

## Factors Affecting the Market Penetration in the European Union (EU) Tea Market

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### Introduction

Tea is one of the oldest and most popular beverages in the world. It is considered as the cheapest beverage after water. Sri Lanka is the largest orthodox black tea producer and exporter of the world and tea contributes significantly to the national economy of Sri Lanka. Increase of the revenue from tea is lower than the increase in cost of production rise. Therefore, market penetration was identified as a method to increase the demand for Ceylon tea and increase the revenue. Main Ceylon tea export destinations are Russia/CIS and Middle East regions, but a very low quantity of Ceylon tea is exported to EU region compared to other origin teas, so it is important to pay attention on EU market. Objective was to identify the significant factors on market penetration to EU tea market and suggest recommendations to overcome those constraints.

### Methodology

Primary data was collected mainly through a structured questionnaire. Thirty large and medium scale tea exporters were interviewed. Personal interviews were conducted to collect background information. Collected data was analyzed using multiple linear regression model with the aid of MINITAB 14 statistical package. Market penetration to the EU tea market (MPEU tea mkt) was derived based on percentage exports to the EU and it would be ranging from 0 to 100%.

$$\text{MPEU tea mkt} = \frac{\text{Tea Export Volume to the European Union}}{\text{Total Tea Export Volume of the Company}} * 100$$

$$\text{MPEU tea mkt} = B_0 + B_1 \text{ VA} + B_2 \text{ Q} + B_3 \text{ C} + B_4 \text{ DC} + B_5 \text{ ME} + B_6 \text{ ANM} + B_7 \text{ A} + B_8 \text{ MI} + B_9 \text{ FR} + E_i$$

Where,

B<sub>0</sub> to B<sub>9</sub> = Coefficient    E<sub>i</sub> = error terms

VA = Value addition (Percentage)

Q = Quality (Number of quality certifications)

C = Creativity (Number of Product lines)

DC = Direct contact (Number of tea shops in EU region)

ME = Market experience (years in EU market and Number of trade fairs participated in EU region)

ANM = Approaching new markets (Number of ways)

A = Alliances (Dummy – Yes / No)

DP = Distribution procedure (Dummy – Brand / Other)

MI = Market information (Dummy – Research / Other)

FR = Failure rate (Percentage)

## Results and Discussion

The p-value of the overall model is 0.000, so the overall model is significant. Results revealed that market penetration to the European Union tea market was significantly determined by Value addition, quality, distribution procedure, market experience, Ways of approaching new markets and failure rate. Based on the response of the exporters, alternatives, competition, investment, bilateral trade agreements between EU and competitors of Ceylon tea and market knowledge were also important to penetrate in to the EU tea market.

Table 1: Results of the multiple linear regression analysis

Predictor	Coefficient	Standard Error Coefficient	T	P
B0	19.611	6.896	2.84	0.011
VA	0.2815	0.05175	5.44	0.000*
Q	2.4663	0.6426	3.84	0.001*
C	0.0447	0.3192	0.14	0.890
DC	-0.3236	0.2566	-1.26	0.224
Trade Fair	-1.1268	0.3355	-3.36	0.004*
Years	0.1274	0.03491	3.65	0.002*
AI	-4.7960	3.993	-1.20	0.246
D	6.5180	1.415	4.61	0.000*
MI	1.4660	2.120	0.69	0.499
ANM	-3.1632	0.8230	-3.84	0.001*
FR	-0.1938	0.05650	-3.43	0.003*

\* Significant at 99% confidence interval, R-Sq = 94.0%, R- Sq (Adj) = 90.1%,

Value Addition is positively related with the Market penetration to EU tea market. Because of the busy life style of EU, they are always searching for more convenient ways. The growing popularity of RTD (Ready To Drink) products proves that. Tea bags are already very popular in the EU market. The investment for the value addition is high. Sri Lanka tea board should start a strong promotion campaign based on health benefits to attract young people towards loose tea. Loose tea is recognized as the healthiest type of tea. Hence loose tea promotion will increase Ceylon loose tea demand and ultimately exporters do not need to invest a huge capital on expensive value added types.

A positive relationship can be observed between market penetration to the EU tea market and quality. Compliance with international standards also has a positive relationship. Exporters need to comply with ISO 22000 and other regional standards. In EU both Food safety related standards as well as social standards are very important. ETP (Ethical Tea Partnership), FLO (Fair Trade) and RA (Rainforest Alliance) are some of the most important social standards in EU region. In food safety point of view exporters need to comply with EU MRLs (Maximum Residue Levels). Therefore the use of minimum dosages of agrochemicals is vital.

Market experience is significant at 99% confidence interval. Tea exporters who are established in EU market for a longer period of time have the advantage of knowing the market conditions and requirements better than other exporters. Trade fair participation shows a negative coefficient value although the expected relationship is positive. This was mainly due to the interaction between trade fair participation and other factors.

Distribution of tea through own brands was identified as a significant factor. At present only 12% of Sri Lankan tea exports are through their own brands. Through brands exporters can have direct contacts with the consumer. Own brands facilitate the promotion and understanding consumer requirements as well.

A negative relationship was observed between ways of approaching new markets and market penetration to EU tea market. But the expected result was a positive relationship was expected. This was mainly due to the interaction between ways of approaching new markets and other factors.

There is a significant negative relationship between the failure rate and market penetration to EU tea market. When exporters try to build up relationships with new clients, they loose the relationship when the process is going on. Higher failure rate indicates the lack of marketing intelligence.

### **Conclusions**

Value addition, Quality, Distribution Procedure, and Ways of approaching markets, Market experience and failure rate were identified as significant factors affecting the penetrating in to the EU tea market. Based on the response of the tea exporters; Alternatives, Competition from other brands, investment, bilateral agreements with competitors and understanding culture are important as well.

### **References**

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