in the UK. Some of these chains also sourced their private label offerings from Tetley. Sales to the foodservice sector and institutional sales represented 5%. In this sector, Tetley's largest clients were the Rank Group, Marriott, and McDonalds.

In the US, Tetley sold 45% of its volume under the Tetley brand, through supermarkets, grocery stores, drug stores, and mass merchandisers. Another 17% of sales under the Tetley brand were made to the foodservice and institutional sector, where customers included Burger King, Del Taco, and Sodexo/Marriott. 38% of sales volume came from supplying private labels: customers included the largest retailers such as Wal Mart and Publix as well as the largest wholesalers such as Wafekern Food and United Grocers (see Exhibit 8 for prices).

The Tetley's brand had been developed in the UK through advertising campaigns involving the "Tetley Tea Folk", seven characters representing all that was good about tea. The Tea Folk had also been used in Tetley's advertising in the US, Canada, Poland, and Australia. Tetley also employed a variety of consumer and retail promotions.

Potential for a Deal

In July 1995, the Tetley Group was created when the UK food and beverage company Allied Domecq sold what was then the Lyons worldwide beverage business. Tata Tea bid for the company, but its bid was topped by a management buy-in offer of £190 million. Since the buy-in, Tetley's operating profits had risen from £10.7 million in 1996 to £41.1 million before exceptional restructuring items in the year ending March 1998. However, during the year ending March 1999, the company generated operating profits of only £25 million before exceptional restructuring charges. The company called these results disappointing and attributed them to a particularly difficult trading environment. From 1999 speculation had been mounting that Tetley would be sold again, though the question of to whom remained. The company was demanding a premium price of around £300 million (tangible assets of £55 million). Global Finance estimated that the company would be sold for between

£187 and £210 million.⁴ Rabobank estimated the price would be between £270 and £275 million.

The asking price was thought to have put off Sara Lee who had gained a reputation in the market for buying companies at low prices. It was assumed that antitrust regulations would prevent Unilever from making a bid for Tetley. Also, fluctuations in commodity prices were thought to be holding back Nestlé, which was already exposed through its coffee interests.

Tata Tea Considers the Deal

As Tata Tea deliberated on the possibility of acquiring Tetley's Teas, the company saw arguments for and against the transaction. On the negative side, Tata Tea had tried to acquire Tetley five years earlier and failed due to its inability to arrange financing. Based on this experience, some insiders questioned whether the company was in a better position to raise the required sum of £200-300 million in 2000. However, preliminary inquiries suggested that Tata Tea might be able to obtain funds for the deal at an interest rate of around 7%. This was well below its current weighted average cost of capital of 11%.

Contributing to the doubts was the sheer size of the transaction: Tetley generated worldwide revenues of £323 million while Tata Tea's income was £125 million. Some managers at Tata Tea were concerned about the price demanded by Tetley: the anticipated £300 million was much higher than the £190 million at which Tetley had been valued in 1995.

Finally, critics raised the question of why Tata Tea would want to buy a brand rather than investing the funds in building a global presence and a brand of its own? Tata Tea operated from India, a country long known for its black teas. More than that, the company had integrated across the value chain and guaranteed the freshness and purity of its teas to an extent that few of its multinational competitors could achieve. Given consumers' increasing health awareness and their desire for international products, could Tata Tea not leverage its origins and build its own international brand?

On the other hand, the opportunity to buy the Tetley brand – a brand well established in international markets – was rare. Acquiring Tetley would mean capturing the higher end of the value chain. Tata Tea's gross margin was 36% lower than Tetley's.

Some managers also questioned whether Tata Tea would have the skills and market insight to build up its own brand in the international markets where Tetley was already present and whether the cost of doing so would be prohibitive. Tata Tea's country of origin and the association of India with lower quality could be a disadvantage. Many felt that raising the funds necessary to build a new brand would be more difficult than financing a deal. Even if building up a brand were possible, there was still much less certainty about its success and it would take much longer for the new brand to get established. Advocates of the deal argued that a combined entity of Tata Tea and Tetley would be able to benefit from synergies that competitors would find difficult to match. Mr. Krishna Kumar considered these arguments. He knew he would have to reach a decision quickly.

4 Global Finance, Jul/Aug 1999: "Top M&A Deals."

Exhibit 1*Tata Tea Financials*

Profit and Loss (Rs. Millions)	1995	1996	1997	1998	1999
Sales and services	3,979	5,190	6,984	8,698	8,742
Other income (a)	464	243	280	261	269
Total income	4,443	5,433	7,264	8,959	9,011
Expenditures	3,670	4,735	6,348	7,518	7,164
Profit before tax	773	698	916	1,441	1,847
Provision for tax	180	237	240	420	560
Profit after tax	593	461	676	1,021	1,287
Earnings per share	12.52	9.48	12.06	21.01	26.48
Shares outstanding (millions)	47.34	48.62	48.62	48.62	48.62

Balance Sheet (Rs. Millions)	1995	1996	1997	1998	1999
Sources of funds					
Shareholders' funds	2,888	3,070	3,309	3,790	5,046
Loan funds					
Secured loans	551	1,102	1,155	1,575	1,246
Unsecured loans	1,094	1,106	1,757	1,292	1,154
Total	4,533	5,278	6,221	6,657	7,446
Application of funds					
Net fixed assets	1,518	1,848	2,242	2,528	2,855
Investments	1,538	1,816	1,843	1,778	2,311
Cash and bank balances	120	138	164	353	506
Other net current assets	1,357	1,476	1,972	1,998	1,774
Total	4,533	5,278	6,221	6,657	7,446

Year ending 31 March.

In 1999, €1 equalled 45 Indian Rupees; \$1 equalled 43 Indian Rupees; and £1 equalled 70 Indian Rupees.

Exhibit 2
Key Brands of Tata Tea

Brand	Description
<p>Kanan Devan</p> 	<ul style="list-style-type: none"> • First polypack, launched in 1984 in the dust tea, popular price tier • Prominent position in Kerala, Karnataka and Goa markets • 75% loyal consumers
<p>Tata Tea</p> 	<ul style="list-style-type: none"> • Flagship brand of company launched in 1986 in the popular price tier • Popular mainly in Northern and North Eastern states • Extensive advertising, including TV commercials • Communication emphasizes that the tea retains its original flavour and aroma as it is freshly packed straight from the garden • Tata Tea Dust launched in Maharashtra in 1988 • Tata Tea Leaf launched in Madhya Pradesh in 1990
<p>Gemini</p> 	<ul style="list-style-type: none"> • Popular-priced South Indian dust tea segment • Market leader in Andhra Pradesh • Marketed as strong tea for the entire family – blended to offer an optimal mix of strength, thickness and colour
<p>Chakra Gold</p> 	<ul style="list-style-type: none"> • Blend of finest Assam dust teas, launched in 1990 • One of the company's highest priced brands, targeted at premium dust tea segments in South India • Positioned as “the tea with the golden taste” – blended to produce bright, golden-brown cup of strong, tasty tea
<p>Agni</p> 	<ul style="list-style-type: none"> • Launched across the country in different regional variations, based on consumer research on taste, in 1998 • Economically priced in dust and leaf variant • Advertising celebrated the inner strength and successes of the modern Indian woman, showing women in different professions and using celebrity endorsement • Press support in 25 publications, rural publicity plans including video on wheels

Exhibit 3
Key Tea Industry Figures

Table 1: Export Destination from India (1999)¹

Destination	Exports from India (tons)	Percentage
CIS	95,427	48
United Arab Emirates	21,2248	11
UK	20,093	10
Poland	12,654	6
Iraq	9,771	5
Canada	6,810	3
Germany	4,452	2
Rest of Western Europe	5,463	3
Total	197,834	100

Table 2: World Exports of Tea (1999)¹

Country	Worldwide exports (tons)
Sri Lanka ^a	262,952
Kenya	241,739
China (Mainland) ^b	199,608
India ^a	191,719
Indonesia	97,847
Argentina	52,030
Malawi	42,734

Table 3: World Tea Consumption

Country	Estimated Total Consumption (Million kilograms)	Estimated per capita consumption (Kilograms per head)
India	615,3	0,66
USSR/CIS	177,3	0,63
United Kingdom	145,0	2,46
Japan	136,4	1,08
Turkey	110,8	1,77
Pakistan	104,4	0,78
United States	84,6	0,32
Egypt	74,3	1,23

Source: Tata Tea Limited Offering Circular, 2 March 2000, based on J.Thomas & Company.

Table 4: Forecast Tea Consumption in Key Countries (000 tons)

	1998	1999	2000	2001	2002	% Growth (98-02)
India	645	660	668	684	702	8.9
Former USSR	180	185	190	194	198	10.0
UK	146	137	141	140	139	-4.8
Pakistan	112	108	126	132	138	23.2
US	97	93	95	96	98	1.0
Others	842	850	858	875	893	6.1
Total	2,022	2,033	2,078	2,121	2,168	7.2

Source: The Economist Intelligence Unit, based on the International Tea Council, 20 July 2000.

Exhibit 4
Branded Tea Market Segments

	LEAF	DUST
Premium	- no presence, yet - <i>Taj Mahal*</i>	<i>Chakra Gold</i> <i>3-Roses</i>
Popular	<i>Tata Tea</i> <i>Red Label / Taru</i>	<i>Kanan Devan / Gemini / Tata Tea</i> <i>Super Dust</i>
Economy	<i>Agni Leaf</i> <i>A-1 Leaf</i>	<i>Agni Dust</i> <i>A-1 / Ruby Dust</i>

* Hindustan Lever brands in red, Tata Tea brands in blue.

Exhibit 5*Comparative Regional Brand Shares of Global Players in Tea*

(% Volume)

	North America	Latin America	Western Europe	Eastern Europe	Asia-Pacific	Africa/Middle East	Australasia
Associated British Foods							
Twinings	—	—	0,5	—	—	0,3	4,4
Sara Lee							
Pickwick	—	—	0,4	0,9	—	—	—
Tetley Group							
Tetley	1,2	—	1,3	0,5	0,1	—	1,6
Unilever							
Brooke Bond	—	—	0,2	2,4	0,8	1,3	—
Lipton	2,6	—	0,6	0,5	0,6	1,8	1,5
Lipton Yellow Label	—	—	1,0	0,3	0,2	6,8	7,2
PG Tips	—	—	1,5	—	—	—	0,2

— Signifies no or negligible presence.

Source: Euromonitor: "Corporate Strategies in Hot Drinks", May 2000.

Exhibit 6
Tetley Tea Financials

Profit and loss (£ 000)	1997	1998	1999
Group turnover	327,132	335,809	323,198
Operating profit before exceptional item	37,408	41,063	24,991
Exceptional item	-11,647	8,056	-6,154
Operating profit after exceptional item	25,761	49,119	18,837
Income from interest in joint venture	373	272	130
Profit on ordinary activities before interest	26,134	49,391	18,967
Net interest payable and similar charges	-16,764	-13,708	-13,986
Profit on ordinary activities before taxation	9,370	35,683	4,981
Tax on ordinary activities	-3,047	-8,620	-5,604
Profit (loss) for the financial year	6,323	27,063	-623
Dividends on equity and non-equity shares	-10,321	-599	-594
Retained profit (loss) for the financial year	-3,998	26,464	-1,217

Balance sheet (£ 000)	1997	1998	1999
Fixed assets			
Tangible assets	38,610	52,328	61,337
Investments	1,334	1,306	1,366
Current assets	77,673	92,139	72,988
Creditors (amounts falling due within one year)	-71,947	-93,146	-89,185
Net current (liabilities) assets	5,726	-1,007	-16,197
Total assets less current liabilities	45,670	52,627	46,507
Creditors (amounts falling due after more than one year)	-140,630	-134,547	-129,505
Provisions for liabilities and charges	-36,942	-23,854	-24,183
Shareholders' funds	-131,902	-105,774	-107,181

Cost structure (£'000)	1999
Turnover	323,198
Cost of goods	-228,499
Gross profit	94,699
Selling and distribution cost	-50,144
Administrative expenses	-25,718
Operating profit	24,991

In 1999, €1 equalled 45 Indian Rupees; \$1 equalled 43 Indian Rupees; and £1 equalled 70 Indian Rupees.

Exhibit 7
Key Brands of Tetley

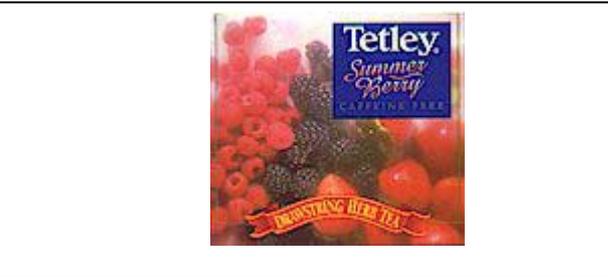
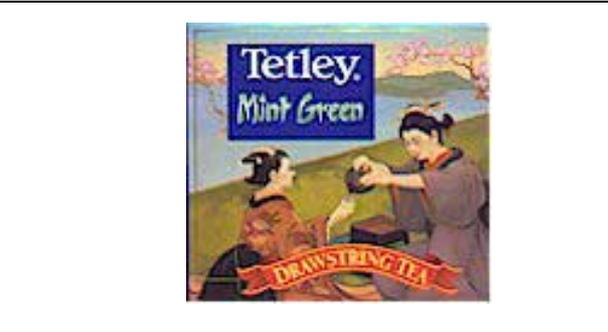
Packaging	Brand and positioning
	<p><u>Tetley UK: Bags and Granules of black tea</u></p> <p>“Whether you enjoy it hot in a cup or iced in a glass, Tetley is the choice for tea lovers around the world”.</p>
	<p><u>Tetley UK: Organic Tea</u></p> <p>“Organic tea is grown without the use of artificial pesticides or fertilizers and without any genetic modification of the tea bush. Certified organic by the ‘Organic Food Federation’”</p>
	<p><u>Tetley US: Black Tea</u></p> <p>“Thirty of the finest black teas are used in our British Blend to give you a rich, vigorous, revitalizing taste with a delightfully vibrant aroma. Each cup promises a delicate yet flavorful experience. Our drawstring tea bag makes it possible to get every drop of tea out of every bag.”</p>
	<p><u>Tetley US: Herbal Tea</u></p> <p>“Relaxing, sunny days of summer need this perfect herbal tea to make them complete. Our Summer Berry herbal tea is naturally caffeine-free and is filled with the luscious flavors of freshly picked berries. Each flavorful, full-bodied, fragrant cup will bring a smile to your face and warm your heart with delight.”</p>
	<p><u>Tetley US: Green Tea</u></p> <p>“Superior green teas are steamed to release their unique mild flavor and then blended with a touch of mint for a flavorful creation that nurtures the body, mind and soul. The mellow, delicate aroma and smooth, relaxing taste of green tea stimulates the senses and promises a peaceful experience that is highly enjoyable. The soothing properties of mint add a cool, vibrant, refreshing twist to this already sensational tea drink.”</p>

Exhibit 7 (Cont'd)

Packaging	Brand and positioning
	<p>Tetley US: Iced Tea “Loose teas blended perfectly for making iced tea in traditional tea brewers. This convenient 4oz foil pack makes 4 gallons of consistent iced tea quickly and with little mess. And, to make this product even easier to use, we have included the filters. Simply open the foil pack, pour out the tea into the filter provided and begin brewing. In minutes, you will have 4 gallons of delicious, refreshing iced tea.”</p>
	<p>Tetley US: Instant Tea “Each envelope of instant iced tea mix makes one gallon of refreshing iced tea in an instant. Just the right amounts of sugar and natural lemon flavor have already been added for you. Enjoy that Tiny Little Tea Leaf Tea taste with the convenience of just adding water. No brewing, no mess, no fuss. Nothing could be easier or more delicious.”</p>
	<p>Tetley US: Iced Tea Concentrate “Lemon Liquid Brew-Magic® Iced Tea Concentrate delivers a sweet, tangy, refreshing iced tea drink in seconds. Each glass promises great taste, great color and great flavor. Easy package and simple recipe make all of our Liquid Brew-Magic® Iced Tea Concentrate products a winner for foodservice. Aseptic package seals in the goodness and keeps product safe until ready to use. Simply open, pour and add water for two gallons of consistent, great tasting, refreshing lemon flavored iced tea.”</p>

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Exhibit 8**Tea Prices of Tetley and Unbranded Tea⁵**

	Package Size (g)	Price (£)
Drawstring 40	125	0.95
Drawstring 80	250	1.59
Softpack 40	125	0.83
Softpack 80	250	1.54
Softpack 160	500	2.84
Softpack 240	750	3.58

	Package Size (g)	Price (£)
Own label teas		
Premium 40	125	0.58
Premium 80	250	1.07
Premium 160	500	1.98
Premium 240	750	2.88
Light 80	250	1.08
Value 80	250	0.38

In 1999, €1 equalled 45 Indian Rupees; \$1 equalled 43 Indian Rupees; and £1 equalled 70 Indian Rupees.

Tea Prices in the USA	
 Tetley Round Tea Bags (80 Count)	\$3.14
 Safeway Black Tea Bags (100 Count)	\$3.00

⁵ As sold in the Tesco supermarkets in the UK and Safeway supermarkets in the US, based on information from their websites www.tesco.co.uk & www.safeway.com

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