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Executive Summary of Study on Domestic Consumption of Tea in India

India is the 2nd largest producer of tea in the world and accounts for the highest tea consumption globally. Around 80% of the total tea produced in India is consumed by the domestic population. The study on consumption of tea in India was last carried out by Tea Board of India in 2007. In spite of having a big domestic consumption base, the per capita consumption figures in the country are low when compared to global standards. A study on the domestic consumption of tea in the country was undertaken by Tea Board of India in order to understand the consumption trends and purchase behavior of the consumers in the Indian tea market. The findings of the study is expected to bring out the current and evolving trends which can be used as an input for the formulation of the domestic promotion strategy.

The domestic consumption study has been designed in two phases – The Pilot and the Pan-India Survey. Questionnaires were designed keeping in mind the broad objectives of the study and inputs were taken from the industry bodies, tea associations and major stakeholders in the tea Industry. Based on findings from the Pilot and discussions with industry bodies and major stakeholders, questionnaires were further modified to capture key trends and patterns across consumers, institutions and trade channel partners. The questionnaires were modified after incorporating the inputs from the Tea Board and other stakeholders.

The Pan-India survey focused on sample households across India with representation from both the urban and rural population as well as across different socio cultural regions (SCRs) within states and Socio –economic classes (SECs). Apart from these, dedicated questions were designed to capture the voice of youth across these households. Based on the household samples collected, key patterns across consumption, purchase behavior and emerging trends are highlighted in this summary document.

As part of the domestic consumption study, separate questionnaires were also prepared to capture key trends and insights from institutional consumption

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including the tea supply chain. Survey was conducted across institutions (like Hotels, Restaurants, Cafes, Canteens etc.) and trade channel partners (wholesalers, distributors, retailers etc.) and the findings are presented in this summary document along with the findings from the household survey.

Apart from these, direct interviews and focus group discussions were also carried out at select locations having representation from industry associations across North and South India, brokers, commissioning agents and retail associations among others. These have been done not only to validate the analysis carried out based on data from the consumer survey but also to have qualitative insights from the key stakeholders in the tea industry.

Findings from the survey suggests that tea consumption in India is skewed towards the Northern and Western parts of the country with the percentage contribution from the Northern states accounting for ~32 %, while that from the Western region accounting for ~ 31%. The relatively low consumption belts of East (including North East) accounts for ~19% while the Southern States contributes towards ~18% of the total domestic consumption of tea.

While there had been an increase in per capita consumption compared to that estimated in the last survey, the overall per capita consumption figures seem to be low when compared to global benchmarks. There is also a significant spread in the per capita consumption figures in urban and rural India. Given the current per capita consumption figures, there is potential for increasing the per capita consumption and the overall consumption.

Some of the insights from the study are highlighted below.

Consumption Pattern

- Tea is by and large a highly penetrated product. A layered approach has been adopted to arrive at the overall penetration levels for tea as a category. The penetration of tea in the kids segment below 12 years of age which on an average comprise of ~25% of the overall population is almost negligible. In the next layer we estimate the penetration of tea in the households. Close to 88% of the total households (based on the samples in the survey) in India have reported consumption of tea. Within the potential tea drinkers within a household, the penetration of tea is around 96%. Overall around 64% of the total population in India is the tea drinking population. Across Socio economic classes, there is hardly any significant difference, since tea is a traditional drink and is considered one of the most affordable beverage.

- There is a marked difference in the proportion of in home and out of home consumption. This is driven by a number of factors primarily led by urbanization. Western and Southern States show higher proportion of out of home consumption compared to North, Central and East. **Quality concerns** and stigma attached with having food outside home (especially in the North) may be some of the key reasons. Most of these out of home consumption

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occurs in workplace canteens. This also supports the fact that higher out of home consumption occurs in those regions where urbanization / industrialization has taken place and there are increased commercial activities.

- Over 80% of the people consume tea either **before breakfast or with breakfast**, which is also one of the reasons behind the high in-home consumption of tea. A certain proportion also considers tea as "**any time of the day**" drink. This segment is sizeable in the Eastern parts of the country.

- **Milk tea with sugar** is the most popular choice with more than 80% of the households preferring the same. In recent times, however, the consumption of **non-milk tea without sugar** is on the rise, driven majorly by the increasing emergence of life style related diseases and increasing popularity of variants such as green tea.

- Among the milk tea drinkers, addition of ginger is one of the key trend that has been highlighted, while among the non-milk tea drinkers, **green tea and lemon tea** are fast becoming the popular choice after plain liquor tea.

- There are some region specific characteristics in tea drinking; proportion of respondents preferring milk tea is higher in the Northern and Western states (the overall consumption of milk is also very high in the states) compared to the other parts of the country.

- **Biscuits** are the popular choice of accompaniments while having tea **in home** while large percentage of respondents prefer to have **nothing** at all while having tea **outside home**. The western states however have a significant proportion of households preferring salted snacks with tea which can be attributed to the growing purchasing power in the region.

- Study also revealed that Consumption of tea varies to some extent with seasonality. Tea consumption as per the study increases during winters and festive occasions across the country by and large.

Purchase Behavior

- Close to 80% of the households (in Urban India) and around ~ 75% of the households (in Rural India) have shifted to buying packet tea.[1] The driving force behind the transition can be linked to consumers preferring packet tea because of its perceived quality (**adulteration free**) and **better storage** options. The proportion of loose tea is comparatively higher in the Eastern and Central States compared to the rest of the country.

- Favorable demographic factors such as increase in disposable income, aspiration levels, more participation in workforce (both male and female), and

[1] Packet tea means tea not sold in loose forms. This segment broadly includes tea from the National brands, established regional brands and also the local players who have forayed into packaging and selling under their own labels.

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increasing health consciousness have by and large contributed to the shift from loose tea to packet. With increasing demand, there has also been a marked improvement in rural penetration and a significant number of wholesalers are diversifying from low margin high volume wholesaling to high margin retail business.

- Neighborhood **kirana stores** are the most common place for tea purchase, with more than 70% of the households' surveyed buying tea from these stores. Convenience and proximity plays a major role in deciding the place of purchase. However, most retailers **have shifted to a cash and carry model**, where no purchase is done in credit, especially in the urban segment.

- Modern retail is emerging as the second biggest channel for purchasing of tea. With increasing shift of preference of consumers from loose to packet tea, and penetration of modern retail increasing in India (with rising number of Tier 2 and Tier 3 cities contributing significantly to the supermarket space), this channel may become a major source of purchasing packet tea.

- With convenience emerging as a major factor in consumer buying behavior, and increasing availability of smart phones, online channels will be a major driver for increasing shift towards consumption of packet tea. This will be driven by increased internet penetration and digital connectivity even in rural India.

- About 7% of the households purchase tea from the **exclusive loose tea shop**. **Loose tea market** is divided into **two distinct segments** – one segment which are very price sensitive and buys cheap inferior quality loose tea while the other segment is quite aware about the quality of loose tea and buys good quality loose tea which suits the taste and preferences of their households (at a cost lower than the branded packaged tea)

- There are region specific differences in preferred attributes of tea. While overall, **taste and strength** of liquor are important factors, in **rural India**. Some parts of Rural India in select states, specially the South, prefer dark color of tea and associate it with better quality of tea. This has led to proliferation of some packet tea players who are using coloring agents to enhance the color of tea

- Around 21% of the households reported they have **switched brands** over the last five years. The major reasons behind brand switch was due to poor taste and quality of tea from the previous brands. With very low entry barrier and increasing number of regional brands coming up regularly across India, this switching behavior is expected to increase further.

- Tea is by and large a price inelastic product. It is looked upon as common man's drink which is consumed on a daily basis rather than being perceived as an aspirational drink. The survey tried to understand the change in buying behavior in case there is change in price points. A very miniscule percentage

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responded that they will stop consuming tea in case of price increase which clearly testifies the fact that tea is a drink which is perceived to be of daily necessity and hence relative price inelasticity.

- Wallet share analysis reveals that on an average, around 22% of the overall households spend more than INR 200 monthly for tea. This percentage varies across regions. While the percentage is relatively higher in West and South, indicating higher awareness and hence higher spend, the percentages are lower in North and East, even though significant consumption happens in North India. A large number of households who do not spend a significant amount on tea consumption can be made aware about the benefits of quality tea and different high end variants of tea, which might enable them to spend a greater percentage of their F&B budget on tea.

- Availability issues have reduced as rural penetration of most of these tea companies have increased over the years. However, some households have reported availability issues with high end varieties like green, flavored and Earl Grey tea

Awareness, Perceptions & Emerging Trends

- Assam Tea and Darjeeling Tea are the most recognized tea by place of origin. Awareness about origin of tea is correlated with the **proximity of the states with the producing region**. As a result, awareness about Darjeeling tea is high in East while awareness about Nilgiri tea is high in the South. Awareness levels of Assam tea is highest across India followed by Darjeeling tea.

- Major source of awareness about tea is generated through **retailers** (who play a significant role in generating awareness and influencing tea purchase) and cable/satellite TVs. Word of mouth publicity (Colleagues/ friends and relatives) also plays a major role especially in Northern and Southern states.

- Most people are aware about tea in general which is testified by the high penetration levels among households while awareness levels about **green tea** is slowly making steady inroads. Awareness about these are significantly high in the Southern states.

- Green tea is fast becoming a popular drink across age due to its **perceived health benefits**, and is fast becoming one of the popular products in the **health and wellness** segment. The awareness levels are especially high in the metro cities or in regions where non-milk tea consumption is more than national average.

- Among the beverages, tea and coffee are considered as the beverages which are most convenient to prepare. With increasing number of families having working couples or individuals staying away from their families, **convenience of preparation** is an important aspect. Keeping this is mind, there is a

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potential for Ready to drink tea (RTD) which needs to be properly tapped. RTD tea is expected to grow about 5% over the next 4-5 years, which is higher than the expected growth rate of normal tea

- Tea can be positioned as a **refreshing drink** which can be afforded by the common man. However, the easy affordability of tea has often led to its commoditization. As a result, a significant proportion of households across India considers coffee as a symbol for social status and offered to important guests.

- A significant proportion of households considers that tea is associated with ill health such as loss of appetite, increased acidity. However, people need to be properly made aware about the different aspects of preparing tea, storing it and the health benefits associated with drinking quality tea which can potentially change the negative perceptions about tea.

- Awareness about quality is significantly low in the country with close to 90% of the respondents across India **associating quality** of tea with **brands**. Awareness of Geographic Indication marks is more in the West and North, the traditionally high tea consuming belts of India. However, awareness of certifications are not high as revealed by the survey and awareness is low even in the educated sections. But, with increasing shift towards packet tea and price (for quality tea) sensitivity being low among consumers, quality certifications at a moderately higher price and guaranteed quality can be an effective way of inducing a safe tea drinking culture.

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