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INDCOSERVE: Challenging Times

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INDCOSERVE: Challenging Times¹

On a cold day in January 2009, the cold breeze that swept past the office of INDCOSERVE at Coonoor, a tranquil hill station in India suggested there was unusual calmness in the office. Dr D. Karthikeyan, Special Officer and Managing Director INDCOSERVE had called for a meeting of key management people to discuss the turnaround plan for INDCOSERVE. The tea that they were producing was not fetching good price in the auctions and the farmers were also not getting adequate price for their leaves. The factories were running to a lesser capacity utilization. The situation if continues could adversely affect the morale of the farmers. They may begin to wonder if the business model of the federation was sustainable or not. INDCOSERVE was established to safeguard the interest of farmers by fetching them reasonable prices for their produce. Dr. Karthikeyan sat in a reflective mood wondering if INDCOSERVE served the purpose for which it was established.

Better marketing practices would improve the profitability of INDCOSERVE. The key issue to discuss in the meeting would be how to improve the marketing of INDCO tea. Should they focus on primary marketing (selling tea through auctions) or should they venture into a higher margin but fraught with risk path of secondary marketing by launching their own brands. Improving secondary marketing would mean launching of newer brands and focusing on brand building. INDCO's only branded tea 'Ooty Tea' had succeeded to some extent in covering up the losses incurred by 13 of the 15 factories of INDCOSERVE.

India is the largest producer of black tea in the world. In 2000, out of the total world production of 2992 million Kgs, India produced 825 million Kgs. Current estimate of tea production is in excess of 900 million Kgs. It is also the largest consumer of black tea in the world, with the domestic consumption being about 80% of its production. Tea industry in India had its beginnings in the 18th century. Starting with the first commercial production in upper Assam and the first auction centre in Calcutta, the industry has grown several-fold today. Tea estates dominate tea production in India with an estimated share of 84%, the balance 16% is produced by bought leaf factories (BLFs). In the case tea estates, the green leaves grown are brought to the factory located in the same region and tea produced almost immediately, in an integrated fashion.

Players in the Tea Industry

The tea sector is segmented on the basis of their role in the supply chain.

Planters: Tea growers, who primarily sell their produce at auctions and to exporters, such as Williamson Tea Assam Limited, Parry Agro Industries, Warren Tea, and AFT Limited.

Planters-cum-traders (Integrated): Originally tea growers, who diversified into the packaged segment to insulate themselves from fluctuations in auction prices, such as Duncans Industries, Harrisons Malayalam Limited, Goodricke Group Limited, Jay Shree Tea, and

¹ This case was prepared by Dr. B Mahadevan, Professor, Indian Institute of Management Bangalore and Dr. Seema Gupta, Assistant Professor, Indian Institute of Management Bangalore.

Eveready Industries (India) Limited. They are present throughout the value chain, from estate operations, manufacture and processing of tea, blending to marketing and sale in domestic retail or export markets. However, many of these players continue to sell a significant part of their production at auctions.

Non-integrated players: Primarily those players who do not own tea plantations. They purchase tea either at auctions or privately, and then blend, pack and market it like Hindustan Unilever Limited (HUL). Although HUL has large plantations, it is primarily dependent on the open market for the procurement of tea. The company is in the process of hiving off its plantations.

Apart from corporate players, other entities in the industry include (i) green leaf growers, who undertake plantation activities and sell their final produce to Bought Leaf Factories (BLFs) and larger tea marketing companies, and (ii) Bought Leaf Factories, who do not have their own tea estate operations, but produce saleable tea from green leaf purchases. In 2004, BLFs accounted for around 24 per cent of India's tea production.

Marketing of Tea

Marketing of Tea could be broadly categorized into primary and secondary marketing. Primary marketing of tea involves movement and sale of bulk tea from its first source namely the estates or the BLFs, to the bulk buyers (blenders or trade intermediaries). Also included in this category are direct exports by the producer himself and plantation packed tea (i.e. tea packed at the garden itself). *Primary marketing* is essentially bulk sale and it happens either through auction or private sale. There are established auction centres in India through which tea auction is conducted. The auction centers in India are Kolkatta, Silugiri, Guwahati, Coonoor, Coimbatore and Cochin. Auctions are conducted at these centers every week. Of late, electronic auctions are also organized using Internet-based software. In the case of private sale, the buyer and seller mutually agree on price and quantity and exchange good for money.

An auction is a primary marketing channel for selling tea to the highest bidder. It facilitates price discovery by bringing the buyers and sellers to a common platform with broker's intermediation. Buyers bid for lots of tea and each lot is sold to the winning bidder. Auctions are held under the direct supervision of the auction organizers, i.e., Tea Trade Associations of the respective auction centers. The auction system is a unique multipartite interaction of sellers, buyers, warehouse keepers and brokers and involves a complex interplay among them, organized by a set of auction rules framed by the auction organizers of respective auction centers. The auction marketing channel presents the buyers with a wide range of offerings or choices of tea. At the same time the seller enjoy a congregation of buyers with diverse requirements of tea along with the guaranteed transaction protocol. Exhibit 1 depicts the steps involved in marketing of tea through auctions. In private sale, tea is sold from the distant gardens/estates to buyer through trade intermediaries or brokers or directly by the producer.

Auction is a dynamic pricing mechanism. Several factors contribute to the price discovery process. Taste, shine and strength of the tea liquor, number of buyers and sellers in the auction and the demand – supply scenario are some of the factors that can affect the price of

the tea sold. Therefore one can expect variations in the price realized over time and across auction centres. Exhibit 2 has average price of dust and leaf tea over a two year period in three auction centres in south India.

On the other hand, *secondary marketing* of Tea involves retail formats. The bulk tea procured is suitably blended, repackaged into smaller retail sizes and sold through a distribution network. Development of unique blends, brands of tea, advertising and brand building, setting up robust distribution networks and inducing customers through product promotional strategies are some of the activities carried out in secondary marketing of tea. In 2006, the size of the Indian tea industry (based on demand) was estimated at Rs 107.4 billion, with production estimated at 956 million kg. Tea is a significant foreign exchange earner. Its share in India's exports was around Rs 164 million in 2005-06. Exhibit 3 has some details of this.

In secondary marketing, companies like Tata Tea and Hindustan Unilever blend the different varieties of tea according to regional tastes and preferences and sell it under their brand name. The tea market in India comprises of both organized as well as unorganized segments. On one hand there are national brands on the other hand there is huge market for unbranded tea. With the growth of organized retail, private labels are also increasing in value. The key driver of secondary marketing of tea is the creation of a branded tea market and identifying the right type of products to sell through the distribution channel. It also calls for setting the right prices and having the other requirements to stimulate and sustain the demand over time.

Domestic Packaged Tea Market

Tea distribution channels include packaged tea market, where tea is sold in polypacks, polythene bags, or corrugated cardboard boxes, mostly for the retail market and retail tea market, which is highly fragmented with a large number of regional players. The government is the single largest purchaser of packaged teas, as they are sold through defence canteens, used in the railways, aviation and other government-owned institutions. Branded tea consumption registered a 4.6 per cent compounded annual growth between 1986 and 2005, rising from 113 million kg in 1986 to 265 million kg in 2005. Consequently, the share of packaged tea sales to total consumption registered an impressive rise from 26 per cent of total consumption in 1986 to around 35 per cent in 2005. According to the Tea Board estimates, in 2006, of the 776 million kg of packaged tea consumption in India, branded tea constituted 362 million kg (40%) of the total and the balance was loose tea.

Several factors have contributed to the growth of branded tea segment. Some of them are listed below:

- In the economy segment, consumption of branded tea is linked to income levels. With the growing affordability of the people as reflected in the rise in per capita income levels, consumers graduate from loose tea consumption to economy segment brands.
- When compared with loose tea, branded tea offers certain quality advantages to consumers such as standard quality, weight and prices. In addition, packaged tea is also relatively safeguarded against adulteration. In fact, growing quality consciousness among consumers has contributed to the increased consumption of branded tea.
- In recent years, the focus on branded tea sales has become more intense, due to stable and relatively higher realizations in this segment in sharp contrast to volatile prices of bulk and loose tea.

- Besides, unbranded (loose) tea is becoming increasingly commoditized. Low value-addition and low product differentiation have resulted in prices being highly influenced by demand-supply dynamics. Branded tea prices, on the other hand, have been stable due to higher value addition and strong brand image. Therefore, companies have sharpened their focus on the branded tea segment.

The industry is characterized by the presence of a large number of unorganized players. Exhibit 4 has details pertaining to this. The leading 20 players account for only about 47 per cent of total domestic volumes of 983 million kg. The balance is accounted for by integrated SMEs, BLFs, merchant exporters and regional retailers. Players in the unorganized packaged sector exert pressure on margins of players in the organized packaged sector by offering low-priced products, thus weaning away packaged tea customers.

Tea companies have realized the importance of the growing domestic market and changing consumer tastes. Consequently, packet tea has been gaining importance. Furthermore, the number of tea brands in the market has been increasing. Different brands emphasize different ideas and convey unique product ideas thereby trying to occupy a space in the market. The packaged tea market has nearly 300 brands. Several of these have a regional presence, while a few have a national presence. With the exception of HUL and Tata Tea Limited (TTL), who have a national presence, and a few strong regional brands, the segment is highly fragmented. Although there are a number of players in the branded tea market, shares are consolidated with Tata Tea Limited and Hindustan Unilever Limited accounting for over 50 per cent of the market in volume terms.

Wagh Bakri and Goodricke are the other major players. The other integrated players have a high proportion of bulk tea sales. Exhibit 5 has data on the market share of the players. Apart from the well-known regional players such as Goodricke, Dhunseri Tea, Jay Shree Tea, Duncans Industries and Wagh Bakri, a number of other players have penetrated local markets and garnered a sizable share. Price differences between loose tea and packaged tea and the prevailing low auction price have attracted a number of traders into the segment. Due to their low selling overheads and establishment costs, these traders are in a position to undercut prices of national brands. This price-based competition in popular and economy segments has cut into the margins of national brands. This forces them to keep prices competitive.

Further, firms in the organized sector face severe competition from those in the unorganized sector. Firms in the unorganized sector compete primarily on the basis of price. They operate in the economy market segment. Since they buy tea leaves from auctions, they are able to benefit from the significant decline in tea auction prices. This helps them to launch low-priced brands in the market. In comparison, firms that are backward integrated (by virtue of having their own tea plantations) are at a disadvantage when auction tea prices decline. Companies such as TTL, which own tea plantations, have launched brands in the economy segment such as Agni and Agni Sholay, with the aim to counter competition from the unorganized and non-integrated players.

INDCOSERVE: Role in the Tea Industry

Since the 1930s, there has been steady increase in the area under tea cultivation in the small grower sector, which is typical to the Nilgiris District. Today, there are around 63,000 small growers in South India, cultivating an area of approximately 30,000 hectares and it is estimated that around 75 million Kg of tea per annum is contributed by this sector. Initially these small growers had to supply their green leaves only to private tea factories. These small tea growers faced several problems such as low rates for their leaves, heavy rejection of leaves and manipulations in quantity of leaf supplied, etc. It was the scenario that prompted the Government to form Tea Factories under Cooperative Sector.

Accordingly, the Tamil Nadu Small Tea Growers Industrial Cooperative Tea Factories Federation Limited, shortly called "THE INDCOSERVE", was established in the year 1965 and is functioning under the administrative control of Department of Industries and Commerce, Government of Tamil Nadu. With the establishment of the first Industrial Cooperative Tea Factory at Kundah in 1962, these small growers were able to realize a better price for their green leaf. In the four decades of its existence, INDCOSERVE has enabled its 15 member Industrial Cooperative Tea Factories to command 17% of the total production of Tea in the Nilgiris District by offering its expertise in technical, managerial and commercial competence.

INDCOSERVE provides various services to the Industrial Co-operative Tea Factories such as warehousing facilities at Coonoor, Coimbatore and Kochi, supply of fertilizers, supply of jute bags for packing of teas, machinery spares, and other inputs to the small tea grower/members through the INDCO Tea Factories besides helping to market the teas of the factories to their best advantage. INDCOSERVE also provides financial support to the member INDCO Tea Factories, besides marketing their teas. The main areas of business of INDCOSERVE are as follows:

- Supply of Tea to Defence Department
- Sale of "Ooty Tea" to State Civil supplies Corporations and Co-operative Stores under Public Distribution System.
- Supply of tea to recognized export houses.

At the time of the study 15 industrial co-operative (INDCO) tea factories are functioning in the Nilgiris district with an aggregate installed capacity of over 27.3 million kilograms of made tea per annum. Nearly 20,000 small growers supply green leaf to these factories that are geographically spread out in the region. See Exhibit 6 for a graphical illustration of the location of the factories. The INDCO factories account for about 17% of the total production of Tea in Nilgiris district. Exhibit 7 has a summary of the performance of INDCO factories during the last 15 years. It is pertinent to note the following significant aspects of INDCO performance:

- INDCO factories have a serious problem of price realization. Except for the period 1997 – 99, the price realized is much lower. Ironically, the price of tea fetched during 2005 – 2006 is at 1989 – 90 levels. There have been several reasons for fluctuations in tea prices. However, such a static level of price will be unhealthy as input prices would have gone up due to inflationary trends in the economy.

- Consistent with the above observation we notice that the cost of production has gone up to 300% of the 1989 – 90 levels. This disparity between price and cost trends is highly undesirable and may threaten the viability of INDCO
- Clearly, INDCO factories have been facing a situation of mounting losses. Especially we notice a significant trend after 1999 – 2000.

The problems of price – cost disparity is a phenomenon that the entire industry has been facing throughout the country. It hurts the growers the most followed by the tea factories. Since INDCO is a cooperative set up for growers, it hurts them on both counts. When factories have not been able to respond to the challenges of mounting losses, they simply close down the units.

Primary marketing activities at INDCOSERVE

In the case of INDCO factories, they have three options to sell the tea; through their own auction centre (TEASERVE), through other auction centres (such as Coonoor, Coimbatore, and Cochin in South India) and direct sale. Government of Tamil Nadu and Ministry of Defence buy Tea from INDCO using the direct sale route. These have been established through government policies and ministerial directions. A small fraction of tea is being sold through other auction centres. However, a vast majority of the INDCO produce is sold only through TEASERVE. The data pertaining to the price fetched through auctions (TEASERVE) point to certain issues in marketing & profitability of INDCOSERVE. According to an officer:

At the current levels of production making efforts to increase the realized price of tea by even Rs. 1.00 per kg of made tea will go a long way in improving the profitability of the factories. On a quantity of 14 million kg, an increase of Rs.1 per kg in price realized translates into extra profits of Rs.1.4 crore. This is significant in INDCO's current context. Therefore there is enough merit and motivation to address some of the marketing related issues for the INDCO factories in our search for opportunities for improving the profitability of the INDCO factories.

Primary marketing of tea at INDCOSERVE is done through auctions. INDCOSERVE sells most of the tea produced in its factories through its own auction platform called TEASERVE. TEASERVE is the world's first electronic tea auction centre started by INDCOSERVE. TEASERVE was registered on August 28, 2002 and setup at Coonoor in the Nilgiris District. TEASERVE commenced its Electronic Auction proceedings with effect from October 1, 2003. Only registered buyers could participate in the electronic auction proceedings. TEASERVE was initiated mainly to avoid exploitation of small growers by the middleman with the following objectives:

- To help and ensure small tea growers in getting reasonable and remunerative prices for their tea
- To establish various necessary price discovery mechanism for primary marketing of tea and administer them in a transparent manner
- To maintain stability and avoid speculation in the price of tea
- To ensure that due representation is given to all the sections of the tea industry in primary marketing of tea
- To disseminate market intelligence to its members

- To safeguard the interest of the small tea growers and plantation workers in general, and to promote tea as a health drink.

Till January 2008, 172 buyers and 428 Interstate buyers have been registered in TEASERVE (Exhibit 8). INDCOSERVE plays an important role both as a seller and as a buyer at TEASERVE. In a typical two-day auction session TEASERVE sells up to 2000 lots. There is one more session conducted at the end known as out-lot session. This session comprises of all unsold tea during the day. It is also useful for the bidder who could not participate in regular sessions. TEASERVE provides fair and transparent tea auction. TEASERVE sells on average 200-250 lots in 30 mins (1 session).

At the outset, the cost of selling teas through TEASERVE is lower for the sellers compared to the open cry auction conducted by CTTA. The transaction cost in TEASERVE is only Rs. 0.66 per kg of tea sold as against the transaction cost of Rs. 1.77 incurred by the CTTA. The cycle time in TEASERVE is only 18 days as against 25 days in CTTA. Therefore one would expect more sellers to come to TEASERVE and offer their produce. However, in reality it is not happening. TEASERVE is also not able to sell the entire tea put into an auction. There are several reasons for this (Exhibit 9).

The participation of sellers is very less. The predominant sellers are INDCO factories. More factories are needed to bring in the TEASERVE system. The number of buyers presently participating in TEASERVE auctions does not represent the true market. Furthermore, the expectations of buyers such as number of grades, expected quality of tea and divisibility of lots are not fully met at TEASERVE.

A broker operating in the Conoor Open Cry Auction operated by CTTA cited several reasons for this:

One issue could be that many sellers have long standing financial arrangements with brokers, typically, advances taken for running their factories. In this manner the brokers are able to exert some implicit pressure on the sellers to offer their produce only in auction centres where they operate. As a result, they hesitate to sell their produce through TEASERVE.

Another issue is the widely held perception that TEASERVE currently operates merely as an "organizer of the auction system". Sellers require additional roles from TEASERVE such as providing technical expertise on certain matters relating to quality and market trends, financial help.

Sellers often feel that prices realized in TEASERVE are generally lower than that realized in the open cry auction at CTTA. Therefore other sellers with higher quality will hesitate to bring their produce to TEASERVE. Even now the perception seems to be that for quality sales and purchases, the CTTA auction centre is better.

According to another broker

INDCOSERVE needs to address several issues pertaining to primary marketing of Tea. This includes improving the price realization, accessing multiple markets other than their own auction platform and adjusting the product mix. That will go a long way in improving their profitability as well. INDCO factories will suffer from a “frog in the well syndrome” as they may not get to know the trends in buyers’ preferences and competitive position by staying only with TEASERVE. On the contrary if they had a policy of selling up to 25% of the produce in auction centres other than TEASERVE it would have enabled them to know more about the evolving market conditions.

TEASERVE will face a problem of bias and will not be able attract new sellers. The dominance of INDCO in the auction will demotivate other sellers and even implicitly threaten. On the other hand, buyers will perceive TEASERVE to be not a neutral market as a vast majority of made tea put to auction is only from INDCO factories. Therefore, in the long run the number of buyers and sellers will shrink and threaten the very viability of the operation of TEASERVE.

The internal management has been thinking about this issue of selling the produce mainly through TEASERVE. There is no reason why the tea must be sold only in TEASERVE. There are four auction centres in the region. TEASERVE and CTTA operate from Coonoor. There are also auction centres at Kochi and Coimbatore. It is therefore clear that there is merit in exploring the feasibility of selling the INDCO tea in other regional auction centres. As long as the price fetched in other auction centres is in excess of the TEASERVE price and the cost of transportation, it is worthwhile to engage in this activity. Moreover, in the long run it is desirable to take the tea to other auction centres. Such an approach will help INDCO locate new buyers, introduce new brands to new buyers and help balance any adverse market conditions at Coonoor. A portfolio of markets will help INDCO adjust the shipment schedule to the regional auction centres in response to changing market conditions and price movements.

Secondary Marketing Activities at INDCOSERVE

INDCOSERVE’s secondary marketing activities are primarily through **Ooty Tea**. Ooty Tea is currently marketed under three major institutional arrangements that INDCOSERVE has. Two of them enable INDCOSERVE to reach the Public Distribution System (PDS), while the third one enables them to supply to the Defence Personnel:

- The PDS outlets in Tamil Nadu (Tamil Nadu Civil Supplies Corporation. TNCSC) sells Ooty Tea through an arrangement set up in 2001. When it started in 2001 the average sale of Ooty Tea through TNCSC outlets was about 30 MT per month.
- The second component of the PDS same arrangement was to sell Ooty Tea through Cooperative wholesale stores located in the 30 districts of Tamil Nadu. The average sale of Tea in 2001 through this channel was about 250 MT per month.
- INDCOSERVE has an arrangement with Defence to supply them Ooty Tea. This arrangement is in operation for the last 2 years.

The sales to PDS is on a credit for 2 months. Very often the cash generated by PDS through sale of Ooty tea is used up in buying other grocery items. They are hence unable to place fresh orders for Ooty tea. Therefore, Ooty tea goes out of stock frequently. This means loss of sales for INDCOSERVE. With an average monthly sale of Rs 2 crores, this translates into an accounts receivable of Rs 4 crores.

In all the above cases, based on the orders received Ooty Tea is made as per the specifications, packaged and dispatched. The list price of Tea is Rs. 100 per kg and INDCOSERVE sells it at a fixed price of Rs. 85 per kg. The prices are fixed by contractual terms. Since the prices of Ooty Tea are fixed by contract, there is not much scope to increase revenues from there, except when the contracts are re-negotiated. The only way to increase the revenue is by selling more Ooty Tea.

There was a variation in the quantity of Ooty tea sold per month from a high of 277,810 kgs in November 2007 to a low of 232,275 kgs in April 2007. The variation is 54, 535 kg, or about 21.5% of the average production. This to some extent reflects the orders for Ooty Tea received from the buyers. However it introduces unevenness in the operation of Ooty Tea and there is a potential to smoothen the production and sales and reduce inventory costs and conserve working capital.

Cost of packaged Ooty tea is a function of the blending proportion deployed and the cost at which the Tea is procured from the primary market through auctions. 80% of the cost of production of Ooty Tea is attributed to the cost of tea procured. The other three major elements are cost of establishment and contingencies (5%), poly-pouch cost (4%) and the cost of free sample (3%). The cost of Tea varied from a low of Rs. 54.50 per kg in October 2007 to a high of Rs. 63.61 per kg in March 2008. This difference reflects the increase in cost of production in INDCO's own factories where the leaf prices vary with lean and flush season, inefficient procurement practices and increase in price in the market in general (Exhibit 10).

At this point in time whether Ooty Tea is a brand or not is hard to comment as INDCOSERVE has not made any efforts to build its brand "Ooty Tea". Further, INDCOSERVE has not invested in any of the normal efforts required for secondary marketing such as creating channels, setting prices, creating multiple brands, advertising and market research and dealing with trading partners. It is merely serving a captive market. Commenting on this one officer at INDCOSERVE had the following to say:

True secondary marketing of tea calls for providing compelling value propositions to the trading partners in order to prominently display the product in the shelf. One of the major elements of this is the quantum of credit offered to the trading partners. The other aspect is the incentives offered. Some of the private players offer incentives and margins totaling to the tune of 30 – 35%. Ironically INDCOSERVE may not be able to offer competing value propositions such as these as policy guidelines prohibit these. Even offering credit sales to private players is not possible. In my opinion this issue needs to be addressed and ways and means found to make a comparable offering to the trading partners. Otherwise, secondary marketing may be difficult.

Options for INDCOSERVE in Tea Marketing

The core issue is one of improving the profitability of INDCOSERVE. According to Dr. Karthikeyan once the profitability improves, the growers will also get better prices for the leaf supplied. They will also get profits ploughed back to them. According to him INDCOSERVE should upgrade the quality of its tea and strive for procuring a standard quality certification which may symbolize quality for its brands. Glendale, a tea estate in Conoor had obtained ISO

2200. Similarly Dr. Karthikeyan felt that exports are another aspect worth exploring. Exports can fetch better prices than domestic markets. There are few organizations like "Container trade and Commodities" through which produce can be exported. Similarly there are agents who can help in exporting. But to give real thrust to exports, probably INDCOSERVE should consider the possibilities of producing Orthodox tea, as in international markets orthodox tea is preferred," he added.

Should INDCO focus only on primary marketing and try to improve sales through it or should it concentrate on improving sales through secondary marketing? In INDCOSERVE out of nearly 11 million kgs of tea sold, only 2% is retail sales. The goal of INDCOSERVE is to increase it to 10% in about 5 years. This translates into quadrupling the retail sales. The management at INDCOSERVE brainstormed on the issue of marketing and came up with three major areas to improve marketing of tea:

1. The first step is to improve the primary marketing of tea itself. This not only helps INDCOSERVE to sell more tea but also makes TEASERVE a stronger player in the region. This also prepares INDCOSERVE to source better quality tea at good prices which is a key requirement for secondary marketing of Tea
2. The second step is to evolve to an intermediate stage by increasing the sale of Ooty Tea by identifying alternative channels for sale. Further, the blending, packaging and logistics expertise could be gainfully exploited by being a packaged reseller for other labels. This could be well known brands, lesser known brands, boutique or niche brands, and store brands for retail chains. The key motivation is INDCOSERVE's ability to achieve blending excellence and convince potential customers that they can deliver. This also allows INDCOSERVE to ramp up its capacities and pick up some more experience in marketing of tea.
3. The final step is to launch its own brand and engage the trade for secondary marketing of tea.

No matter whatever path INDCOSERVE takes, there are several policy and implementation challenges to address. What are the other systems that need to be put in place if INDCOSERVE has to generate more revenues? How should INDCOSERVE manage their working capital? Should they have a demand forecasting and strategic planning system in place? What about Market research and intelligence? What incentive and performance appraisal system should be put in place to manage INDCOSERVE with outcome orientation? Should there be separate department of marketing? If yes, what should be its structure?

Exhibit 1
Steps involved in marketing of Tea through Auction Centres

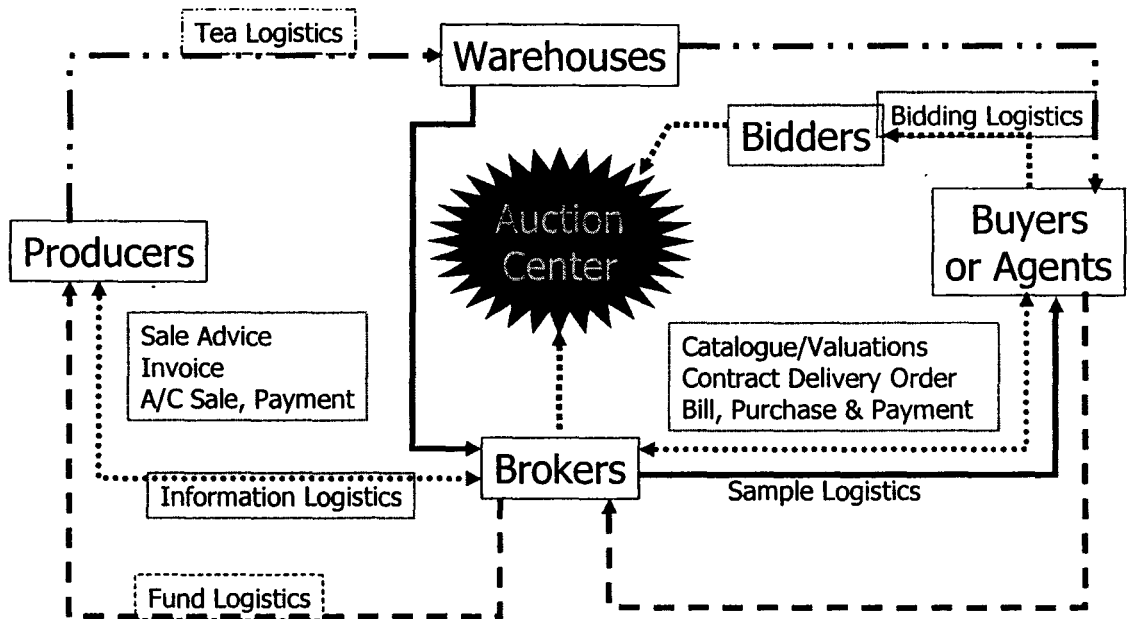
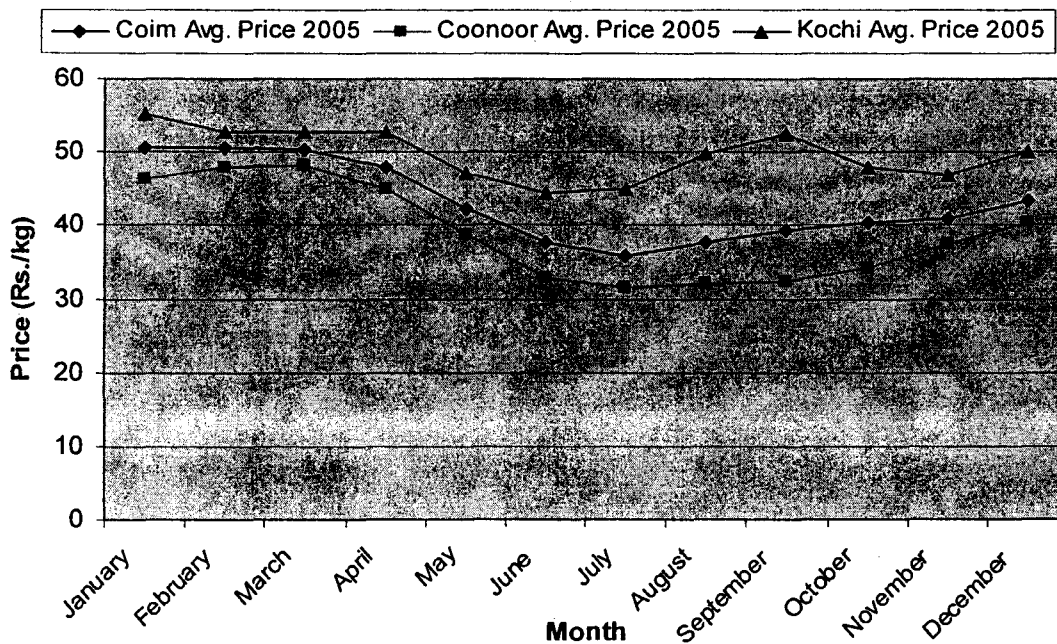
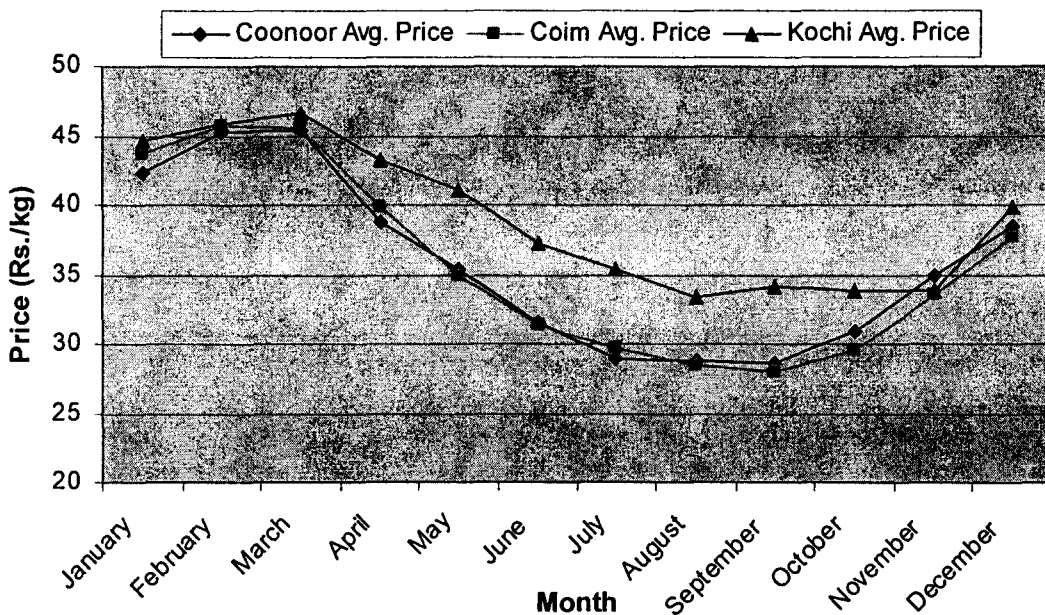


Exhibit 2 Average price fetched in different auction centres (2005)

Average price fetched for Dust



Average price fetched for leaf



Source: Tea Market Annual Report & Statistics 2006, J Thomas & Company Pvt. Ltd.

Exhibit 3
Size of the Tea Industry in India (2006)

	Volume (Mn. Kgs.)	Value (Rs. Billion)
Demand	985.00	107.40
<i>Domestic consumption</i>	<i>781.00</i>	<i>89.10</i>
<i>Loose tea</i>	<i>469.00</i>	<i>32.80</i>
<i>Packaged tea</i>	<i>312.00</i>	<i>56.20</i>
<i>Exports</i>	<i>204.00</i>	<i>18.30</i>
Supply	980.00	
<i>Production</i>	<i>956.00</i>	
<i>Imports</i>	<i>24.00</i>	<i>1.20</i>
Total market size	985.00	107.40

Source: Tea Board of India & CRISIL Research

Exhibit 4
Secondary Marketing of Tea in India (2005 – 06)

	Total Sales (Mn. Kgs.)	Market Share (%)
Hindustan Lever Ltd	112.00	11.40%
Tata Tea Ltd	80.90	8.23%
Mcleod Russel India Ltd	64.10	6.52%
Goodricke Group Ltd	22.50	2.29%
Jay Shree Tea & Inds Ltd	21.10	2.15%
Harrisóns Malayalam Ltd	16.00	1.63%
Assam Co Ltd	15.90	1.62%
Duncans Industries Ltd	15.30	1.56%
Warren Tea Ltd	15.00	1.52%
Parry Agro Inds Ltd	14.20	1.45%
Apeejay Tea Ltd	13.20	1.34%
AV Thomas & Co Ltd	13.10	1.33%
Gillanders Arbuthnot & Co Ltd	12.60	1.28%
Andrew Yule & Co Ltd	8.70	0.88%
Bombay Burmah Trading Corpn Ltd	7.70	0.79%
Dhunseri Tea & Inds. Ltd	7.40	0.75%
Eveready Industries (India) Ltd	6.60	0.67%
Doom Dooma Tea Co Ltd	5.90	0.60%
Balmer Lawrie & Co Ltd	5.70	0.58%
Rossell Tea Ltd	5.40	0.55%
Total of the above	463.30	47.13%
Integrated SMEs, BLFs, merchant exporters and regional retailers	519.60	52.87%
Industry total	982.90	100.00%

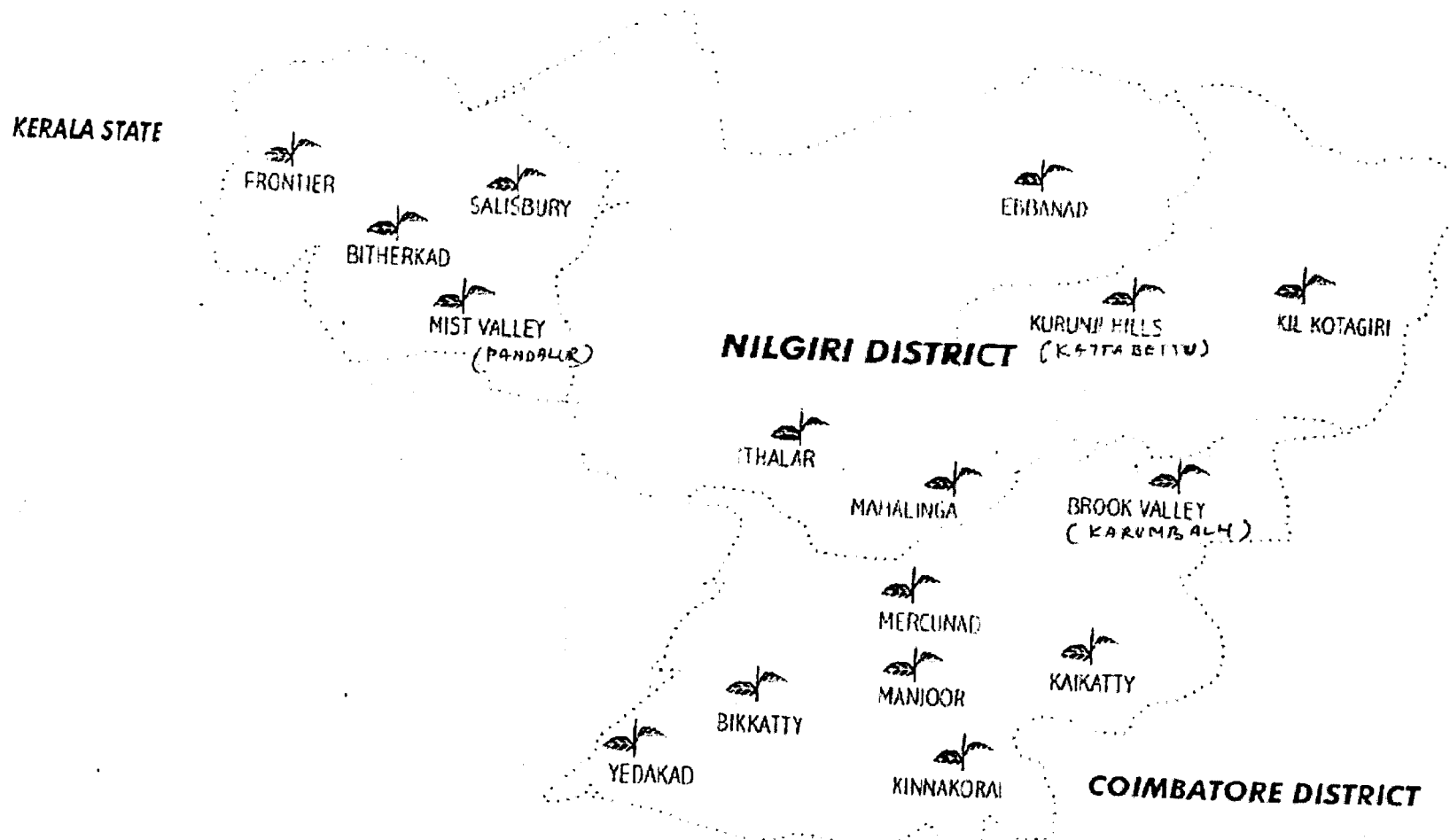
Source : GMID Research

Exhibit 5
Domestic Branded Tea Market (2006)

Major Players	Share (%)
Hindustan Lever	32.00%
Tata Tea	22.50%
Wagh Bakri	5.00%
Duncans	5.00%
Goodricke	2.00%
Eveready	2.00%
Jay Shree	1.00%
Dhunseri	1.00%
Others (i.e. local and regional players)	29.50%
Total	100.00%

Source : Tea Board of India

Exhibit 6
Location of the fifteen INDCOSERVE Factories



Source: Company records

Exhibit 7
A summary of performance of INDCO factories during the last 15 years

Year	Avg. Sale Price*	Cost of Production*	Profit #	Cumulative Profit #	Loss #	Cumulative Loss
1989-90	33.91	6.52	19.44	16.02	39.07	-121.87
1990-91	34.18	6.89	12.63	11.12	77.51	-174.17
1991-92	25.59	8.07	47.80	5.51	111.90	-3292.54
1992-93	32.05	9.10	18.97	193.83	86.15	-51.40
1993-94	36.66	8.33	8.85	2.42	60.02	-348.97
1994-95	27.04	9.67	31.29	1.25	30.36	-404.47
1995-96	39.82	10.07	3.44	4.28	134.27	-441.89
1996-97	37.54	10.87	183.31	1.90	27.04	-544.36
1997-98	63.69	16.48	25.63	33.51	160.10	-432.26
1998-99	56.89	15.38	0.49	27.81	267.76	-626.45
1999-2000	46.37	17.16	0.42	6.39	197.23	-1005.97
2000-01	36.11	17.27	28.58	2.01	147.83	-926.50
2001-02	35.81	16.35	14.31	7.52	231.99	-1069.67
2002-03	35.39	15.83	9.57	4.30	483.36	-1272.26
2003-04	30.19	14.27	37.47	13.51	166.07	-1608.00
2004-05	43.56	15.38	51.36	14.69	148.77	-1542.21
2005-06	33.08	17.56		18.02		-2017.53

* The data is Rs. per kg

This data (Rs. Lakhs) is for all 15 factories. While some factories made profit others made loss.

Source: Company records

Exhibit 8

List of Registered Sellers in TEASERVE

Sl. No.	Seller Affiliation	No.
1	INDCOSERVE Tea Factories	16
2	Private Bought Leaf Tea Factories	134
3	Private Estate Factories	16
4	TANTEA	1
5	Government of Tamil Nadu	1
	TOTAL	168

Exhibit 9

Performance of TEASERVE

Sr. No.	Sector	Total quantity sold (in lakh kgs)	Total sales value (Rs. in lakhs)	Average Rate per kg of Made Tea	% of Total Sales
1	INDCO Tea Factories	140.11	6492.96	46.34	88.76
2	Bought Leaf Factories	11.04	509.34	46.14	6.99
3	Estate Factories	2.07	113.9	55.02	1.31
4	TANTEA	4.63	189.32	40.89	2.93
	TOTAL	157.85	7305.52	46.28	100.00
1	INDCO Tea Factories	107.61	4441.19	41.27	95.68
2	Bought Leaf Factories	3.63	154.11	42.45	3.23
3	Estate Factories	0.43	25.52	59.35	0.38
4	TANTEA	0.8	32.23	40.29	0.71
	TOTAL	112.7	4653.05	41.37	100.00

Exhibit 10

Cost of Production for "OOTY TEA"/ per kg (2007-08)

Particulars	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Average for 2007-08	% of Cost	% of Price
COST OF TEA	60.52	61.23	58.45	55.81	55.70	56.93	54.50	55.78	58.02	60.23	60.92	63.61	58.47	80%	69%
Poly Pouch cost	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.91	2.91	2.87	4%	3%
Corrugated carton box	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.59	2%	2%
Blending & Packeting charges	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	2%	2%
Transport charges for Ooty tea from Indcoserve to allover Tamil Nadu:	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.56	1.56	1.56	1.56	1.56	1.40	2%	2%
Interest for Cash credit loan at Taico Bank	1.20	1.07	1.10	1.23	1.19	1.08	1.13	1.02	1.09	1.11	1.02	1.28	1.13	2%	1%
Estt. & contingencies	3.30	3.58	3.86	3.46	3.66	3.61	2.80	3.75	3.04	4.77	2.71	4.84	3.62	5%	4%
Cost of free sample (200 grams for every 5 kg Ooty tea)	2.43	2.45	2.42	2.34	2.22	2.27	2.18	2.16	2.32	2.41	2.45	2.54	2.34	3%	3%
Bearing of VAT	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	1%	1%
Total cost of production for per kg Ooty Tea	75.53	76.41	73.04	70.05	69.98	71.10	67.82	70.19	71.95	76.00	74.63	79.80	72.89	100%	86%

Selling price of Ooty tea (TNCSC Ltd & Coop Stores)	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	85.00	100%
Profit margin to Indcoserve / kg of Ooty tea	9.47	8.59	11.96	14.95	15.02	13.90	17.18	14.81	13.05	9.00	10.37	5.20	12.11		14%