

Green Tea Research Report

Research in Australia's Green Tea Market

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The aim of this report is to investigate on the current situation in Australia's green tea market, its future trends and outlook, and any potential opportunities and threats in the future.

The report will discuss the following issues in detail:

- World tea market – production and consumption
- Australian market – production and consumption
- Trends in consumption – US & UK
- Recent trends affecting the Australian tea market
- Outlook for the market – opportunities & threats

World tea market – Production & Consumption

According to the report of the United Nations and Agriculture Organisation (FAO), tea production in 2004 has reached a record 3.2 million tonnes, a 2% increase compare with 2003. China, the second largest tea production country, produced 800,000 tonnes of tea and exported 280,000 tonnes to other countries, of which over 75% is green tea.

In the next decade, FAO expects the world green tea production to grow at a faster rate than black tea at 2.3% a year, but volumes are much smaller at a projected total of 975,000 tonnes by 2014. China is expected to maintain its lead, accounting for over 75% of world green tea output with a production of 740,100 tonnes, replacing some of its black tea production. The growth is mainly driven by the effort spent on promoting the health benefits of green tea consumption.

Annual tea consumption varies from country to country, with the highest consumption of 2.3 kg per capita in UK. World consumption is approximately 0.56 kg per capita. Green tea is the primary form consumed in China, Japan and some Middle Eastern countries.

Australian market – Production and Consumption

Australia produces around 2000 tonnes of tea per year, less than 0.1% of total world production. Most of the tea drunk is imported from India, Sri Lanka and China. Ito En, the biggest green tea supplier in Japan, has setup the first green tea processing plant at Wangaratta in Victoria, produced 5 tonnes of green tea this year. It is expected that within the next 10 years, it will be exporting 1000 tonnes of semi-processed green tea worth about \$10m to Japan, Europe and the US.

Back in 1970, Australia has been a heavily tea consumed country with every Australian consumed 3.8kg of tea per year. Today, with the coffee culture gaining popularity, tea consumption has declined to 0.8kg per capita, ranked 5th

in the world. The total tea market is valued at \$270.4m, comprises of 87.4% tea bags and 12.6% leaf tea.

According to the Aztec report in 2003, the Australian tea bag market is dominated by the following brands:

Brand	Market Share
Lipton	21.6%
Twinings	17.8%
Dilmah	12.8%
Tetley	11.7%
Bushells	9.7%
Nerada	5.3%
Madura	4.8%
Lanchoo	3.7%

While green tea is a relatively small sector (around 4% of the total market), it is expanding at a rapid rate of 46.9% in the year to March 2005, one of the fastest growing sector in the market.

Trends in consumption – US & UK

US

Although tea is the most popular beverage in the world after water, in US, it is only ranked in sixth place. There is a significant change in this trend however, with tea sales of just \$1.8b in 1990 to over \$5.5b in 2004.

The main drive behind this growth lies within the specialty tea category. This category of teas includes value-added, higher quality teas. They are grown, harvested and processed in tea estates using orthodox (plucked by hand and not machines) methods. The term “specialty tea” is now used universally to describe more exotic, flavored, un-flavored tea based beverages and styles.

Indications are showing that the emerging specialty tea segment exhibiting many of the same characteristics that existed within natural food and specialty coffee channels as they climbed from niche to mainstream markets. Annual sales growth of 15% or even higher has been common for many specialty tea lines between 2000 and 2004, especially those offering certified organic, chai, green and functional tea beverages. Double digit market growth over the last two years, shifting American demographic factors and the endless positive media coverage extolling the health virtues of tea suggests specialty tea is far beyond the fad stage and poised for continuing growth.

Increasing interest from America’s 76m baby boomers just beginning to embrace tea as a health-promoting product for the entire family is laying a solid base for specialty tea. This exceptionally health-conscious demographic is starting to

explore specialty tea culture through brewed tea beverages, tea-based skincare products and neighborhood cafes offering exotic teas. The consumer product dollars available for specialty tea purchases within the US over the next decade will be significant. The 5th edition of the "Tea is 'Hot' Report" forecasts tea sales will reach \$10b by 2010. This conclusion is based largely on the projected demand of American baby boomers, who are increasingly embracing specialty tea as their primary daily beverage.

UK

Unlike the US, tea has a long established history in UK, with the first samples of tea arriving in 1652, and is ranked the most popular beverage after water. It also has the highest tea consumption in the world, with 2.3 kg of tea consumed per person in 2002 according to the Euromonitor report.

Black tea has been dominating the tea market for many years. Recently, tea makers have seen a shift in sales as consumers move away from black tea, instead opting for flavorsome or healthy alternatives, such as fruit and herbal teas, consumption of which increased by almost 50% between 1997-2002, and green tea consumption in 2002 was more than 20 times the 1997 figure.

Now, even the most ordinary of supermarkets and convenience stores have a variety of green teas to offer. All the major tea companies have recognized a growing awareness amongst the consuming public, and have gradually launched new products into the marketplace. Twinings and Lipton have both introduced new green tea products in 2000, and Lipton's green tea products had a growth rate in excess of 150% in UK that year. Not only in supermarkets, but cafe operators also noticed that consumers were asking for an alternative to cappuccinos and espressos, and green tea has been a popular healthy choice.

Again, similar to US, the drive behind green tea sales is the consumer trends in health and stress awareness, and the desire for a more balanced lifestyle. With the countless scientific reports and media coverage on its health benefits, tea companies have been receiving many enquiries on green teas. In addition, the decrease in the sales of instant tea and coffee indicates that consumers are now more focused on the quality of beverages, and the availability of high quality green tea is another factor contributing to the increase in green tea sales.

Recent trends affecting the Australian tea market

In my opinion, these are some of the trends which have or will have a significant impact on the Australian tea market.

Demand for health & wellness products

Below are some of the facts and figures from BRW June 2-8 2005:

- The Australian wellness industry is worth \$12-15 billion in sales a year
- Economist estimates the wellness industry will expand fivefold over the next seven years
- 80% of Australians are prepared to pay more for something that gives them a feeling of wellbeing
- Australian spend more than \$800 million a year on vitamins and health supplements and the industry is growing at 8-10% a year

Retail food chain such as McDonald's has recently introduced healthy meals in their menu, and this move has significantly improved their bottom line. According to the latest annual report, sales revenue has jumped from \$524m to \$861m in 2003, a 64% increase. Since Salads Plus was launched, sales has immediately increased 18% from the previous month. Other healthy food and beverage chains are experiencing exceptional growth. Boost Juice, has a turnover growth of 226.2% in 2004, and expects to turn over \$73m in 2004-2005 with its 148 stores. Another small startup healthy fast food shop, Wellbeing, was founded in 2003, now has 14 stores and wants 40 by the end of the year.

Asian food boom

ACNielsen released a Grocery Report in 2003 reviewing emerging trends in the booming \$320m Asian Foods phenomenon. The report indicated that annual grocery sales of Asian Foods are the most popular in supermarkets and expected to exceed \$100m by the end of 2003 excluding sales from local Asian food stores. The remaining \$220m represents products from other grocery categories, ranging from meals to sauces to snacks and it is growing at a fast pace. The drive behind this growth is because people found satisfaction in Asian food for their adventurous and sophisticated palates. In the report, it explicitly mentioned that green tea's growth can be seen as a reflection of the growth in Asian food.

The Asian food boom extends beyond the grocery market from what I can see. In the past few years, many Japanese and Thai fast food stores opened in the Sydney CBD area. As mentioned in above, people are searching for a different taste to satisfy their palates, but another factor is people perceive Japanese food to have a healthy image, so for health conscious people, this is definitely another alternative for them to try.

Tea manufacturer increase product range

It is not difficult to see that tea is gaining popularity in supermarkets. Lipton, for example, has increased their product range from the traditional black tea bags to ready to drink ice tea, green tea bags, herbal tea bags and chailatta. Other

major tea bag manufacturers have also introduced green tea in their product range to capture the market growth.

Cafe starting to offer tea related beverages

In the past, cafes have mainly focused on coffee beverages in their menus. Today, we can see there is a shift in this trend. More and more cafes are starting to offer tea in their beverage menu such as chai tea, chai latte. Toby's estate, for example, has started offering tea tasting courses alongside with their coffee training courses. In their new shop at Chippendale, a section of the shop is being used for tea tasting. Even in cafe industry magazines, there has been an increase in ads for tea products. This indicates that more cafes are now starting to offer tea as an alternative beverage to coffee.

Outlook for the Market Opportunities

- ***Competition*** - relative small competition with low quality green tea selling at supermarket. Tea shops are selling low to medium quality tea mainly imported from China, and Taka Tea Garden is the only shop selling medium to premium quality Japanese green tea in Sydney. There is currently no green tea cafe opened in Australia.
- ***Demographic*** – has one of the world's largest Asian-born populations (6% in 2000). ABS predicts Asian population will reach 8% by 2010 and 10% by 2020.
- ***New market with potential for high growth*** - lots of customers interested in the green tea health concept but would like to add milk and sugar, matcha presents a huge potential in this area. Matcha based drinks especially cold drinks will attract a lot of young customers who are interested in new tastes & flavors, meanwhile serving hot tea will retain the more mature health conscious customers (age 40-60).
- ***Wholesale market*** - potential to wholesale matcha powder & quality loose leaf to gourmet grocery shops, cafes and restaurants in Australia.
- ***Education*** – increased media coverage on the benefits of tea especially green tea has helped promoting green tea with a healthy image. Tea tasting courses (Toby's estate) also help raising the public awareness in tea appreciation by educating customers what is a good cup of tea.

Threats

- It may take a long time to educate people on the health benefits of tea, the differences between different types of tea etc.
- Switching from tea bag to high quality loose leaf
- It takes time to convert from a heavily coffee consumed country to a tea country
- Good quality green tea is more expensive than black tea
- New health reports claim black tea is as healthy as green tea