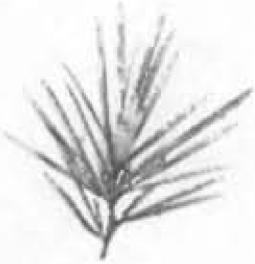

Thesis

South African Rooibos Industry. Opportunities And Constraints With Special Reference To The German Consumer Market.

4

Thesis

Prepared for
The School of Management Studies
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South Africa

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"With the present rise in local consumption [of Rooibos tea], the Board does not dispose over sufficient reserves to supply additional export requirements. With a product considerably cheaper than its imported concurrents on the local markets, it is possible for the Rooibos Tea industry to save the Republic [of South Africa] much more foreign currency in comparison with what it might earn on the foreign markets."

Few years later:

"Exports [of Rooibos tea] could earn South Africa substantial amounts of foreign currency and at the same time stimulate the industry."

From annual reports of the South African Rooibos Tea Control Board (1976-1981)

II Synopsis

Over the last decade a South African product, namely Rooibos, has conquered the German consumer market. It initially started as a small trend amongst health conscious people, developing into a staple product, to being difficult nowadays to imagine Rooibos not being available for sale.

As Rooibos gained popularity on the extremely competitive German food market, marketing strategies had to change accordingly. To reach the mass market, it was necessary to market Rooibos at the discounters and supermarkets, important for the German grocery industry. Advertising also played an important role as through TV and print media many consumers can be approached and therefore product awareness increased.

Today awareness of Rooibos and market penetration in Germany is relatively high. Rooibos reached a critical stage in its product lifecycle. This begs the question:

- *Is it necessary to reposition Rooibos on the German market in order for it to continue its success?*

To answer this question this study was developed to investigate the South African Rooibos Industry as well as the German market for Rooibos and its future.

Specifically, this study was developed with the following objectives:

- To articulate a proposed position for Rooibos tea on the German consumer market, which can then be used to develop a marketing action plan.
    - To investigate the German beverage market
    - To define important market segments of the German market for Rooibos tea
    - To find out which market segments are most likely to succeed in the future
    - To select and emphasise the characteristics of Rooibos for the consumers
    - To analyse the competition to Rooibos tea on the German market
    - To find possibilities to differentiate Rooibos from competitive products
    - To find out why Rooibos tea is successful on the German market
    - To investigate the Rooibos Industry in South Africa

The goal of this research was to find answers to the question (1) which market position should the Rooibos Industry aim for on the German consumer market to retain and develop its success, (2)what are the most appropriate target market-segments to serve and (3) what characteristics should be emphasised to the German consumers?

In order to gain insight into the South African Rooibos Industry and to analyse the German consumer market, it was decided to conduct both qualitative and quantitative research. The study began with a review of the relevant literature, followed by qualitative research, which was then used to support the quantitative research.

The study closely followed a model adopted from David Walters, which is structured in two main parts namely the Marketing Research and the Empirical Marketing Analysis.

Marketing research started with the investigation of the South African Rooibos Industry. This section produced information about the resources, constraints and values of the industry and was then used as background information for the empirical analysis. Data in this section have been validated by primary research in form of in-depth interviews with members of the industry.

The second section dealt with the German market. It was divided into the investigation of the German beverage market, which was supported by some primary research in form of in-depth interviews and the Competitive Analysis. The latter part includes quantitative data from primary research to validate the findings.

Conclusions were then drawn from both parts in form of the definition and analysis of market segments of the German market for Rooibos and the analysis of possibilities for effective differentiation against competitive products. This completed the marketing research.

The empirical marketing analysis used the findings of the marketing research to select the most appropriate market segments to serve, as well as the product characteristics that should be emphasized. From here a proposed positioning of Rooibos on the German market has been articulated, which then concluded the work of this study.

Analysis

By using the results of the secondary and primary research that was conducted, supported by the background information of the South African Rooibos Industry, the most appropriate target market segments to serve, as well as the product's characteristics that should be emphasized to the consumers, have been selected and highlighted.

Segments

In order for Rooibos to continue its success on the German market the following segments have been found to be important:

Private label Rooibos: As the market develops discounters gain more and more importance on the retail market. Discounters are also responsible for the largest part of private label sales. To stay successful on the German mass market, it is important for Rooibos to stay on the shelves of discounters and even expand the product assortment there with new flavours and blends. This is only possible through private label products. On the other hand it is very important that Rooibos is available at a low price as the price is an essential characteristic for the differentiation against other products.

Branded Rooibos: Branded Rooibos is also an important segment on the German market. Rooibos, being part of a complete assortment of classic as well as trendy teas, secures returns from those consumers that are loyal to the brand. On the other hand Rooibos as a single product would have difficulties to be included in the product assortment of some large retail associations that supply supermarkets and other retailers as they give preference to complete product ranges.

Specialty tea shops: Specialty tea shops are important for different reasons. Although prices for Rooibos are considerably higher than at other retail outlets, and quantities that are turned over are by far less than those from supermarkets and discounters, specialty tea shops serve a very important consumer segment. Those who purchase their tea at such retailers mostly know more about tea, or want to learn about it, than customers of other mass retailers.

They are looking for specialties, a greater variety, or products such as loose tea that they cannot purchase anywhere else. Those people are open to try new varieties or products that are reserved to customers of other retailers. The personal consultation, the active marketing and the fact that the 'right' people come in the shop, make specialized tea shops an important marketing instrument to launch new products as well as a good source to gain information about consumers. Here new trends develop before they either become successful products on the mass market or die.

The wellness market: It is easier marketing Rooibos on the wellness market than in the medicinal segment. Wellness is an ongoing trend that stretches across all kinds of product segments and started many years ago. Wellness-teas in particular gained importance over the last years. Rooibos with its relaxing, balancing and anti-ageing properties fits perfectly into this category of products. Blended with other herbs or fruit teas or enriched with vitamins and trace elements, Rooibos already is a favourite amongst the people who follow this wellness trend. It is definitely worth developing Rooibos as a wellness-tea as the market offers good growth rates and trade margins here are considerably higher than in other sectors of the tea market.

In order to develop the German market for Rooibos the following segments have been found to be important:

Exports: No other country in the world imports such large quantities of Rooibos as Germany does. Consumer prices are very low compared to other countries and therefore profit margins are rather low. Exporting Rooibos to countries where prices are higher due to smaller quantities could be more profitable than selling Rooibos cheaply to the end-consumer. This could apply for both loose, bulk Rooibos as well as for readily blended and flavoured products.

Organic Rooibos: So far, organically grown and produced teas play a minor role on the German consumer market. The reason for that is mainly the price premium consumers have to pay for it. However, if prices for organic teas would be closer to those of conventional products, more consumers might decide to go for the healthier version. So far organic teas are only available in assorted 'bio-markets', health food shops, pharmacies and specialized tea shops.

Again the high price is responsible for that. If it were available at conventional retailers, organic teas would reach the mass market and therefore could be offered more cheaply to the consumer. This offers a great opportunity, particularly for organic Rooibos, as most of the Rooibos production is already very close to organic production methods and prices for conventional and organic tea do not differ as much as with other teas that are produced in Europe. Therefore the organic market offers a great growth avenue for Rooibos. In addition to pure organic Rooibos producers might consider offering organic Rooibos blends or flavoured teas as this helps to sell the product not only to health conscious consumers but also others.
It is very important to know that German consumers are extremely cautious regarding food safety. Bad news immediately affect sales of the concerned product. On the other hand, bad news such as the recently finding of pesticide residues in tea could stimulate the market for organically produced tea. It would be a good idea to be prepared to be able to react immediately to such a scenario.

Other Rooibos drinks: Still largely undeveloped is the market for Rooibos products other than traditional tea. Although some companies, including few large ones, started marketing iced Rooibos tea and other cool drinks containing Rooibos, this market segment still offers plenty of opportunity for development. Rooibos with its pleasant taste could be used in combination with fruit-juices or in form of spritzers. The high level of maturity of the German market for soft-drinks also allows the success of carbonised drinks such as sports and energy drinks, either functional, enriched with vitamins, or purely for pleasure. Additionally Rooibos could be marketed in the form of instant tea.

Other Rooibos products: As the market for Rooibos reached a certain level of maturity and awareness amongst consumers became sufficiently high, the market is ready for other Rooibos products. Having similar characteristics as green tea, Rooibos or Rooibos extracts could also successfully be used in toiletry products such as shampoo or soaps. Looking at the local South African market gives an overview of how Rooibos can be utilized in other product segments other than drinks. Rooibos offers a great variety of applications, particularly for cosmetics and proprietary medicine.

The medicinal segment: So far, Rooibos is mainly marketed as a pleasure product for its taste. However, Rooibos also offers a great variety of therapeutic benefits. Some of them are already scientifically proven, others have yet to be researched in Germany. Selling Rooibos or its extracts for its health benefits in forms of pills or other medicine could be a successful extension of the line of products in the health segment. The market for natural medicine in Germany exists; so does the distribution system in form of pharmacies, health food shops and mail order. On the other hand, in Germany it is a relatively difficult and time-consuming process to register a plant or its active substance as a drug. One should also be careful when doing so as legislation might impose restrictions as to where such products can be sold.

Black tea segment: Over the last years, fruit and herbal teas took market share from black teas. Rooibos, particularly, with its very similar taste and appearance to black tea could profit from this. Being naturally free of caffeine and the fact that it goes well with milk and sugar, made Rooibos a good alternative to black tea. However, in this segment there is still plenty of room for development. Particularly the children and elderly market could be approached. In addition to that there is a huge market of traditional consumers of black tea in Northern Germany in *Ostfriesland*. Gaining only a little more market share in this area would be a great success for the German Rooibos Industry. However one has to be careful as cannibalisation effects could appear that are counterproductive to the industry.

Characteristics

Within the limitations of the research, guided by its findings, the following characteristics of Rooibos have been found important, and are worth highlighting to consumers, so as to position the product on the market.

Supply Side

Awareness amongst German consumers in different segments is relatively high, making marketing for Rooibos easy.

Rooibos also offers a great potential for growth as new products can be developed opening up new market segments.

Rooibos, as other teas, is relatively modest in terms of storage. No special packaging is necessary and it does not need a special environment to be stored in (e.g. cooling) which would make storage expensive. In addition to that, Rooibos has a long shelf-life and can be stored for minimum 12 months without suffering a loss in quality.

Quality control in the country of origin is generally high, mostly directly applicable to standards used in the German food industry, ensuring a high level of food safety.

The distribution system for Rooibos in Germany is well established; so is the procurement of the raw materials. Business relations have already been formed and the marketing chain is similar to the one of other teas.

Given its unique characteristics, and the fact that the market is well established already, Rooibos is, so far, difficult to replace and faces only little direct competition.

Demand Side

So far, Rooibos' most important characteristics are its pleasant taste and appearance. It is liked by both consumers of herbal teas as well as consumers of black teas, as it goes well with milk and sugar. As Rooibos has a very low tannin content, it will not get bitter if brewed for a long time and therefore is perfectly suitable for cold drinks or iced-tea.

In addition to its taste, Rooibos also has other pleasant characteristics, which make it a perfect product for wellness and health orientated consumers. Rooibos contains only few tannins and therefore has balancing properties. Its natural ingredient *Quercetin* has relaxing and antispasmodic effects on the human body by supporting the hormone *Serotonin*. Rooibos also contains various mineral nutrients and trace elements as well as vitamin C that help to protect the human immune system. Combining all these distinctive features, Rooibos is recommended for balancing increased needs for liquids caused by doing sports, playing or working.

In addition to that, Rooibos, just as green tea, has a high content of antioxidants, without the side effect of containing caffeine and the typical bitter taste of green tea and therefore is perfectly suitable for children of any age. In contrast to green tea, most Rooibos is conveniently packaged in teabags, allowing the consumer to prepare it easily.

Rooibos' therapeutic properties are extensively researched in countries such as South Africa and Japan, although not in Germany. Closest to Rooibos regarding health attributes is probably green (unfermented) tea. Scientific studies report that Rooibos contains high levels of *polyphenols*, primarily *flavonoids* and *phenolic acids* that are potent *antioxidants*, which fight free radicals that attack the body's natural defences and contribute to the onset of many diseases and ailments, including digestive, nervous system and skin disorders. Rooibos tea is said to bring relief in case of colic and allergies, particularly for infants. Rooibos can replace milk in various recipes, allowing people with a lactoprotein-allergy to enjoy those as well.

Rooibos is very versatile. It is available pure as well as in a variety of different blends with other herbs and fruit teas, as well as flavoured or as green, unfermented Rooibos. In addition to that Rooibos can be purchased and consumed as cool drinks or prepared as iced-tea. There are even recipes for food or cocktails containing Rooibos.

Given its versatile properties, Rooibos is still a relatively cheap product, compared to other teas. However the average quality of Rooibos on the German market is high.

Lastly Rooibos can be certified both kosher and halaal and therefore is also suitable for religious diets.

Positioning Strategy

Main market position

- Rooibos should keep its present position on the mass market as an affordable, pleasant tasting tea. Therefore prices should not fluctuate too far from its present position.
- The product ought to be easily accessible. Supermarkets and discounters are the main retailers through which to reach the mass market.
- The success of Rooibos is largely based on its blends and flavours, as opposed to mono-Rooibos. It is therefore vital to continually develop and market new varieties to ensure the interest of consumers. Already successfully established flavours such as Rooibos-vanilla and Rooibos-caramel should be continued.

- The mass market is ready for other Rooibos products. Rooibos must be positioned as a base product for different drinks such as carbonised iced-teas, spritzers, sports- and energy drinks, as well as an alternative to black tea.
- Rooibos extracts should also be used for toiletries, similar to the development of green tea. Once sufficient awareness has been created in this segment, Rooibos can enter the market as a component in cosmetic products.
- Rooibos must be marketed as a 'two-in-one-product', combining enjoyment with health.

<u>Other market segments</u>

- Rooibos must remain available as loose leaves with a high quality for those consumers preferring a premium product. Specialized tea shops are particularly good at reaching those consumers.
- The market for sports- and health drinks is an important segment in which Rooibos should be positioned as a supplementary product. Without any side effects, it is effective in supplying the body with minerals and trace elements.
- Rooibos must be further developed in the ever-growing 'wellness' segment. Rooibos could make considerably higher profit margins as a wellness-tea or in form of other products than in the conventional tea segment.
- Rooibos should be integrated in diets for infants and children, both in form of a classic tea as well as a component of other food.
- Rooibos must be positioned on the organic market. Rooibos can position itself by being considerably cheaper than other organic teas. Once the volumes are large enough - therefore reaching a closer price to its conventional counterparts - it is expected to slowly penetrate the mass market with organic products. It is therefore important to market Rooibos blends and flavoured Rooibos as organic quality.
- Rooibos should be made available on the growing market for ethnic products. This would include Rooibos being halaal and kosher, suitable for religious diets.

- Rooibos should also be positioned within the medicinal segment, highlighting its various therapeutic properties, although only a relatively small market can be expected from this.
- Re-exporting loose, bulk, and readily blended and flavoured Rooibos to countries where it is traded at a higher price should be an additional way to generate turnover.

From an empirical point of view it has been identified and reinforced by the market research that there is no need for a complete position change of Rooibos on the German consumer market. However, Rooibos is a well-established product and now would be a good time to adjust and develop the product's position to ensure its continual success.
The recommendations therefore partly reflect Rooibos' present position on the German market. However, so far only sparse attempts have been made by the industry to explore alternatives to Rooibos merely being a traditional hot beverage.

Nevertheless the main hypothesis

(H_0): It is necessary to reposition Rooibos on the German market, so that it remains successful.

has to be rejected.

With the reservation of the intensity of focus on the segments different from tea as a traditional hot drink and a few segments in which Rooibos has not yet been positioned at all, the present positioning of Rooibos on the German market is also believed to be successful in the future, at least until the market becomes saturated.

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IV Index

V Glossary

- “**Aided Answer**”: The interviewer reads a list of possible answers to the interviewee and he or she confirms his or her agreement.
- “**ASNAPP**”: Agribusiness in Sustainable Natural African Plant Products
- “**CAGR**”: Compound annual growth rate
- “**Chemical residues**”: Residues of agricultural remedies, which in terms of the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, 1947, [of the Department of Agriculture], are permissible for the treatment of pests and diseases, and which do not exceed the prescribed maximum residue limit.
- “**CNTP**“: Cape Natural Tea Products
- “**Consignment**”: A quantity of Rooibos or Rooibos mixtures, which is delivered at any one time under cover of the same delivery note or receipt note, or is delivered by the same vehicle, or, if such a quantity is subdivided into different production groups, each quantity of each of the different production groups is called a consignment.
- “**Decentralized individual negotiation (DIN)**”: A pricing system.
- “**DIY**”: Do It Yourself
- “**EFTA**”: The European Fair Trade Association
- “**EUROGAP**”: European Good Agriculture Products
- “**GAP**”: Good Agricultural Practice
- “**Green Rooibos**”: The product obtained from the needle-like leaves and fine stems of the plant *Aspalathus linearis* (also known as *A. contaminatus*) or *Borbonia pinifolia* after it has been cut, bruised, but not necessarily dried, but which has not been fermented.
- “**HACCP**”: Hazard Analysis Critical Control Point
- “**HHI**“: Herfindahl Herschman Index
- “**HIS**“: Hochschul-Informations-System
- “**Horizontal Integration**”: Merging of firms producing similar products.
- “**ISO**“: International Organization for Standardization
- “**Natural Food**” Food manufactured without preservatives or artificial ingredients.

- "**Organic Food**": Food produced without the use of chemical fertilizers, pesticides, antibiotics or products that stimulate growth.
- "**Packer**": A person dealing in the course of trade with Rooibos or Rooibos mixtures by packing it for sale. Also a person on behalf of whom such a product is packed for sale.
- "**PPECB**": Perishable Products Export Control Board
- "**Primary processing facilities**": Cutting, fermenting, drying and sieving, cleaning, removing impurities or oversized particles, remove dust, sticks.
- "**Retail Packaging**": A suitable container with a capacity of not more than 1 kg in which loose Rooibos or Rooibos mixtures or tea bags with Rooibos or Rooibos mixtures are packed.
- "**Rooibos mixtures**": Rooibos blended with herbs or other tea and Rooibos with permitted additives.
- "**RSP**": Retail Selling Price
- "**RTD**": Ready-to-drink, for example bottled iced-tea
- "**Secondary processing**": Steam pasteurisation, packaging in tea bags.
- "**Tea**": Rooibos (*Aspalathus linearis*)
- "**TQM**": Total Quality Management.
- "**Unaided Answer**": The respondent answers without any help from the interviewer.
- "**USAID**": United States Agency For International Development
- "**Vertical Integration**": Extension of a firm's activities into earlier (backward integration) or later (forward integration) stages of production of its goods or services.
- "**White Sticks**": Fine sticks of Rooibos plant origin that did not take on the distinctive colour of Rooibos during processing, and which detrimentally affect the appearance of Rooibos.
- "**WKF**": Wirtschaftsvereinigung Kräuter und Früchtetee e.V.

Definition herbal and fruit teas

Herbal and fruit infusions are commonly referred to as "tea". However they are actually so-called tea-like products. Tea-like products are aromatic drinks made by pouring boiling water on dried pieces of plants such as leaves, fruits or flowers. Which part of the plants is used depends on where the flavours are located.
One distinguishes between two product groups:

1. Herbal and fruit teas which are used as food
2. Medicinal teas which fall under the drug law have to be labelled with effects and adverse reactions on the packaging.

Most of the medicinal teas are non-prescription drugs and can be sold in any food retailing outlet, however, some can only be sold in pharmacies. As many of the herbal and fruit teas used as food also have pleasant effects, there is no clear dividing line between food products and drugs.
Terminology tea*

Tea derives exclusively from the leaves, buds and tender stems of the species *Camellia sinensis* of the tea plant family (*Theacea*), produced by generally accepted processes.

Flavoured tea is tea to which fragrance and/or flavouring substances are added in order to lend a specific flavour.

Herbal infusions are parts of plants which do not originate from the tea plant and which are intended for the same use as tea. Herbal infusions are also blends of herbal material with tea which do not fall under the category „flavoured tea".

Flavoured herbal infusions are herbal infusions to which fragrance and/or flavouring substances are added in order to lend a specific flavour.

* Guidelines for tea, herbal tea, extracts thereof and preparations of 24th/25th November 1988 (BANz [a)] no. 93a of 20th May 1989, GMBL [b)] no. 14 p. 264 of 20th May 1989), revised version issued by the Wirtschaftsvereinigung Kräuter und Früchtetee e.V.

Black tea is fermented tea, the leaves of which are processed by the generally accepted methods, such as withering, rolling, fermenting, grading, drying. (*Camellia sinensis*, *Thea sinensis*)

Oolong tea is semi-fermented tea, the leaves of which are processed by the generally accepted methods such as withering and rolling and drying after fermenting for approximately half the usual time.

Green tea is unfermented tea, the leaves of which are steamed, rolled and dried and their natural leaf pigment largely maintained.

1 Introduction

This section gives background information to the investigation, as well as its significance. A thorough problem definition is given, culminating in the research objectives and hypotheses to be tested in the study. It concludes with stating the scope and limitations for the investigation.

1.1 Purpose and Importance of Research

1.1.1 Rooibos Tea – A Success Story in Germany

Over the past decade Rooibos has slowly been introduced to the German consumer market. Awareness was primarily developed by word of mouth through visitors to South Africa and initially only a few specialised tea shops offered the product. In time, though, through exposure by publications in health magazines, Rooibos tea, like green tea before it, became popular and even fashionable amongst health conscious people. Today, the tea is enjoyed by many, not exclusively by the health conscious.

Rooibos tea, as well as some other Rooibos products such as RTD iced-tea, can be found and bought at all major retailers. It even has an allocated section in certain tea shops. In 2002, Teekanne GmbH, one of Germany's leading tea companies, advertised Rooibos tea for the first time on television. Overall, aided by its accessibility, Rooibos has grown into a popular product for all types of consumers.

But will this trend continue? Can it currently still be called a trend? What are the marketing strategies used by major Rooibos tea distributors? If a change from 'trend' to an everyday-beverage occurred, would it lead to new marketing strategies? Would it be advantageous to start a new trend and give customers new incentives to buy the product, for example by selling organic Rooibos tea or using other eco-labels? These are all currently unexplored questions, which could have major consequences for the marketing of Rooibos.

Consumer attitudes change, and old trends are often replaced by new ones, resulting in a drastic decline in product demand. This is especially true for easily replaceable products, such as Rooibos. And since the companies concerned have already invested largely in advertising and developed distribution channels for the market, being able to follow and predict the consumer attitudes is crucial.

Out of all markets, the German market is the most important and most promising looking.

Market research is necessary to establish a comprehensive understanding of the Rooibos tea industry in Germany. A more thorough understanding of the tea market and its trends in Germany would help to develop new or improved current marketing strategies, which in turn would lead to more sales and ultimately to an increase in market shares for Rooibos.

1.1.2 Agriculture and its Importance for the SA Economy

Agriculture and the export of the agricultural products have been and are still very important business sectors for South Africa. In 2002 the gross income from agricultural products amounted to more than R 52 700 million, which was 15% higher than in the previous year.[1] Together with the agro-processing firms, the agro-food complex contributes almost 20% to the South African GDP. It is also an important earner of foreign exchange and provider of employment.[2] In fact, if a decline of 5% in agricultural export from the Western Cape Province were to occur, an estimated 22 500 jobs would be lost on farms, in warehouses, factories and even in harbours.[3]

Unfortunately a decline in export is currently apparent. Carl Opperman, chief executive officer for Agri West-Cape even calls this current export decline a crisis, but not for all sectors. "Rooibos, olives and good red wine are all doing very well."[4]

Rooibos makes an important contribution to the South African agricultural export. In contrast to the local South African market for Rooibos, for which stagnancy in sales is forecasted, the export market is predicted to increase significantly until it is saturated.

[1] Department of Agriculture: Annual Report 2001/2002
[2] Department of Agriculture: Economic Review of the South African Agriculture 2001/2002
[3] Cape Argus March 13, 2001
[4] ibid.

Germany is the most important importer of Rooibos tea and other Rooibos products. Germans drink more than 10 billion cups of tea per year, of which over 60% are herbal and fruit teas, including Rooibos. In 2003 Rooibos tea had a substantial share of close to 10% of the whole German tea market. [5]

1.2 Problem Definition

1.2.1 Overall Marketing Problems

The goal of this research is to analyse the Rooibos Industry with special reference to the German import market. This will be necessary to be able to develop a new market positioning strategy.

- What market position should the Rooibos Industry aim for on the German consumer market to retain and develop its success?
- What are the most appropriate target market-segments to serve?
- What characteristics should be emphasised to the German consumers?

1.2.2 Overall Research Problems

1.2.2.1 Investigation of the German beverage market

- What is the structure of the German beverage market at present?
- What are the trends on the beverage market?
- What different categories of consumers exist regarding buying and use behaviour?

[5] Wirtschaftsvereinigung Kräuter- und Früchtetee e.V. 2003

1.2.2.2 Definition and analysis of market segments of the German market for Rooibos tea

- What is the structure of the German Rooibos market?
- What different market segments are there?
- What are the trends on the Rooibos market?
- What different categories of consumers exist regarding buying and use behaviour?

1.2.2.3 Investigation of the South African Rooibos Industry

- What is the structure of the South African Rooibos Industry?
- What resources are there?
- What problems does the Rooibos Industry face?
- What is the value of the Rooibos Industry?

1.2.2.4 Competitive analysis

- What are the strengths and weaknesses of competitive products?
- How do consumers perceive the current position on the market of competing products to Rooibos?
- What are the characteristics of the competing products?
- What is the structure of the competitive industry?

1.2.2.5 Analysis of possibilities for effective differentiation against competitive products

- What differentiates competitive product attributes from those of Rooibos?
- How high is the product awareness compared to Rooibos?

1.2.3 Overall Research Objectives

1.2.3.1 Primary objective

- To articulate a proposed position for Rooibos tea on the German consumer market, which can then be used to develop a marketing action plan.

1.2.3.2 Secondary objectives

- To investigate the German beverage market
- To define important market segments of the German market for Rooibos tea
- To find out which market segments are most likely to succeed in the future
- To select and emphasise the characteristics of Rooibos for the consumers
- To analyse the competition to Rooibos tea on the German market
- To find possibilities to differentiate Rooibos from competitive products
- To find out why Rooibos tea is successful on the German market
- To investigate the Rooibos Industry in South Africa

1.2.4 Main Hypothesis

(H_0): It is necessary to reposition Rooibos on the German market so that it remains successful.

(H_1): Rooibos can remain successful on the German market in its present position.

1.3 Scope and Limitations of the Study

The primary research within South Africa was limited to the Western Cape Region.

The consumer survey on the German market was limited to the student segment.

The researcher covered all necessary costs.

1.3.1 Constraints

The investigation surrounding the South African Rooibos Industry and the German consumer market will be restricted in terms of the following constraints:

1.3.1.1 Time constraints

The time allocated to this project was 18 months including preparatory research.

1.3.1.2 Geographic constraints

Within the research of the South African Rooibos tea industry interviews with farmers and tea companies were confined to the Western Cape region due to the fact that almost all of the most important farms and companies are situated there. Therefore one could assume that the research will be representative for the whole of South Africa.

Since the researcher was situated in Cape Town, most of the primary research on the German market was conducted via e-mail, mail and telephone. During the time allocated for the thesis only one visit to Germany to conduct interviews was possible. The only way for the researcher to collect a sufficient amount of quantitative data was to rely entirely on the help of research assistants situated in Germany who helped to conduct market research at Universities in the form of a student survey.

1.3.1.3 Cultural / language constraints

As the researcher knows both cultures and is able to speak English as well as German, difficulties in communicating with both players in the South African Rooibos Industry as well as the German market did not occur. However, during preparatory interviews with Afrikaans speaking people, in particular farmers, problems with willingness to communicate in English were encountered.

1.3.1.4 Limitations of researcher

The researcher's knowledge of the Rooibos Industry was limited to the North American import market.[6] Extensive knowledge of the German market would have been beneficial and the researcher had to rely on his own private background investigation to further his knowledge and deepen his insight. There were also restrictions in terms of sample size and scope of the primary research, particularly since the researcher worked alone.

1.3.2 Costs / Budget

The following costs were incurred:

Printing and Binding costs	R 1000
Travel costs	R 3800
Administration costs	R 2100
Communication costs (telephone, Internet, mail)	R 1300
Costs for incentives, for example for research assistants	R 1000
Other costs	R 800

Figure 1 - 1

Due to the high costs for travelling in Germany, the number of companies that could be visited was limited. Also the questionnaire survey on the German market had to be limited to the student segment and could not be conducted as representative for the whole population.

1.3.3 Timing

The following deadlines had to be adhered, to ensure that the final report was completed by November 2004:

Research proposal	July 2003
Beginning of research	August 2003
Investigation of the South African Rooibos Industry	December 2003
Interviews with German tea-industry members	January 2004
Submit final report	November 2004

Figure 1 - 2

[6] Gress 2002

2 Literature Review

This chapter deals with the marketing theory relevant to the research. The aim of the literature review is to gain deeper insight into the theoretical topics which form the basis of the research study. These topics include why it is so important to re-think the marketing strategy of an existing product, the channels of distribution, including supply chain management, as well as some product theory.

The review continues with consumer theory, with focus on consumer behaviour, as this is important background information for the study of the German consumer. The chapter concludes with a review on customer relationship management (CRM).

2.1 Structure of Literature Review

Falling back on earlier experiences gained when researching the American import market for Rooibos, the literature review was structured using the illustrated *funnel approach*. The literature review starts with marketing strategy in general and then narrows down to the supply chain and its management. It continues with consumer behaviour and the needs and wants of the market. After that, literature on the relationships between retailers and their customers, as well as customer loyalty, is reviewed.

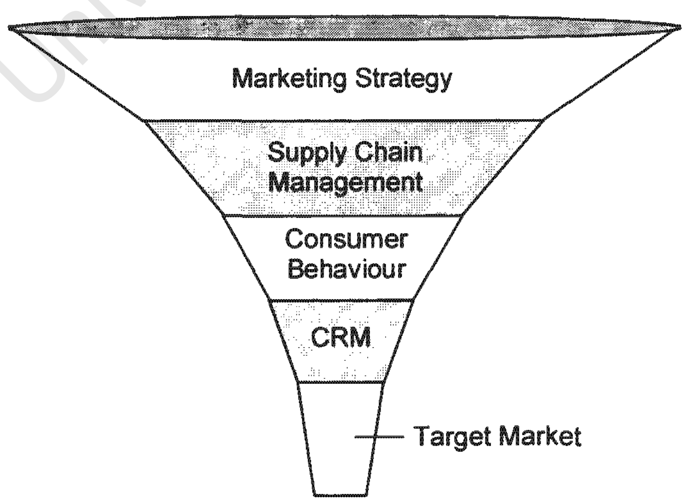

Figure 2 - 1

2.2 Importance of Marketing

2.2.1 Marketing Moves

Marketing Moves is the title of Kotler, Jain, and Maesincee's book in which the authors emphasize the need for a change in marketing strategies. "The bottom line is that markets are changing faster than our marketing. The classic marketing model needs to be future-fitted."[7]

As Kotler says: "All companies must look beyond their present situation and develop a long-term strategy to meet changing conditions in their industry."[8]
The market is constantly undergoing change. New laws and regulations are passed, such as the rebate law in Germany, which affected retail conditions to a large degree.
Media tools, such as the Internet, allow users to access latest findings and academic studies on consumer products practically instantaneously, which gives the consumer even more awareness on purchasable products. Through this, not only do new fashions and trends emerge, but aversions to particular products are also developed.

Other factors affecting the market include televised reports on poor farmers, which lead to higher sales figures for Fair Trade products as consumers become aware of the farmers' situation and want to support them. Through exposure, consumers are also made aware of the origin of certain foods and their attributes, which has had an influence on what consumers purchase, especially with the reports on mad cow disease, swine fever and acrylamid in chips.
The economy of a country also influences the market and buying behaviour. Due to increased unemployment and tax increases, incomes are affected, which results in the consumer being more price-conscious.

[7] Kotler, Jain, Maesincee 2002, p. X
[8] Kotler 1984, p. 34

Now that the majority of countries in Europe share one currency and 'customs' and 'trade restriction' are words of the past, the variety of products available is increased. Products from all around the world are available, which results in more competition within the market.

Particularly special products such as delicacies, which are easy to substitute, suffer from this growing competition.
Nation-wide television commercials and magazine articles that inform of or advertise new products help speed up this process.

It is now more than a decade since Rooibos tea reached the German market. Within ten years it grew from an exclusively health conscious product trend to a common beverage that can be bought in most supermarkets and coffee shops.

It is one of the products which is very much affected by previously discussed movements in the market. A new trend towards eco-labelling, such as organically produced products or Fair Trade, are already recognized and dealt with by the tea industry. People who started drinking Rooibos tea merely because of its health benefits now also drink it because they like the taste, which could be another growth avenue.
Most changes in the market could contribute positively to Rooibos tea export, provided they are recognized and paid attention to within a marketing strategy. This is especially true when concerned with such a diverse, open market, such as the European market, wherein which the marketing strategy plays a vital role. It decides whether a company will be successful in the future or not.

As Kotler says, one thing is for sure: the environment will change. And when it changes it will be necessary to make adjustments to the marketing strategy. "[F]irms that perceive this evolution can make appropriate adjustments and do well."[9]

[9] Kotler 1984, p. 39

The German market for Rooibos tea has not only begun to change, but effects can already be seen in the buying behaviour, due to changes in consumer segments as well as fluctuations in prices. If the industry does not react to these changes the effects on the market might even increase. These effects can be positive if paid attention to and taken note of in the marketing strategy.

2.2.2 Developing a New Marketing Strategy

Being successful is a matter of placing oneself in the right position of the market, which calls for the need of a good marketing strategy.[10]
"There is no one strategy that is optimal for all companies. Each company must determine what makes the most sense in the light of its position in the industry and its objectives, opportunities, and resources."[11]
A large selection of literature is available on marketing strategies and the different factors influencing marketing managers. Numerous models of what has an effect on the marketing strategy have been developed.

What all have in common is that the target market has to be researched in detail. "Marketing must be deconstructed, redefined, and stretched. Marketing is not going to work if its only charge is to pump up the sales of existing goods."[12]
It is important to know how the market sees the product and how the industry wants it to be seen. What makes the consumers buy the product and, if asked, how would they describe it?[13]

[10] Hopkins April 2003, Money Management
[11] Kotler 1984, p. 34
[12] Kotler, Jain, Maesincee, p. X
[13] Hopkins April 2003, Money Management

2.3 Managing the Channels of Distribution

Understanding and practicing supply chain management (SCM) has become an essential prerequisite for remaining competitive in the global race for enhancing profitably.[14]

SCM can be defined as "[...] the systemic, strategic coordination of the traditional business functions and tactics across these business functions within a particular organization and across the long-term performance of the individual organizations and the supply chain as a whole."[15] According to Childhouse and Feldmann, there is a dual purpose of supply chain management: On the one hand SCM improves the performance of an individual organization and, on the other hand, it improves the performance of the whole supply chain. Both information and material flows throughout the supply chain are integrated in SCM to be able to compete on the market.[16]

2.3.1 The Supply Chain

Essentially, a supply chain is the system through which organizations deliver their services and products to the customers. Poirier and Reiter illustrate the supply chain "[...] as a network of interlinked organizations, or constituencies, that have as a common purpose the best possible means of affecting that delivery."[17] The authors describe suppliers as the sources that provide basic ingredients to the network such as raw materials, ingredients, commodities, subassemblies etc. The first link in the chain is with the manufacturer or processor. These institutions are responsible for building, assembling and converting the products or services in the network. The distribution system then transports the finished products from the manufacturer, in some cases utilizing warehouses or distribution centre to the retailers, if requested. In some networks, wholesalers are part of the supply chain. The chain of the physical distribution ends with the 'would-be' purchasers who find the products on the shelves of the retail outlets. To conclude it the customer has the final choice in making the purchase.[18]

[14] Childhouse 2003, pp. 17-27, Mober 2002, pp. 755-70, Power 2001, pp. 247-65 and Tan 2002, pp. 614-31 in Suhong 2004
[15] Council of Logistics Management 2000
[16] Childhouse 2003, pp.17-27 and Feldmann 2003, pp. 63-73
[17] Poirier 1996, p. 3
[18] ibid., pp. 3-5

Nowadays most areas of business accept that "[...] the voice of the customer drives the supply chain process."[19] That means that, in the end, the ultimate customer decides who will achieve success. Therefore, satisfying the consumer is the most important task.

According to Poirier and Reiter, successful leaders in the supply chain are changing focus in the supply chain system on arrangements as:[20]

- building alliances with suppliers that bring them together to work out improvements in forecasting, order fulfilment, planning, scheduling, packaging, delivering, replenishment, billing, and inventory control.
- outsourcing arrangements that put certain necessary functions in the supply chain in the hands of the constituent who is the most capable of performing them successfully.
- placing new emphasis on the logistics function, to ensure that not just the product gets to where it should be, but that all the inherent costs are minimized.
- designing radically different distribution strategies to enhance the network's position with the consumer and create the most efficient system of delivery.
- reducing cycle times between producers and stocking of stores.
- reducing supporting paperwork to the level necessary to satisfy financial reporting.
- shifting from drawn-form-inventory stocking system to a flow mentality that pulls the product immediately into and through the system based on actual consumption.
- looking to the information technology function to provide links across the full supply chain, cutting manual redundancies and other non value-adding functions.

[19] Poirier 1996, p. 10
[20] ibid., p. 19/20

2.3.2 Channels Relationship Model

In the beginning of marketing, the term marketing channel was used to describe the bridge between producers and users.[21] According to Pelton *et al.*, "intermediaries create value by reducing the spatial separation – the physical distance between the point of production and point of consumption – between manufacturers and ultimate users of products and services."[22] Therefore, Pelton *et al.* define a marketing channel as exchange relationships that create customer value in the acquisition, consumption, and disposition of products and services.

Each component of this definition has its place in the channel relationship model as illustrated:[23]

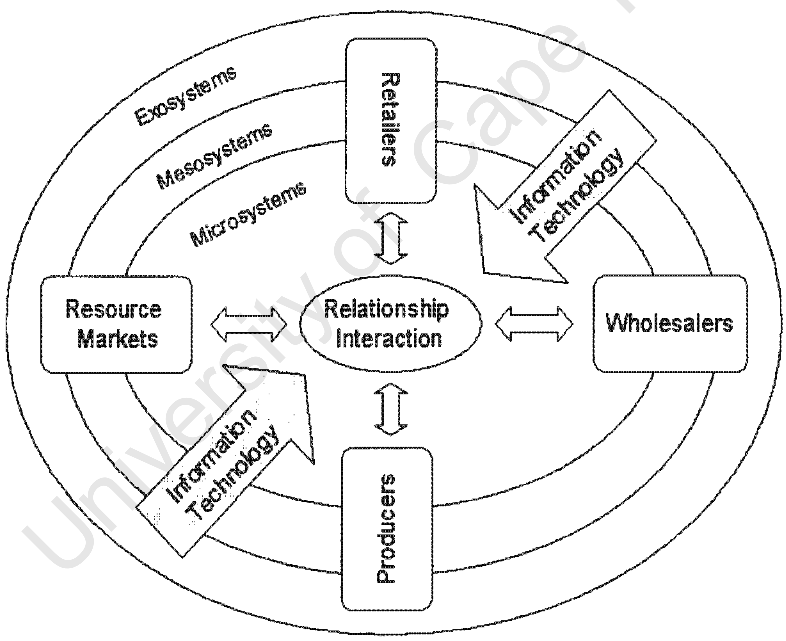

Figure 2 - 2

Exosystem: The channel exosystem involves the externalities or other environments in which channel members operate. The settings have an indirect impact on the channel members' goals, actions and outcomes, although they are not directly involved in the system.

[21] Lewis 1968 in Pelton, Strutton, Lupkin 2002, p. 4
[22] Pelton *et al.* 2002, p. 5
[23] adopted from Pelton *et al.* 2002, p. 21 exhibit 1.3, Channels Relationship Model (CRM)

Mesosystem: According to Pelton *et al.* in *the Net Economy*, both formal and informal links between the different channel members are vital to channel flows. Therefore the mesosystem accommodates resource exchanges between channel members such as vertical marketing systems or franchising.
Microsystem: The channel microsystem stands for the internal environment. It covers the expectations and role perceptions between individual channel members as well as the resulting relationships, developing from those expectations. Attitudes, behaviours, and learning, affect the channel climate either positively or negatively.

2.3.3 Channel Roles in the Exchange System

Garr describes three different types of channel relationships:[24]
Supplier Relationships: As the name indicates, relationships exist amongst suppliers. That means companies supply services or products to other companies instead of providing them to the consumer. These relationships always involve a negotiatory role, which refers to the exchange terms between the suppliers in the channel system. As mentioned, relationships between companies and customers also exist. These involve the sale of products or services to individuals for end-consumption. Lastly there are lateral relationships. These relationships can be found between channel members in the same position within the channel system, sometimes even performing similar functions. According to Pelton *et al.* partnerships between channel members can strengthen their competitive position.[25]

"As companies focus on their core activities and outsource the rest," says Magretta, "their success increasingly depends on their ability to control what happens in the value chain outside their own boundaries."[26]

[24] Garr 2000, p. 46/47
[25] Pelton *et al.* 2002, p. 41
[26] Magretta 2000 in Harvard Business Review on Managing the Value Chain, p. 29

More theory on the channels of distribution as well as the distribution strategies in general and their applications in the Rooibos Industry will be discussed later in chapter *4.5 Marketing*. There, the bridge between distribution theory and the application within the Rooibos market will be outlined.

The same applies to the market structure and its integration types of which the theory will be reviewed in chapter 4.6 *The Market*.

2.4 Product Theory

2.4.1 Product Life Cycle

A product's life cycle is typically divided into four stages:[27]

- *Introduction*: Product is introduced to the market.
- *Growth*: A period of increased awareness and market acceptance.
- *Maturity*: A period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased marketing outlays to defend the product against competition.
- *Decline*: The period when sales show a downward drift and profits erode.

Sales figures and market data confirm that Rooibos is still within the growth stage in the typical product life cycle. According to Kotler, after the introduction of a new product and the achievement of high awareness status, a company can use several strategies to maintain market growth. Firstly it can improve the quality of the product and add new product features or improve its styling. Secondly, new models and flanker products can be added to the existing product line. Thirdly the company can try to enter new market segments with the existing product or increases its distribution coverage by entering new distribution channels. Lastly advertising can be shifted from product awareness advertising to product preference advertising.[28] Luck proposes that the most effective strategy in the growth stage of the product life cycle is to improve distribution coverage and enter new distribution channels.[29]

[27] adopted from Cannon 1987, p. 233
[28] Kotler 1997, p. 354
[29] Luck 1972, p. 46

2.5 Consumer Theory

In order to understand the behaviour of the German consumer and what motivates him / her it is necessary to explore some theories.

2.5.1 Studying Consumer Behaviour

"There is no single solution to how to study consumer behavior most effectively."[30] Blackwell *et al.* classify the three major methodological approaches to consumer research as *observational*, *interviews and surveys*, and *experimentation*.[31] Observation primarily stands for observing consumer's behaviour on different situations. Examples for this are *in-home observation* and *shadowing,* where consumers are accompanied during the shopping and consumption process, to gather information about their behaviour. Another method of gathering information is interviews and surveys. This is a more efficient method if the samples are larger. Experimentation "[...] attempts to understand cause-and-effect relationships by carefully manipulating independent variables[...]".[32] Experimentation can either take place in a laboratory or as a filed experiment in a natural setting such as a store.

To be able to study consumers one must know the most important principles of their behaviour. Blackwell *et al.* summarize five distinctive features of consumers:[33] Firstly, the consumer is *sovereign.* Therefore one needs to be able to offer exactly what the consumer wants to buy. It is difficult to make a consumer buy a product that does not meet his or her needs and preferences. Therefore, to survive in competition, it is necessary to adapt to the consumers' behaviour and motivation. The second principle is that the consumer is *global.* Nowadays consumers are able to access products from foreign companies, using the World Wide Web. The world is their marketplace. The third principle focuses on segmentation. Consumers are *different but also alike*. Inter-market segmentation occurs when one focuses on recognizing similarities and differences across national boundaries.[34] The second last principle states that the consumer *has rights.*

[30] Blackwell 2001, p. 21
[31] ibid.
[32] ibid., p. 23
[33] ibid., pp. 24-30
[34] Hassan 1994, p. 53

Consumers' needs are expressed in their purchases. Examples for such nonnegotiable rights are good product quality or the right for response to legitimate complaints. Lastly consumers needs need to be *understood*. Marketers should be obsessed to learn from, and listen to, the needs of their customers.

2.5.2 A Model of Consumer Behaviour

Blackwell *et al.* define consumer behaviour as "[...] activities people undertake when obtaining, consuming, and disposing of products and services."[35]

2.5.2.1 Consumer decision-making

Consumer decision-making stands for "the process of perceiving and evaluating brand information, considering how brand alternatives meet the consumer's needs, and deciding on a brand [...]".[36] This is also the central component of most models for consumer behaviour.

Henry Assael outlines two broad influences that determine the consumer's choice:[37] Firstly there is the individual consumer. His or her choice of a brand or product is influenced by needs, perceptions of brand characteristics and attitudes towards alternatives. Additionally the consumer's lifestyle, demographics and personality influence the choice of a brand or product. Secondly the consumer's environment influences his or her decision-making.

Once the consumer has made a decision, according to Assael, post-purchase evaluation takes place. The experience that the consumer gains during evaluation will then directly influence his or her pattern of acquiring information, selection of, and evaluating a brand and, subsequently, whether or not he or she will purchase the brand/product again.

"In the course of everyday living, consumers have to make numerous decisions relating to objects, products, and alternatives."[38] Research on decision-making has identified five phases during the decision-making process:[39] Firstly the problem has to be identified and recognized.

[35] Blackwell 2001, p. 6/7
[36] Assael 2004, p.21/22
[37] ibid.
[38] Zinkhan 2004, pp. 575-82
[39] Glass 1962 in Assael 2004, p.31

After that the search for information starts. Having gathered sufficient information the evaluation of alternatives starts, resulting in the choice and the outcome of the choice.

Assael translates these steps for a consumer being engaged in complex decision-making into *need arousal, consumer information processing, brand evaluation, purchase* and *post-purchase evaluation*.[40]

2.5.2.2 Customer buying behaviour

It is vital for marketers to be able to satisfy customer needs better than their competitors do. Therefore understanding customer needs and purchasing behaviour is critical.[41]

Weitz proposes a six-step model of the buying process as illustrated:[42]

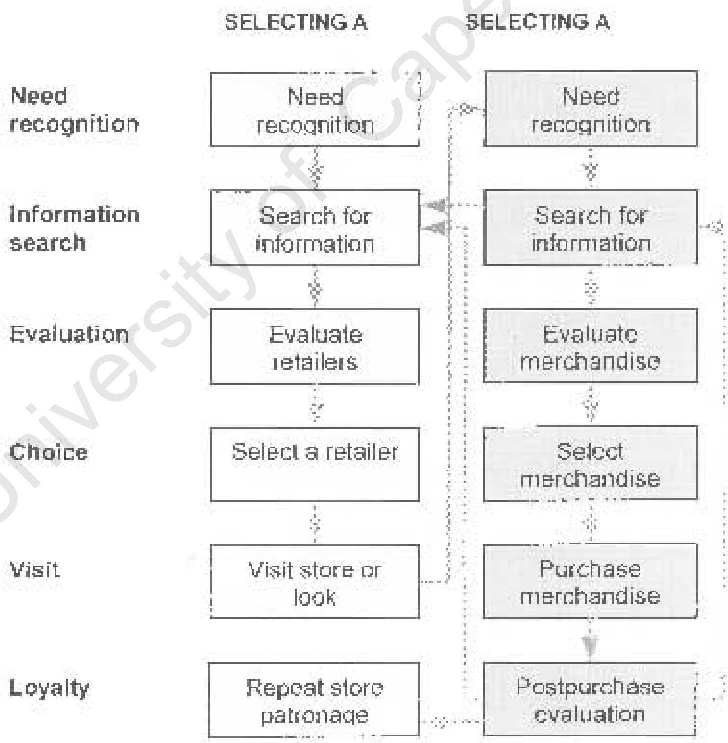

Figure 2 - 3

[40] Assael 2004, p.31
[41] Weitz 2004, p. 107
[42] adapted from Weitz 2004, p. 111, Exhibit 4-2 stages of the buying process

The first step in the model is the recognition of an unsatisfied need. "An unsatisfied need arises when a customer's desired level of satisfaction differs from his or her present level of satisfaction."[43]

Types of needs that motivate customers to purchase a product can be classified as *functional* or *psychological*.[44] Functional needs, also sometimes referred to as rational needs, according to Sebastian and Babin, are directly related to the performance of a product. Psychological needs, however, are associated with the customer's satisfaction he or she gets from shopping, purchasing or owning a product.

Sometimes needs conflict. Not being able to satisfy multiple needs by purchasing one product or shopping at one store, customers appear to be inconsistent in their behaviour. Examples for that would be buying both premium and low-priced merchandise or visiting different types of retail outlets. This behaviour is called *cross-shopping*.[45]

To be able to make a choice, information is sought about how to satisfy the need, for example what product might be useful and where it can be purchased. "Extended buying processes may involve collecting a lot of information, visiting several retailers, and deliberating a long time before making a purchase."[46] The amount of information searched generally depends on the value-gain from the searching, which is how it improves the customer's ability to make a decision, versus its costs. According to Putrevu, Moorthy and Schmidt the amount of information searched is influenced by (1) the nature and use of the product being purchased, (2) characteristics of the individual customer, and (3) aspects of the market and buying situation in which the purchase is made.[47]

Customers use both external and internal information sources. External information refers to information provided by other people such as advertising; internal information is memories such as past purchasing experiences.

After collecting sufficient information the customer then evaluates the different options such as the sources for the product. For the evaluation process Weitz proposes the *Multiattribute Model*.[48]

[43] Weitz 2004, p. 111
[44] Sebastian 1998 and Babin 1994
[45] Weitz 2004, p. 113
[46] Titus 1995, pp. 106-19 and Bloom 1995, pp. 19-28
[47] Putrevu 1997, pp. 436-87, Moorthy 1997, pp. 263-78 and Schmidt 1996, pp. 246-56
[48] Weitz 2004, p. 117

It is used to summarize the use of information, evaluating the alternatives and the selection of a product that best satisfies the customer's needs. Due to these properties retailers also use the Multiattribute Model to develop a marketing strategy.[49]

The basis of the model is to see both retailers and the product "[...] as a collection of attributes or characteristics."[50] It uses (1) the product's performance on relevant attributes and (2) the importance of those attributes to the customer to forecast his or her evaluation of the product.

If the customer is able to make a choice on account of the information he or she gathered, a purchase could be made, otherwise more information must be collected. Eventually the purchase will be made. However, the customer does not necessarily purchase the product or patronizes the retailer with the highest overall evaluation as it might not be available or the customer feels that the risk to purchase the item outweighs its potential benefits.[51]

The buying process concludes in evaluating whether the product satisfied the customer's need and to which extend. The results of this evaluation then become part of the customer's internal information and can and will be used to make a decision about future purchases. A high level of satisfaction will result in loyalty towards a product or retailer.

However, it is not necessary for the customer to go through all stages in the same order. Different customers, depending on the type of decision made, spend different amounts of time for the single steps. This again depends on the kind of problem solving the customer is engaged in.

According to Weitz there are three types of customer decision-making processes, namely *extended problem solving*, *limited problem solving* and *habitual decision-making.*

Extended problem solving is the most time consuming process of the three. Here consumers devote considerable time and effort analysing alternatives. This kind of problem solving usually occurs when the decision involves a high risk such as financial, physical or social.

[49] Finn 1996, pp. 246-56
[50] Weitz 2004, p. 117
[51] ibid., p. 122

Another reason for extended problem solving is when customers know little about the product or the need to be satisfied is an important one.

Limited problem solving involves less effort and time. Usually this type of buying process is engaged when the customer had some kind of prior experience with the product or the retailer and, relying on his or her knowledge, the involved risk is rated as moderate. Most of the customer's decision-making is done by limited problem solving. Puri adds that a common type of limited problem solving, namely impulse buying, is engaged on the spot, when the customer sees the product.[52]

The third purchase decision process, habitual decision-making, involves only little, sometimes even no conscious effort. If the decisions to be made are not very important to the customer or involve products he or she has purchased before, the decision-making process is sometimes simplified to save time. In this case the customer will purchase the same product from the same source without spending time to consider alternatives.

To conclude the model of the buying process, Blackwell *et al.* add a seventh step: divestment. This refers to the disposal, recycling or remarketing of the product after it is used.[53]

2.5.2.3 Consumer knowledge

To go back to the very first step in the buying process, to be able to recognize a need, it is fundamental that the consumer is aware of the existence of a product. Before a product can enter the consideration set, according to Blackwell *et al.*, "[...] it must gain entrance into the awareness set, which comprises those products known to the consumers."[54] Particularly for new products it is essential for the customers to gain awareness of them. Only once a product is in a customer's awareness set can he or she associate it to other internal information such as physical attributes and benefits or feelings coming from its consumption. Together all information define the product's image.

[52] Puri 1996 in Weitz 2004, p. 109
[53] Blackwell 2001, p. 82
[54] ibid., p. 260

The second type of knowledge is *purchase knowledge*. It includes the information a consumer has about purchasing a product, including its price and availability.

Thirdly consumers can have knowledge about the consumption and usage of a product. If consumers lack sufficient information about the usage of a product, they are unlikely to purchase it. Therefore retailers will make an effort to educate customers about how to consume it. The same negative effects as not being aware of the usage of a product occur when only incomplete knowledge on the usage is available.[55]

Lastly there is *persuasion knowledge*. This kind of knowledge includes the tactics and goals of those who try to persuade customers to purchase a product.[56]

2.5.3 Implementations for Marketing

"Companies that fail to recognize consumer needs are more likely to make costly mistakes."[57] A basic philosophy for successful marketing is the importance of satisfying customer needs. To be able to do so, Assael proposes that the company firstly needs to define these needs. After that the next step is to identify those consumer segments that have these needs. If not yet available, it is necessary for the company to position new products on the market or reposition existing ones to be able to meet the customer needs. Where possible, companies should make use of interactive technologies to satisfy consumer needs on an individual level. Marketing strategies have to be developed and evaluated for their effectiveness to be able to communicate and deliver product benefits.[58]

Therefore it is necessary to obtain information on the consumer's needs, his or her perceptions of brands or products, the attitudes towards them, his or her intentions for a purchase and lastly the consumer's past purchasing behaviour.

According to Blackwell *et al.*, "[s]uperior market-driven strategies and execution in the marketplace are important in times of intense competition and high consumer expectations."[59] Successful companies are able to provide their customers with more value than their competition do.

[55] Blackwell 2001, pp. 265-266
[56] Friestad 1994, pp. 1-31
[57] Assael 2004, p. 5
[58] ibid., p. 5/6
[59] Blackwell 2001, p. 35

Literature describes value as the difference between what consumers have to give up, such as time, money or other resources, for the product they purchase, and its benefits. It is the sum of utilities that the consumer receives compared to all disutilities he or she must pay. According to Woodruff, one has to be careful not to make value synonymous with quality. Today, quality alone is not enough to maintain a competitive advantage. However, a combination of other components of value, such as a good image, a competitive price, and good product features will provide this advantage.[60] However, there is no clear explanation of how these components communicate values to consumers.[61] It is important to realize that consumers do not necessarily choose a product for its low price but rather for its overall value which, according to Blackwell *et al.*, might even include the approval of the consumer's peer.

> "Marketing strategy involves the allocation of resources to develop and sell products or services that consumers will perceive to provide more value than competitive products or services. The process includes market analysis, market segmentation, market strategy, and implementation, with the study of consumers at the core."[62]

The next important step in developing a market strategy is market segmentation. Market segmentation is the process of grouping consumers with one or more similar characteristics or behaviours. This is necessary to be able to adjust the product itself, or the applied communication strategy, according to their specific needs, in order to increase the possibility of sales to the identified group of people. Ideally, products should be custom-made to each user and his or her needs and behaviours. "A market segment is a group of consumers with similar needs and behavior that differ from those of the entire mass market."[63] In contrast to this is market aggregation, also referred to as mass-market marketing. This strategy works for products where the market desires functional benefits at a low price. Products that fall into this category are usually standardized and sold using simple channels of distribution, not offering extra services.[64]

[60] Woodruff 1998, pp. 139-53
[61] Parasuraman 1997, pp. 154-61
[62] Blackwell 2001, p. 35/36
[63] ibid., p39
[64] ibid., p41

To be able to describe market segments, consumers have to be classified. One of these various methods is to divide consumers into subcultures. A subculture is defined as a group of individuals who "[...] possess beliefs, values and customs that set them apart from other members of the same society. In addition, they adhere to most of the dominant cultural beliefs, values, and behavioral patterns of the larger society"[65], which means that a subculture describes "a distinct cultural group that exists as an identifiable segment within a larger, more complex society."[66] Examples of important subcultures for this study are health conscious people, children, and customers of supermarkets and discounters.

2.5.4 Consumer Motivation

The influences on the decision to purchase and consume a product such as Rooibos are central to this research project. Thus it is essential to analyse these influences and the role they play as motivators in the decision-making process. Therefore motivation is a key element to this study.
According to J.W. Atkinson[67], motivation has to do with direct influences on the direction and force of action, for example the different factors that stimulate and direct the individual's actions. Walters adjoins that "[...] motivation is an active and strong driving force that seeks to reduce an existing state of internal human tension."[68]

2.5.5 Fad Adoption / Trends

Kotler describes fads as "fashions (a currently accepted or popular style in a given field), that enter quickly, are adopted with great zeal, peak early, and decline very quickly."[69] Therefore fads do not last very long and tend to be followed by only a limited number of people. The reason for this short lifetime is that fads normally give little or no satisfaction to strong needs.[70] Fads can be useful or useless, trivial or important, appeal to the masses or only be adopted by a narrowly defined niche market.[71]

[65] Schiffman, Kanut 2000 in Jacobs, Tucker 2003, p. 12
[66] ibid.
[67] Atkinson 1964, An Introduction to Motivation
[68] Walters 1978
[69] Kotler 1997 in Israele 2001, p. 52
[70] ibid.
[71] Carson 1999, Journal of Management History in Israele 2001, p. 52

According to Carson, if fads should evolve into trends or even be adopted by the mass market, it is necessary for them to not only outweigh the costs on the long term but also in the short term. It is also likely that a fad will be adopted if the perceived implementation is expected to be easy and if there is enough external marketing and promotion. It is also necessary that the fad is not severely radical and that enough supply exists. Researchers have found an average life span of fads of just three to four years and that this could possibly even decline the more the fad succeeds.[72]

2.5.6 Consumer Acceptance of a New Product

The acceptance of products is influenced by several product characteristics:[73]
Firstly there is the *relative advantage*, which stands for the degree to which potential consumers of a new product see it as superior to an existing substitute. *Compatibility* also influences the acceptance of a new product by the consumers. Compatibility stands for the degree to which a potential customer feels a new product is consistent with his /her present needs, values, and practices. *Complexity* on the other hand is how difficult a product is to understand or use and to which extend this affects its acceptance. The easier the product is to understand and use, the more likely it is to be accepted. The next characteristic is *trialability*. Trialability refers to the degree to which a new or existing product is capable of being tried on a limited basis. The greater opportunity to try a product, the easier it is for consumers to evaluate it and ultimately adopt it.
Lastly there is *observability*, which refers to how easily a product's characteristics can be observed, imagined or described to potential consumers.

2.5.6.1 Adopters of a product

Consumers can be categorized according to when they adopt a new product. Schiffman *et al.* identify five categories of adopters: [74] The first to adopt a new product are the *innovators*. This group of people are venturesome and readily try new products or ideas. They are distinguished by their communicativeness with other innovators and their love of risk.

[72] Carson 1999, Journal of Management History in Israele 2001, p. 52
[73] Schiffman, Kanuk 1997, p. 532
[74] ibid., p. 539

Early adopters, amongst whom one can find the greatest number of opinion leaders and role models, are more integrated into the local social system. This is a very important group to which companies should look before launching a new product. The next to adopt a product is the *early majority*. These consumers come just prior to the average person to adopt an idea or product. They are distinguished by taking their time before adopting a new idea and one will seldom find leadership positions amongst them. The early majority is followed by the *late majority*. These people adopt new products and ideas out of peer pressure or out of economic necessity and are very cautious when approaching new innovations. Lastly there is the group of *laggards*. Their suspiciousness towards new products, as well as their preference for things orientated in the past, mark them the last to adopt an innovation.

2.5.6.2 Non-adopters of a product

According to Schiffman *et al.* non-adopters of a product can also be classified into five different types.[75] The first class of people includes those who do not know about the product or do not yet have enough information on it to make a decision. This group is called the *unaware group*. The *symbolic rejectors* do know about the product but either do not need it or dislike it and therefore will decide to reject it. The third group consists of people who believe that the product might be right for them, although they have not yet purchase or tried it, those people are called *symbolic adopters*. The *trial adopters* have tried the product but have not made an actual purchase or repurchase yet.

Lastly there is the group of consumers who have tried the product but did not like it or found it lacking in attributes. This group is called the *trial rejectors*.

[75] Schiffman, Kanuk 1997, p. 540

2.6 Customer Relationship Management (CRM)

As the business world is moving on, companies have learned that there is a challenge to maximize the value of the relationship between them and their customers, not only by handing out loyalty cards, but also strengthening the bond between both by modifying the customers' behaviour. Customer relationships need to be managed for the customers' benefit and the companies' profits. Retailers started to provide more value to their best customers, in order to increase their *share of wallet.*[*] According to Reichfeld, research found that costs of marketing products to a new customer are more than six times higher than those for an existing one.[76]

According to Nevell, "[...] marketers learn that customer loyalty can't be bought [...]".[77] New solutions include ways to develop customer relationships utilizing the latest technology to manage them.

> "[Customer Relationship Management (CRM)] isn't a technology. As you will see, that's true, but not strictly. I also heard that it was a 'customerfacing' system. That is a strategy and/or a set of business processes. A methodology. It is all of the above or whichever you choose."[78]

As this quote illustrates, many different opinions exist as to what CRM stands for. Reviewing the literature, opinions reach from seeing CRM as a collection of specialized technological tools, to a set of business processes for managing customer experience. Some even call it a comprehensive strategy for customer retention.

CRM has been conceptualised by various authors as (1) a process[79], (2) a strategy[80], (3) a philosophy[81], (4) a capability[82], and (5) a technological tool[83], just to name the most common ones.

* the percentage of the customers' purchases made from this retailer
76 Reichfeld 1996 and Pelton, Strutton, Lupkin 2002, p. 24
77 Newell 2000, p. 2
78 Greenberg 2001, p.4
79 Galbreath 1999, pp. 161-71 and Day 2002 in Zablah *et al.* 2004
80 Adenbajo 2003, p. 570-77 and Corteau 2003, pp. 21-34 in Zablah *et al.* 2004
81 Fairhurst 2001, pp. 137-42 in Zablah *et al.* 2004
82 Peppers 1999, pp. 101-19 in Zablah *et al.* 2004
83 Gefen 2002, pp. 47-69 in Zablah *et al.* 2004

For this study, CRM will be seen, as Newell describes it, as a process of modifying customer behaviour over time. Companies will learn from every interaction between them and their customers to be able to strengthen their common bond.[84] This is also the principle of one-to-one marketing.
According to Brown and Gulycz, CRM starts with customers and their needs, the organization and its competencies and the organization's commitment to quality service, for both the internal and the external customer.[85]

The key terms of CRM are outlined by Newell as the following:[86] (1) Identifying those consumer values that are pertinent to a particular business, (2) understanding the relative importance of those values to each customer segment, (3) determining of delivery of those values that will affect the bottom line in a positive manner, (4) communicating and delivering the appropriate values to each customer segment in ways *the customer* wants to receive the information, and (5) measuring results and proving return on investment.
Therefore the purpose of CRM can be defined as managing customers' behaviour. Only if every contact between the company and their customers is seen positively, will they be loyal and therefore valuable to the company. Weitz even goes further and describes CRM as a "business philosophy and set of strategies, programs, and systems that focus on identifying and building loyalty with a retailer's most valued customers."[87] The goal of CRM is to develop and maintain "[...] a base of loyal customers who patronize the retailer frequently."[88]

Although customer loyalty does not play such an important role on purely price driven markets, in the case of the Rooibos market it could be a significant issue. In addition to that CRM stands not only for relationships between a company and the end-consumer but can equally be applied to business-to-business relations. "It's still a fact that business-to-business sales, from the very start, deal with real, individual people, not averages and not corporations."[89]

[84] Newell 2000, p. 2
[85] Brown et al 2002, p. xvi
[86] Newell 2000, p. 70
[87] Weitz 2004, p. 336
[88] ibid.
[89] Newell 2000, p. 212

2.6.1 Customer Loyalty

Coyles and Gokey describe customer loyalty as a commitment of the customer towards the retailer to purchase products and services from him and resistance to attracting activities of competitors.[90] The loyal customers' bond is based on more than just a positive feeling about a retailer. There is an emotional connection between them and the retailer, says Weitz. Loyal customers will even encourage their family and friends to patronize this retailer.[91] If a retailer is able to develop such an emotional bond with his customers, it is difficult for competing retailers to attract these customers.[92]

A common problem that occurs in connection with customer-loyalty programs is that the marketing organization does not know how the customer benefits from these programs. CRM is different from traditional database marketing. Traditional database marketing concentrates on what the company wants to sell, not on customer values. However, these value concepts are what motivate the customer to change his or her behaviour and reinforce loyalty. In addition to that, CRM is a long-term profit builder and will not work as on overnight cure.[93]

It is difficult, if not impossible, to calculate an accurate return on investment for a CRM program. This is due to the multitude of variables that affect its results. The long-term impact on market position as well as on customer value needs a sufficient amount of time. Also some of the costs involved will only be known after the program has run a significant course.

2.6.2 Tools for CRM

According to Newell, important tools for CRM are not that different from those used for direct marketing. These tools include (1) recency. Recency refers to the last purchase made by a customer from a company. The number of purchases within a set time-frame by the same customer is referred to as (2) frequency. The third tool is (3) monetary. Here the company wants to know how much a single customer spends on purchases within the specified time.

[90] Coyles, Gokey 2002, pp. 3-14 in Weitz 2004, p. 336
[91] Weitz 2004, p. 336
[92] Mattila 1998 and Fournier, Dobscha, Mick 1998, pp. 42-50
[93] Newell 2000, p. 69

Other important information a company has about their customers, other than data about their purchases, include (4) demographic and lifestyle information. These data can include the customers' income, age, information about their children, interests and hobbies. Lastly, it is important to weigh the different variables to be able to predict the customers' profitability to the company.[94] In other words, for a successful customer relationship management, the company needs to know their customers, individually.[95]

Considering the broad issues of marketing strategy, the supply chain and its management, the product and consumer theory, and more specifically, the customer relationships, lead to the ultimate need of gaining thorough information on the export as well as the import side of the Rooibos market with special interest in the product's positioning.

Therefore it is necessary to firstly investigate the South African Rooibos Industry to gain background information, and secondly to research the German beverage market as well as the product Rooibos itself.

Reviewing the relevant literature led to the development of the model that guides the entire research, which will be described in the following chapter.

[94] Newell 2000, p. 82
[95] Cram 1994, p. 15

3 Research Design – General Methodology[36]

In order to achieve the research objectives stated in chapter 1.2, it is necessary to perform both exploratory and descriptive research methods.

Type	Methods
Exploratory design	- Literature review - Case analyses - Interviews with knowledgeable persons - In depth interviews
Descriptive design	- Questionnaire survey - Telephone, mail, personal interviews

Figure 3 - 1

3.1.1 Literature Review

A thorough literature review built from secondary data sources such as academic books, journal and Internet articles, databases, company reports and government publications from both South African and German sources was drawn up during the research. This, as well as the analysis of case studies connected with the subject, guided the study towards achieving the required objectives and helped to understand the South African Rooibos Industry as well as the German consumer market.

3.1.2 Interviews

To gather information about the South African Rooibos Industry and the export of the product, experience- as well as in-depth interviews with relevant members of the industry were conducted. The group of interview partners included farmers, Rooibos exporting companies and members of agricultural associations, such as the ASNAPP project and other people involved in export marketing.

[36] Adapted from Bearden 1998, Figure 7.3

Interviews with Germans involved in the beverage and tea market including tea companies, importers and retailers helped to investigate the market and the competitors. Interviews both in South Africa and Germany were mainly personal, face-to-face or over the telephone. In some cases information was gathered by e-mail.

3.1.3 Questionnaire Survey

To validate the findings of the secondary research and to prove or disprove the research hypotheses, quantitative research has been conducted. To be able to use data obtained by quantitative research, statistical analysis was utilized.
To highlight the needs, attitudes and perceptions of the consumers, a questionnaire survey with end-consumers of Rooibos products was conducted. Due to time and geographic constraints the method of face-to-face interviews could not be applied. Therefore a self-administered questionnaire was given to the respondents mediated through research assistants.

The questionnaire response format consisted of structured questions such as multiple choice, rating scales and dichotomous questions. To minimise the possibility of influencing the respondents by limiting them through giving possible answers, which are not a true reflection of their attitudes, the questionnaires were guided by the previous research.

3.1.4 Data Analysis

Both qualitative and quantitative data were analysed. Findings of the interviews were compared and critically assessed.
Before the data of the interviews and questionnaires could be analysed, data preparation was necessary. This took place in form of editing and capturing interview minutes and coding questionnaires into spreadsheets.

Questionnaires were analysed using frequency distributions and percentages. From these, cross-tabulations between relevant questions was applied, to determine whether any multi-variated statistics was appropriate.
The significance level for all quantitative data was set at a p-value of 0.05.

3.2.1 The Adapted Model

Due to the size and scope of this study, it was necessary to have a clear research methodology, to ensure that all possibly relevant information was investigated. This gave the investigation both validity and direction.

In order to gain insight into the South African Rooibos industry and to analyse the German consumer market, both qualitative and quantitative research was conducted. The study began with qualitative research, which was then used to support the quantitative research.

To establish a greater perspective and broader approach, an extensive literature review was drawn up. This enabled the researcher to find results of previous studies and theories from which sound conclusions could ultimately be drawn.

3.2.1.1 Positioning the product

As new industries are spawned and more players enter the market, the power of positioning has never been more relevant.[57] If one wants to develop a positioning strategy, one has to know the market.

The model structuring this work is adapted from David Walters' strategic approach to retail operational management. It was adjusted to not only fit retail management but also to articulate a target market position for a specific product, namely Rooibos tea on the German consumer market and within the industry.

[57] Hopkins April 2003, Money Management

This model will guide the entire research:[*]

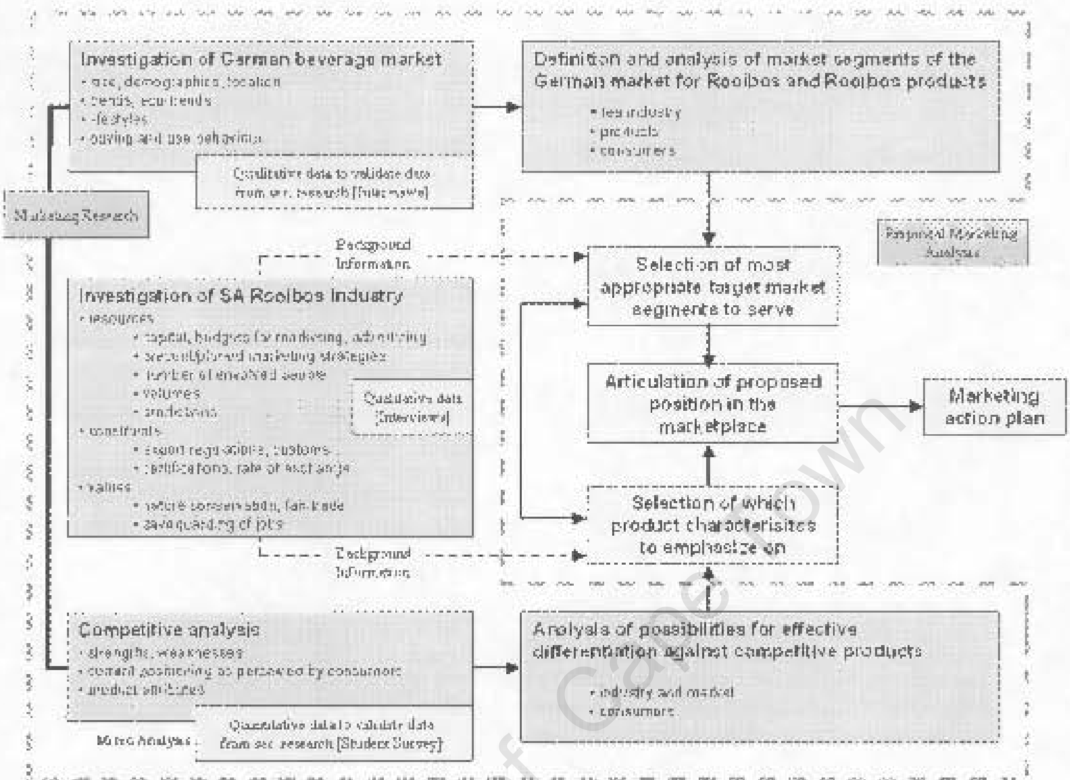

Figure 3 - 2

The model is structured in two main parts namely the *Marketing Research* and the *Empirical Marketing Analysis*.

Marketing research starts with the *Investigation of the South African Rooibos Industry*. This part produces information about the resources, constraints and values of the industry and will then be used as background information for the empirical analysis. Data in this section are validated by primary research in form of in-depth interviews with members of the industry.

The second block deals with the German market and industry. It is divided into the *Investigation of the German beverage market*, which will be supported by some primary research in form of in-depth interviews and the *Competitive Analysis*. The latter part includes quantitative data from primary research to validate the findings.

[*] Adapted from Walters' „Developing a Market Positioning Strategy" Model

Conclusions will then be drawn from both sections in form of the *definition and analysis of market segments of the German market for Rooibos* and the *analysis of possibilities for effective differentiation against competitive products.* This completes the marketing research.

The empirical marketing analysis uses the findings of the marketing research to select the most appropriate market segments to serve, as well as the product characteristics that should be emphasized. From here the proposed positioning of Rooibos on the German market will be articulated, which also concludes the work of this study.

4 South African Rooibos Industry

The fourth chapter deals with the investigation of the South African Rooibos Industry. It starts by giving a brief background of the applied research methodology, followed by a general section on Rooibos, including attributes, versatility and cultivation methods. After that light is shed on the South African Rooibos Industry addressing the early industry and its history, its current role players, competition and values within the industry. The chapter also deals with Rooibos marketing and the market itself. In the last section of chapter four, topics regarding pricing of Rooibos tea are discussed.

4.1 Methodology

4.1.1 Research Problem

To identify the characteristics and the structure of the South African Rooibos Industry.

4.1.2 Objectives

- To investigate the South African Rooibos Industry
- Horizontal and vertical market relationships

4.2 Research Design[98]

To better understand the scope of this study, exploratory research consisting of a literature search, secondary data search and experience surveys was conducted. Qualitative data was subsequently generated.[99]

[98] Adopted from Bearden 1998
[99] Bearden 1998, p. 52

4.2.1 Exploratory Research

Typically exploratory research is done to better understand and to gain background information about a topic, such as the given.[100] One suggested method is to conduct in-depth interviews with knowledgeable people involved in the industry. Other common methods include literature reviews and case analyses.[101]

4.2.2 Sub-Sector Analysis

The research of the South African Rooibos Industry follows a conceptual framework called *Sub-Sector Analysis*. Gregory J. Scott, Economist at the Social Science Department of the International Potato Centre, Lima, Peru, describes this, particularly for the research of agricultural topics functional field method in his book *Prices, Products, and People* from 1995 as follows:

Using the sub-sector approach, it is possible to consider all potential topics generated by the research of an "economic unit of analysis specific to a particular commodity [...]"[102].

A sub-sector is defined as "a meaningful grouping of economic activities linked horizontally and vertically by market relationships"[103], in this particular case the production, processing and distribution of Rooibos. The importance of using the sub-sector framework lies in the fact that it can ensure that the planned activities of data collection are given sufficient time and resources.
As the resources for this study were limited in both time and manpower, it made sense to carry out the sub-sector analysis using *rapid reconnaissance methods*, as those provide quick and effective ways of gathering information on complex relationships between members of the industry, as well as helping to find out about the existence of constraints and opportunities.[104]

[100] Bearden 1998, p. 52
[101] ibid., exibil 7.3
[102] Gregory 1995, p. 21
[103] Shaffer1980 in Gregory 1995, p. 21/22
[104] Gregory 1995, pp. 21-41

The methodology of this research closely follows the approach which Michael L. Morris used to analyse sub-sector limitations of maize in Paraguay; John S. Holtzman, John A. Lichte, and James F. Tefft, used this methodology to examine coarse grain processing and utilization in Mali.[105]

Before a functional work plan could be developed, the broad overall goal of the study had to be translated into specific research objectives. Therefore a research matrix containing all important areas of interest had to be developed.

4.2.3 Research Matrix

		Product	Economy	Market	Industry	Marketing
History	Before 1996	X	-	X	X	X
	After 1996	X	-	X	X	X
Attributes		X	X	X	X	-
Environment		-	X	X	X	-
Export		*Important*	-	-	-	*Important*
Structure						
Players	Producer Small scale	-	-	-	X	X
	Producer Commercial	-	X	-	X	-
	Processor	-	X	-	*Important*	-
	Distributor	-	-	X	*Important*	X
	Customer	-	-	X	X	-
	Research	X	X	X	X	X
	Others	-	-	-	X	-
Con-straints	Government	X	X	*Important*	X	-
	Voluntary	X	X	X	*Important*	-
Chances		X	X	X	X	-
Distribution		*Important*	-	X	X	X
Strategy		*Important*	X	X	X	X
Prices		X	-	-	X	-

Figure 4 - 1

By systematically considering each cell in the matrix, the risk of restricting the focus of the study without considering all potentially important issues was reduced. As in the template, several "priority cells" were identified as potentially important. Focusing on these helped to understand the structure and performance of the South African Rooibos Industry and its environment.

Subsequently it was possible to design data collection activities to gather information on the relevant topics.

[105] Gregory 1995, pp. 21-41

4.2.4 Data Collection

4.2.4.1 Review of secondary data sources

A list of required data and their possible secondary sources was drawn up to help guide the data collection activity. With the help of this list, secondary data were systematically reviewed to gain information on the objectives.

Field of interest	Source of secondary data					
Commodity characteristics	*Rooibos Association*	*Perishable Products Export Control Board (PPECB)*	*Department of Agriculture*	*Research papers (published / unpublished)*	*Articles in health journals*	*Books*
Historical industry and market data	*Rooibos Tea Board (annual reports)*	*Records of industry members*	*Journal articles*	*Government publications*		
Rate of exchange	*Journal articles*	*South African Reserve Bank*	*Books*	*Economic databases*	*Newspaper articles*	*Internet*
The market	*WESGRO*	*Government publications*	*PPECB*	*Research papers (published / unpublished)*	*Journal articles*	*Internet*
The industry	*Department of Agriculture*	*WESGRO*	*PPECB*	*Research papers (published / unpublished)*	*Journal articles*	
The marketing	*WESGRO*	*Journal articles*	*Internet*	*Company brochures*		
Prices	*PPECB*	*WESGRO*	*Company brochures*	*Internet*		
Eco-labelling	*Journal articles*	*Internet*	*Books*	*Company brochures*		

Figure 4 - 2

4.2.4.2 Primary data collection activities

Limited by the time constraint and scarcity of resources, the primary data collection had to rely whenever possible on rapid reconnaissance methods such as guided informal interviews with players of the industry and knowledgeable key informants.

Field data collection began with informal interviews with important players of the South African Rooibos Industry, such as the managing directors of involved companies, to gain familiarity with the industry itself
In addition to that interviews with people connected to the industry, and those who were involved in research on Rooibos, were conducted to verify and complete data gained from secondary sources.
Since the marketing of Rooibos was of particular interest, an effort was made to directly observe the diverse components of marketing on the local market.

The reconnaissance survey was designed to answer the following questions:

- What are the characteristics of Rooibos tea (*Aspalathus linearis*)?
- What are the values of the South African Rooibos Industry?
- How is the market structured?
- What are the market intermediaries?
- Who are the role players in the industry?
- What is the competition between them like?
- What constraints does the industry have to cope with?
- What are the distribution channels for Rooibos?
- What factors influence the prices of Rooibos?
- What are the effects of the rate of exchange on the Rooibos Industry?

Figure 4 - 3

During the reconnaissance survey, informal interviews (personnel or telephone) were conducted with:

Industry members		Others	
Name	**Company / Organisation**	**Name**	**Company / Organisation**
Willem Engelbrecht	*The Big Five Rooibos Company*	Fermina Platon	*Ombili Rooibos Teas*
Niell Coetzee	*Coetzee & Coetzee*	Reinhard von Ludwiger	*Ombili Rooibos Teas*
Dawie de Villiers	*Cape Natural Tea Products*	Paul Hayes	*Researcher*
Peter Schülke	*Khoisan Tea*	Madeleine Heins	*Directorate Plant Health and Quality*
Berit Elmau	*Khoisan Tea*	Leon Ras	*PPECB*
Jacques Bester	*SA Rooibos Tea Suppliers*	Elton Jefthas	*ASNAPP, Stellenbosch*
Martin Bergh	*Rooibos Ltd.*	Oubaas Engelbrecht	*Farmer, The Big Five Rooibos Company*

Figure 4 - 4

Further details about the interview partners can be found in *Appendix 11.2 Interviews.*

Most interviewees were contacted at their place of work. The researcher was meticulous in identifying himself, and to explain the purpose of his visit. Interviews were unstructured, although the researcher carried a checklist of questions to make sure that important points would not be overlooked. The effort to keep the interviews informal seemed to encourage frankness on the part of the respondents. To speed the interviews and minimize interruptions, all interviews were recorded on tape (after the agreement of the interviewees). In addition to that, important data were recorded in summary form on paper, occasionally during the interviews. The actual capturing and analysis of the data, gathered during the interviews, was done afterwards on computer.

It was important to convince the interviewee that confidential data would not be published in the final report or made available to competing industry enterprises in any form. Therefore a letter of introduction signed by the supervising Professor at the university was sent up front either via mail or e-mail (see *Appendix 11.12 Letter of Introduction*). In addition, every interviewee received a paper summarizing the objectives of the research (see *Appendix 11.11 Letter to Interviewees*). One company requested an overview of questions to be asked, which was sent to them up front.

All interviewees were offered a copy of the final report as incentive to their willingness to spend time on answering the questions.

4.3 Aspalathus Linearis

4.3.1 About Rooibos

Aspalathus linearis, commonly known as Rooibos, is a leguminous shrub with needle-like leaves and fine stems. The plant is indigenous to South Africa, and is found only in the Clanwilliam area near the Cederberg Mountains and so far nobody has succeeded in cultivating it abroad.

Its name, meaning 'red bush' in Afrikaans, derives from the plant's natural red colour when dried in the sun. Because it is not part of the *Camellia sinensis* family, it is officially recognised as a herbal infusion rather than a tea, yet is widely and fondly referred to as Rooibos *tea*. Rooibos has the same robust body as black tea, and can therefore also be used for iced-tea, and goes well with milk. Unlike decaffeinated tea, which loses much of its flavour, Rooibos tea is naturally caffeine-free and low in tannin. It is rich in volatile components, minerals and ascorbic acid. More importantly, it has beneficial medical properties, including a high flavonoid content. Flavonoid acts anti-inflammatory and has anti-allergenic properties. Minerals in Rooibos tea include fluoride, iron, calcium, potassium, copper and zinc.

Today, as its beginnings over 300 years ago, Rooibos is drunk for its health benefits and versatility, as well as its refreshing flavour, pure aroma and distinctive mahogany colour.

It is not only used as a beverage; Rooibos is also used as a basis for a variety of commodities, such as cosmetics and anti-ageing pills. In Japan it is even commonly used in products such as bread, sweets and jellies. The international demand for Rooibos has steadily increased. Export is currently the most important and fastest moving market. Markets in importing countries such as Germany and Japan are still far from saturated. There, Rooibos is taking market share from black, green and other herbal teas. Scientific evidence of its health attributes will boost its popularity even more and the credibility of the tea as a health drink will rise worldwide.[106]

4.3.2 Rooibos: The Cheap and Healthy Product

The discovery of *Aspalathus linearis* by European botanists dates back to as early as 1772. At that time, the indigenous people of the area already knew of its healing properties. But over time, this knowledge of the bush was gradually lost and people simply enjoyed it for its typical taste.

200 years later, Annekie Theron 're-discovered' Rooibos' potential healing properties, but was not able to provide any scientific proof of her findings. Convinced that Rooibos had helped relieve her baby's allergies, she was inspired to conduct her own research, which was the beginning of Rooibos' career as a health product.

The tea has been most widely researched in Asia. These days it is known that Rooibos has health-giving properties against various diseases and ailments, including digestive, nervous system and skin disorders.[107] There is even reason to believe that Rooibos can prevent certain kinds of cancer, of which the results of the currently conducted research are eagerly awaited.

Today, Rooibos is generally regarded as a healthy beverage, due to it being low in tannin and being caffeine-free.[108] It is these health attributes which are considered essential for the continuous growth of today's competitive herbal industry.[109]

[106] Snyman 2000, Wesgro background report, p. 1/2
[107] Komatsu 1994, Cancer Letter
[108] Morton 1983, Econ. Bot.

Rooibos is truly a versatile and affordable product. Producers state that the leaves, as well as the tea bags, can be reheated more than once without developing a bitter aftertaste as other teas with higher tannin amounts do. This is due to the very low tannin content of the plant. Rooibos can also be used as a cheap replacement for milk in almost any recipe, and is also a natural meat tenderiser.

4.3.3 Variety of Rooibos

Rooibos is a good substitute for black tea and coffee, not only due to its health benefits, but also due to its versatility and variety. A wide selection of flavoured Rooibos products is available. Often Rooibos is used as a basis for other herbal or fruit teas and can be found in ready-to-drink (RTD), as well as self-brewed, iced-teas. Recently, in 2003, the first carbonised Rooibos tea product range was launched on the local South African market by Rooibos Ltd.[113] Rooibos is packaged in, and available as, loose leaves, various tea bags and powders, ready-to-drink products, cosmetics and shampoos, in tins, glass, tetra-packs, cardboard boxes, cans and bottles. New innovative product applications include green (unfermented) and organically produced Rooibos. Existing niche market segments, as well as new ones, are expected to benefit from the versatility of the product.

4.3.4 Cultivation

Rooibos requires a deep, sandy, and well-drained soil. The bushes are found naturally in the Cederberg area, where the average rainfall lies between 250 and 400 mm per annum. The climate in this area, at a height of roughly 450 m above sea level, is harsh and dry in summer, cold and wet in winter.

The quality of the tea is largely influenced by the prevailing weather conditions, soil and altitude. As a general rule, the higher in altitude the production area is, the better the quality.

[112] Winterton 1999, p. 1

[113] Health24 2004, Website

Generally, Rooibos needs only very little additional fertiliser due to the relatively low yield. As the production generally forgoes artificial irrigation, droughts have a severe impact on the establishment of the plant. During the last two years (2002/2003), farmers had to cope with a very low success-rate due to low rain falls in winter.

Seedlings are planted between June and August, depending on weather conditions. The young bushes are then "topped", which means the tops of the bushes are pruned off, between December and March to promote branching. The first harvest can be expected one year later. A Rooibos plant has a lifespan of four to five years, therefore, to avoid years without production, new crops are planted annually.

4.4 The Industry

This section begins with an outline of the early Rooibos Industry. It gives a brief overview of the period before the establishment of the Rooibos Tea Control Board and shows the development of the industry after its abolition.
In order to gain an overview of the current structure of the South African Rooibos Industry, an industry profile will be outlined in form of descriptions of the current role players. Interviews with qualified persons from the industry were conducted. In addition to that, data from *The WESGRO Rooibos Report*[111], *Paul Hayes' unpublished report on the competitiveness of the industry*[112] and the websites, as well as company brochures of the described companies, have been used. All of the following companies own their own manufacturing facilities and are able to pasteurize Rooibos. Most of them handle their own packaging.
After describing the role players in the industry, it is now important to shed light on their competition. The Rooibos production in South Africa is limited by cultivation areas and climatic conditions. In addition to this supply problem there are only a limited amount of potential customers interested in the product. The second part of this section deals with the competition and competing methods between industry members.

[111] Snyman 2000, Wesgro background report
[112] Hayes 2000, Thesis

Every industry pertains to its specific values. Important issues for the South African Rooibos Industry are: *Ethical trade / eco-labelling, organic production* and *Fair Trade*. These issues will be discussed in the last part of this chapter.

4.4.1 The Early Industry[173]

4.4.1.1 Pre-Rooibos Control Board Era

The first time Rooibos was taken note of as being a potential industry sector was in 1904 when Benjamin Ginsberg, a Russian immigrant, started to market the tea he bought from local South African inhabitants.

In the 1930s, Rooibos' cultivation and trade was commercialized for the first time. Dr. P. le Frans Nortier, a physician, Olof Bergh and William Riordan, were driving forces in the development of the early industry. At this time the marketing of Rooibos was handled by the company *B. Ginsberg*. Rooibos was a cheap alternative to black tea for people in lower income groups. Rooibos consumers grew significantly during World War II, when black tea became rare and therefore was also very expensive. But the boom in the Rooibos Industry was followed by a sudden bust after the war, when black tea was again freely available.

4.4.1.2 Establishment of the Rooibos Control Board

In 1948 the *Clanwilliam Tea Co-Operation* was founded, joining 77 members and a marketing agreement with the *B. Ginsberg* company. At this time, it was very difficult to establish a market for Rooibos, so to avoid chaos in the industry, the *Rooibos Control Board* was established. On the 5th November 1954, under the *Marketing Act of 1937*, the then Minister of Agriculture instituted the control scheme: a statutory *one-channel marketing* system.

By law, the task of this board was to act as sole buyer and sole seller of all Rooibos in South Africa, thus regulating the production and marketing of the industry. No Rooibos was allowed to be sold to any party without the approval of the Rooibos Control Board and both producer's prices, as well as prices for packers or approved exporters, were set by the board and made offical by the Minister of Agriculture.

[173] Snyman 2001 and Hayes 2000, p. 33/34

The board was constituted including five producer representatives, two representatives of traders and one person in an advisory capacity.[114]

4.4.1.3 1996

Until eight years ago, Rooibos Limited was the only company serving the Rooibos Industry, and both producers and consumers were obliged to be content with a one-channel marketing system.

In 1996, though, other marketing channels were added to the industry, creating healthy competition. Additional Rooibos companies, processing plants and packaging plants opened, creating jobs and therefore contributing positively to the country's economy. Today, the industry is offering an unprecedented selection and choice to the beverage, packaging, cosmetic and health care industries, as well as to consumers.

4.4.1.4 Historical data[115]

The following table gives an overview of the fluctuating production conditions farmers have experienced between 1991 and 2000, and of the market conditions at this time.

1991	for the first time total sales exceeded 4 000 tons
	Production area: 14 000 ha
	Number of farmers: 275
	Price; average export R5.40/kg; domestic R3.55/kg
92/93	Privatisation of the industry; number of farmers increased to 300
	Drought – sales increased to 4 200 tons; 3 300 tons were produced
	Reserve supplies used to meet demand
	Coffee and black tea prices drop, forcing Rooibos prices to decrease to the average price of: R3.25/kg for exports; R3.05/kg domestic
94/95	Increased interest in product by Japanese buyers; international marketing push by exporters opening offices in the USA and UK
	Export volumes increased by 77% during 1993 (1 350 tons exported)
	Drought continues – prices increase to average of R5.50/kg
	Number of farmers increased by 10%
	Annual planting increases from 5 500 - 8 600 ha

[114] Hayes 2000, p. 33/34
[115] adapted from Snyman 2000, p. 22/23

96/97	Shortage first continues; 8 800 ha planted; surplus predicted
	Record yield of 10 300 tons due to increased number of producers and favourable conditions
	Export volumes remain constant at 1 400 tons/year
	Surplus of 6 000 tons
	Delivery quota reduced and prices decreased to around R3.50/kg
97/98	Reserve supply of 7 500 tons - much higher than average annual production
	Quota system enforced – 4 500 tons
	Farmers have huge surplus supplies - start packing and selling own products and compete directly with other exporters
	Price-war continues and prices decrease (R3/kg average)
	Export volumes increase to 1 500 tons; organic tea showing an impact
	Domestic sales remain constant at 3 600 tons/year
99/2000	1999 production 4 500 tons; less in 2000 due to lower rainfall
	Record sales: 1 800 tons exported; 4 200 tons consumed domestically
	Producer prices increased: organic R6 – R11/kg; non organic R4.50 – R5.30/kg
	Shortage of organic and unfermented Rooibos predicted for 2000/2001

Figure 4 - 5

Production figures, average producers prices and information on prices before 1991 can be found in the exhibits later in this chapter.

4.4.1.5 Post-Rooibos Control Board Era

The 90's were a highly challenging and difficult era for the South African Rooibos Industry. The market was predominately influenced by such factors as drought and privatisation as well as globalisation. The industry became highly competitive and fragmented, and structures that existed in the *Rooibos Control Board* were lost completely.

New manufacturers and agents entered the market, seizing a chance to be part of the booming industry. The number of intermediaries increased when existing farmers, previously solely dependent on their exporters' ability to sell the tea, started to market the product themselves. This growing competition had a direct impact on the market prices. The "price-war" started. The only factions benefiting from it were international buyers, who forced exporters to compete against each other, enabling them to receive the lowest price.

4.4.2 Features of the Rooibos Tea Industry[116]

Total quantity produced (average/year)	4 500 – 6 000 tons
Quantity produced by small-growers	Less than 100 tons (<2% of total production)
Total quantity exported (2000)	2 800-3 300 tons
Cost of Organic Certification	+ - R 25 000 per year, per certification can include any number of farms
Rooibos Tea employment	4 000 - 5 000 people of which there are over 300 commercial producers and less than 200 small growers
Rooibos Tea industry earnings	R 65 -R 70 million (10-20% of this via export sales)

Figure 4 - 6

4.4.3 Role Players

4.4.3.1 Rooibos Ltd.[117]

Rooibos Ltd. emerged from the former Rooibos Control Board, which was abolished in November 1993 when the agricultural sector was privatised. Initially the company was named *Rooibos Tea Natural Products* but changed to its current name in 1995. Rooibos Ltd., including its processing facilities, is situated in Clanwilliam. The biggest share of the company (>90%) is owned by producers.

Today Rooibos Ltd. still remains the most important role player within the industry. It dominates the local South African market by distributing own products and providing bulk tea to *Unifoods (Pty) Ltd.* and *National Brands* Ltd., which is a major player in South Africa's consumer goods industry[118] Rooibos Ltd. controls 90% (4 000 tons in 2002)[119] of the domestic market. and is gaining increasing importance in the export market. The focus of the company is volume driven; their tea is supplied by contracted farmers with production quotas according to their history of supply.

[116] Arandse 2001, Briefing Doc.4 Rooibos Tea Trade & Small-Scale Production, p. 2
[117] Hayes 2000, pp. 53-69
[118] ACCenture 2004, Website
[119] Interview Engelbrecht 2003

4.4.3.2 Cape Natural Tea Products

Cape Natural Tea Products (CNTP) was established in 1996 as a joint partnership between Rooibos farmers and marketers. Today it is owned by 22 farmers, the managing director Dawie de Villiers, and an investment company. Cape Natural Tea Products is part of the *Ashwood* group, which focuses on exporting South African indigenous products.

CNTP sources, processes and exports a range of indigenous African herbal teas and botanicals in bulk and branded from, including *Aspalathus linearis*, honey bush tea, rose-hip, devil's claw, lemon grass etc. Their customers are in Europe, the USA and the Pacific Rim.

The company is supplied with Rooibos mainly by their own shareholders, but also has contracts with other farmers. It owns primary processing facilities in both the Eastern and Western Cape, and a production plant for secondary processing near Cape Town. It also provides custom-blending and product development facilities to suit specific customer requirements.

CNTP is involved with the *United States Agency For International Development* (USAID) in rural upliftment programmes, in an environmentally sensitive manner. Most of their Rooibos is exported or sold locally in bulk, but they also own their own brand, which is sold in retail trade (SPAR supermarket chain) on the local South African market. CNTP also offers flavoured Rooibos, and their pre-packaged tea is gaining importance.

4.4.3.3 Khoisan Tea

The Khoisan Tea Company consists of three separately registered companies: *Khoisan Farming*, *Khoisan Tea* and *Khoisan Tea Import Export*. The business is jointly owned by Mr Peter Schülke and Mr Pieter Slabbert. Together they form a full service business, capable of farming Rooibos, fulfilling primary and secondary production, and distributing bulk Rooibos and Rooibos products globally. Although the company farms some Rooibos itself, it buys its largest share from approximately 100 contracted farmers. Their processing plant near Clanwilliam offers its services to other customers, too.

Khoisan was the first company with green (unfermented) Rooibos and the second business to start the organic Rooibos wave. They were also involved in retailing and operating South Africa's first Rooibos and Honeybush tea retail shop at Century City between 2000 and 2003. Today *Khoisan* focuses on the tourism and catering industry on the local market. 95% of its export industry is aimed at the German market, which is sold in form of pure, bulk Rooibos to tea importers. The remaining Rooibos is distributed elsewhere on the export market. *Khoisan's* Rooibos products range from children's tea of various blends, to soap and cosmetics.

4.4.3.4 Coetzee and Coetzee

Coetzee and Coetzee Distributors was established in 1996. They are supplied by contracted farmers from all over the Western Cape. According to Niel Coetzee, managing director, the company now handles 10% of the national Rooibos production.

The company exclusively distributes and markets their products which include Honeybush, Buchu and Devil's Claw, as well as Rooibos. They also contribute to the industry in form of private label work. They call themselves a "central distribution point". Processing is outsourced to a company called *Cape Drying Products*; packaging is done at *SA-Rooibos Tea Suppliers*. Most of their business is done internationally. Among their customers are tea traders and importers, who mainly trade the products without adding value to it. They also have their own agent/broker in Germany, who acts as a contact with the importers.

In addition to their regular business, they are also involved in social upliftment projects in underpriviliged farming communities, and also market *Fair Trade* products.

4.4.3.5 The Big Five Rooibos Company

Founded in 1998 *The Big Five Rooibos Company* focuses on premium quality and first class service. The recently received *International Gold Star Award for Quality* shows the high standards of the *Total Quality Management (TQM)* system the company is working on. It is only a marketing company of which the Engelbrecht family owns 60% of the shares. 40% is owned by the Coetzee family.

Similar to *Khoisan Tea* they farm, process and distribute Rooibos. The difference lies in that they produce and sell all their tea themselves. Just as in the wine industry, they market their Rooibos as an "estate" product, which means that all tea is produced at the same place and is not bought from other farmers. By doing this *The Big Five Rooibos Company* can guarantee excellent quality control, sustainability and traceability of their product. Currently with approximately 350 tons of Rooibos per year, they are the second largest single producer of Rooibos in South Africa.

99% of the company's business lies in exports, of which 90% is sold in bulk, but their focus also lies on adding value to the products and to market more of their own branded products. Except for the retail packaging all other tasks are handled by the company.

4.4.3.6 King's Products

King's Products processing facilities are located on a farm near Graafwater. The company not only sells Rooibos produced on their own estate, but also buys from independent farmers to keep themselves in good supply. They also posess their own brand on the market. Being the first ever producer of "organically grown" Rooibos[120], King's Products still focuses on high quality "organic" Rooibos to meet the increasing demand for it in Europe. Dr. Frans van der Westhuizen, together with King's Products, former production manager at the Rooibos Control Board, established the first independent Rooibos processing facility after 1995. The company still offers processing services to independent producers or agents. Overseas customers buy the tea in bulk.

[120] Perishable Products Exports Control Board 2003, Website

4.4.3.7 Tolbos Farming

Tolbos Farming has its production facilities near Clanwilliam. The state of the art production plant was put in production in 1998. Tolbos Farming focuses on the processing and packaging of Rooibos for clients mainly selling on the European market. Their own Rooibos farming activities are rather small.

4.4.3.8 Maskam (Redbush Limited)

This company is situated in the Vanrhynsdorp area, which is known for its high quality tea, and has its own processing facilities. Redbush Limited, like *The Big Five Rooibos Company*, specialise in "estate" Rooibos. They also introduced a vintage for their product. In the opinion of other industry members the company is amongst the smaller businesses and focuses as an agent between producers and tea buyers on a sustainable basis.

4.4.3.9 The Wupperthal Tea Co-operative

The Wupperthal Tea Co-operative consists of approximately 60 small-scale farmers. The rural empowerment program is supported by *ASNAPP* and mainly sells its Rooibos to alternative trade organisations such as *Fair Trade* and *Oasis*. The Co-operative also supplies a few local exporters with bulk. The annual production of the farmers ads up to about 60 – 70 tons* which is fermented and dried on their own tea court.

4.4.4 Competition Amongst Industry Members

Competition amongst market intermediaries can be found in almost any industry.[121] This section focuses on the competitiveness of the South African Rooibos Industry. Since the abolition of the Rooibos Tea Control Board a fierce rivalry between the different members of the industry has developed. Paul Hayes' research paper[122] and findings from interviews with South African exporters and German importers will be used to give a brief overview on this topic as it is an important facet of the whole market.

* figures from 1999
[121] Hayes 2000, pp. 53-69
[122] ibid.

As most of the role players are involved in exporting unprocessed bulk tea, for example, and since the largest market for this, Germany, is very price sensitive, it is no wonder that in this market segment the highest level of competition can be found.

The group of important buyers is small, consisting of about 15 to 20 agents and tea traders. This results in relatively higher quantities being purchased compared to other importing countries. Therefore the companies endeavour to establish a contract with one of the traders. The most popular way to do so is by getting better discounts.

Competition seems to be considerably lower when Rooibos is sold in either loose form or prepackaged in tea bags, as well as when it is consumed as a medicinal tea (premium price sector).

Realising the impact of their rivalry, the role players of the South African Rooibos Industry established the *Rooibos Forum*. This was in order to counter the "price-cannibalism" by supporting communication between the members of the forum.[123]

4.4.4.1 How to compete on the market

In addition to low prices for bulk Rooibos i.e. undercutting those of competing companies, the industry also focuses on other things to gain advantages against competitors. One strategy is to *register producers* and give them advanced payments when they sell their tea to one company only. This method leads back to the Control Board system where only registered farms were able to sell their products to the boards. Lowering *production costs* by using more effective farming and manufacturing methods is another approach which contributes to the competitive position of a company. The *quality* of the product also plays a major role in the rivalry to gain market share.

Physical appearance and the quality of the tea is very important, particularly where Rooibos is sold in loose form. In addition to this, some markets, including the European market, have strict standards regarding pesticide residues, since importers will only buy tea which has passed the quality test in their laboratories.

[123] Hayes 2000, pp. 53-69

As many competitors compete for the same customers, *service* is of the utmost importance. This is evident in the simultanious increase of competiton and customer service in the South African Rooibos Industry during the last years. If the service lags behind those of competitors, customers are very likely to buy from somebody else.[124]

4.4.5 Values

4.4.5.1 Ethical trade / Eco-labelling

Ethical trade has, without a doubt, become a worldwide trend. Many markets demand specific ethical criteria from suppliers. '*Ethics*', in this case, is understood to be socially and/or environmentally responsible. Particularly in the agro-food sector of wealthy nations, Ethical Trade has surpassed mere niche-status. Although proof of certification of environmentally friendly production methods is greatly important, taking *social responsibility** into consideration plays a large role in preventing potentially negative publicity and consumer boycotts towards the product. This enables especially highly visible brand-name products to survive in vastly scrutinised markets.[125]

Eco-labelling, in its broadest sense, is a "voluntary system of obtaining environmental performance for products"[126]. Globally, there are many different standards and certifications for eco-labelled products. The key feature of these labels is that, in contrast to manufacturer's labels, where the manufacturer is solely responsible for the product, eco-labels are awarded on the basis of set standards by independent third parties.[127]

The aim of this system is to help facilitate the customers in finding ecologically-friendly products on the market. On the other hand, the demand for eco-labelled products acts as an incentive for producers to strive for 'green' technologies and production methods.[128]

[124] Hayes 2000, pp. 53-69
* 'social responsibility' as opposed to 'environmentally friendly' refers in the quoted research paper to workplace and community issues (for example the treatment of labour); while 'environmental issues' would be understood as 'not harming the environment', as well as 'environmental quality control'
[125] Brown 2001, p. 3
[126] von Bormann 2002, Journal of Marketing
[127] ibid.
[128] Sedjo, Swallow 1999, Resources for the future, Discussion paper, p. 5

Consumer attitudes towards eco-labels will be further discussed in chapter five, *The German market*, as this part of the study focuses on the South African industry. It will be important whether the export market generates, for example, price signals, sufficient to attract the industry to produce environmentally friendly products, and hence have their products eco-labelled. It is also of great interest whether, and under what conditions, prices will be adjustable to facilitate additional costs.

It is interesting to note that research shows that the South African consumer does not show initiative in supporting environmentally friendly produced goods by being willing to pay premium prices. The lack of enthusiasm towards supporting the environment is not only caused by the low standard of living of many South Africans but one can even recognize an apathy towards eco-labelling. Even with a massive educational programme, researchers are not sure whether the South African consumers' attitude, and thus their consumption habits, would change. The high costs, in particular, keep South African consumers from acting in an environmentally conscious way.[129] Despite this, eco-labelling is an important factor for the South African Rooibos Industry particularly for the European and American export market.

4.4.5.2 Organic production

Another approach to adding value to the product is producing and processing it under the regulations for organic foods.

In general, 'organic food' is understood as cultivated and processed without the use of "fertilizers, insecticides, artificial coloring, artificial flavorings, or additives"[130].

The standards for these are rather strict. In 1993, the *European Community* employed a regulation, in which the input and practices which may be used to produce *organically* were described. A carefully elaborated inspection system exists, which makes use of authorized private companies such as *ECOCERT* or *LACON,* who examine producers, processors and trade companies who wish to become organically certified. Once registered, these will be subjected to regular inspections, at least once a year.

[129] von Bormann 2002, Journal of Marketing
[130] Nutribase 2003, Website

The EC Regulation also applies to all imported organic food. This means that producers from outside the EC must also be certified if they wish to do business within the organic food sector.[131]

One of the main aims of organic production and processing is to be able to produce a great variety of food of high quality. It is necessary to act in a "life-enhancing" way, with natural systems and cycles. [132]
A large social and ecological impact is made if producers and processors apply environmentally friendly methods. In connection with the South African Rooibos production, Adéle Arenose from the Environmental Monitoring Group in July 2001[133] highlights the benefits on soil, flora and fauna. Organic production helps to maintain and increases the fertility of soil and creates a harmonious balance between crop production and the environment. It promotes a healthy use and proper care of water resources, and hence all life dependant on that.
Applying environmentally friendly production and processing methods will lead to progress within the whole production, processing and distribution chain, which in turn will be both socially just and ecologically responsible.

4.4.5.3 Fair Trade

According to the Environmental Monitoring Group[134], another growing trend is *Fair Trade*. This originated in Europe on the coffee and fruit market, and gives small rural farmers the chance to do business in the "mainstream" globalised marketplace.

Fair Trade guarantees a better deal to producers in the developing world, as specified on 'Fair Trade' labels. A premium is either given directly to the producer, or a social premium is given to benefit the community. Stable prices cover the producer's costs, and premiums can be reinvested to develop further projects. In this way, 'Fair Trade' has a direct impact on the sustainability and the farmer's day-to-day life.

[131] Organic lifestyle magazine 2003, Website and England, Department of Agriculture 2001
[132] The International Federation of Organic Agricultural Movement in Arenose 2001, p. 7/8
[133] Arenose 2001, p. 7/8
[134] ibid.

To acquire premium price status, business is done directly with the farming cooperatives, avoiding intermediaries or middlemen.[135] Further information to 'Fair Trade' in Europe can be found at the *European Fair Trade Association (EFTA),* which represents a large network of organisations, which import Fair Trade products from economically disadvantaged producer groups.[136]

Critics of Fair Trade, however, highlight the possible threat to the liberal trading order that arises through Fair Trade.[137] They do not acknowledge the international regulation of labour and environmental standards as encouraging competition.[138] Extreme advocates of Fair Trade, on the other hand, go as far as fearing the scarification of global economic welfare and "the pressing needs of developing countries for trivial, elusive, or purely sentimental goals"[139].

Both certified *organic* and *Fair Trade* is seen by South African Rooibos producers and manufacturers as adding value to the product, since importers in fact pay premium prices for such labelled products. Even though many of these farms do not make use of, say, artificial fertilisation due to their financial disadvantage, it is nonetheless too expensive for them to convert from conventional farming to organic methods because of the certification costs. However, it is doubtful that consumers will reward these environmentally friendly production methods with their patronage, due to the lack of a clearly defined and regulated certification process.[140]

[135] Howse, Trebilcock 1996, International Review of Law and Economics and Deutscher Teeverband e.V.2004, Website, Fairtrade Foundation 2003, Website
[136] European Fair Trade Association 2003, Website
[137] Howse, Trebilcock 1996, International Review of Law and Economics in Brown 2001, Thesis
[138] Sengenberger, Campbell 1994, The issues From International Labour Standards and Economic Interdependence
[139] Howse, Trebilcock 1996, International Review of Law and Economics in Brown 2001, Thesis
[140] Arenose 2001, p. 9

4.5 Marketing

"In one sense, the food system begins with its raw materials [...] and ends with the consumer – domestic and worldwide."[141]

This part deals with distribution strategies in general and their applications in the South African Rooibos Industry. It gives an overview of the common channels of distribution for Rooibos, focusing on the local processor, packer and distributor. Furthermore, the tasks of South African Rooibos distributors are outlined using an example of a fictitious distributor. The last part of this chapter deals with strategic marketing with special reference to Rooibos tea.

4.5.1 Marketing / Distribution Channels

4.5.1.1 Distribution

Distribution serves to make products available to consumers for consumption in the right form, at the right time and in the right place. It can also stimulate the demand for a product by making it available to the consumer.[142]

The three objectives of distribution are described by the authors of Agro Food Marketing (1997) and are as follows: [143]

New clients are attracted and existing clients will stay loyal when the products are made available in the right form, at the right time and in the right place. Therefore the first objective is to maximise the access to the target group.

The second objective deals with the enormous costs the distribution process generates. Profitability is a major concern. The different distribution functions must be kept as economically as possible, not only in the marketing channel, but also within the company itself: distribution costs must be minimized.

[141] Schaffner, Schroder, Earle 1998, p. 107
[142] Padberg, Ritson, Albisu 1997, p. 354
[143] ibid., p. 354/355

Lastly it is the distributive objective to develop and maintain bargaining power vis-à-vis the company's partners in the marketing channel. Without this, it would be impossible to do business, as earnings would not be high enough.

4.5.1.2 Distribution strategies

Regarding these objectives, it is evident that the distribution strategy plays a vital role in the success of a company. The core decision which has to be made, is the channel of distribution that will be used to sell the product. The method a company chooses to expose their product to the buyer depends on factors such as distribution efficiency, the targeted customers and the channel power. The type of product, as well as the stage of the market development, are also important criteria when it comes to choosing a strategy.[144] D.I. Padberg, *et al.* outline the basic strategies for choosing a marketing channel in *Agro Food Marketing*:[145]

The first strategy is the *intensive distribution* and benefits food products that are regularly purchased. The objective of this particular strategy is to sell the product using as many different outlets as possible. A disadvantage, however, of this method is the high administration cost that arises from fostering relationships with customers. Therefore, it should only be used for routine buying.
The second strategy is the *selective distribution.* In contrast to 'intensive distribution', the outlets are chosen according to whether they offer services suitable to the product or not, and if the image of the outlet reflects those of the product adequately. With the rise of market segmentation, this strategy has gained more and more popularity. Specialities are particularly likely to be sold this way.
Exclusive distribution is the last strategy by which to sell products with. In this case, there is only one retailer, who has the exclusive rights for that particular area and there is no other possibility to purchase the product other than through that retailer. However, this strategy is not very popular in the food industry, but is rather used to sell particular durable products.

[144] Padberg, Ritson, Albisu 1997, p. 352
[145] ibid., p. 360/361

Which of the distribution strategies should be used depends on the nature of the seller. A small producer might not be able to handle a large amount of retail shops buying from him. In this case they would choose one supplier, which could provide them with additional services, such as logistics or marketing activities. On the other hand, a commodity trader, for example, requires only a few producers to provide him with products, but sells to hundreds of retail outlets, since his business is able to focus on the administrative aspect.

4.5.1.3 Channels of distribution: overview

In theory, there are several models of distribution channels and methods describing them. They focus mainly on the distribution of a ready-to-purchase product. In this study, the South African Rooibos Industry is of interest, and seven different functions (mainly involving the production process) have been located on the market. The description of the distribution channels will demonstrate the single steps Rooibos has to go through - from its production to the purchase by a local or foreign buyer. This particular method has been chosen above others, for simplification. The model will conclude with the local or foreign buyer. In the case of the European export market, a second model will follow. This will be discussed in five three, *The German Market*.

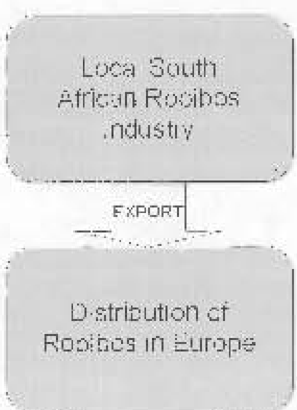

Figure 4 - 7

4.5.1.4 Channels for Rooibos

The following figure displays the different systematic stages Rooibos tea goes through, starting with the producer and ending with the local or foreign buyer. It has been developed using various literature sources and statements from interview partners.

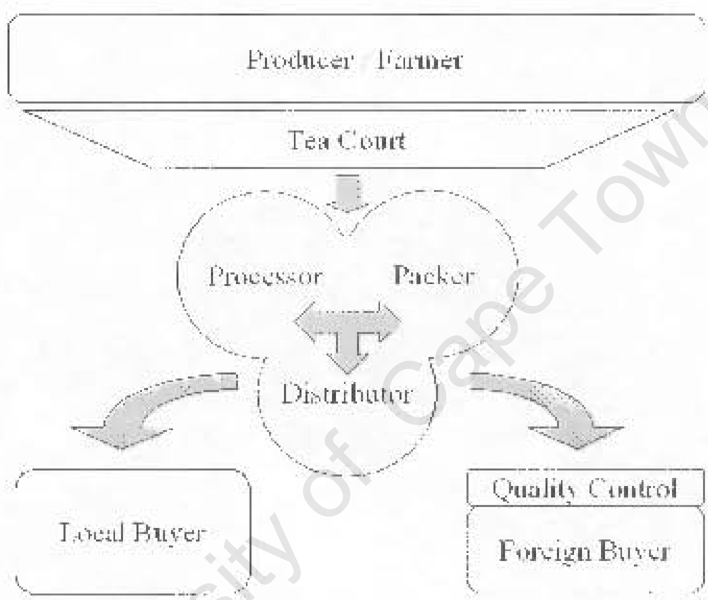

Figure 4 - 8

The first step in the marketing chain for Rooibos is the *producer* and the *farmer*. Currently, there are an estimated 320 farmers actively producing Rooibos in South Africa. Areas under cultivation range from a few hectares to over 5 000 hectares per farm, but these, although large-scale producers, are in the minority. Some farmers are also involved in growing seedlings for other producers. Predominately, almost all produce additional products, such as vegetables and fruit or livestock.
The share of certified organic farms has increased drastically with the past years. Some farms produce both organic and non-organic Rooibos; however the share of completely organic-producing farms are minimal. Aside from the commercial farmers, there are roughly 200 rural small-scale farmers. Rooibos, for the most part, is their main income.

They are divided into communities (for example the *Wupperthal Tea Co-operative*), which are supported by projects such as ASNAPP and Fair Trade, since they cannot compete on the market on their own, due to their limited marketing and management capabilities.

After harvesting, the Rooibos branches proceed to the *tea court*. This step is also referred to as *primary processing*. This is where the fresh Rooibos is processed into small pieces, fermented and dried. This procedure, though not very expensive in itself, is nonetheless restricted to only a few, usually big, farms, as not every farm owns the required facilities. Those who do not possess their own equipment generally share *tea courts* with one or two other small farms.

The next link in the marketing chain is the *processor*, also referred to as the *assembler*.[146] At this point in time there are eight South African companies equipped with the facilities to commence with secondary processing, wherein the tea is pasteurised and sifted. This process is highly cost intensive, as the machinery is very expensive. Finally, the product is either bagged into sacks to be sold as bulk, or packaged in tea bags, ready for end-consumer's use. The latter is done by *packers*: companies that specialize in end-consumer packaging. Processors and packers are also referred to as 'assemblers'.[147]

After completion, distribution, both on a local and international scale, is done by roughly 25 enterprises within South Africa. Most of these enterprises are also involved in business with other natural products, ranging from Honeybush, other herbal teas and medicinal herbs to wine and cosmetics. A *distributor* operates as an independent agent who acts as middleman between producer, processor, packer and buyers. He either sells to local buyers, which can include large national brands, wholesalers, retailers or other distributors, or the distributor exports the tea. When exporting the product, there is another institution involved: the *quality control*. By law, each consignment of Rooibos exceeding 15kg must be controlled and approved by the *Perishable Products Export Control Board* (PPECB). The PPECB is the regulatory body which controls the quality standards of Rooibos exports on behalf of the Department of Agriculture

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[146] Schaffner, Schroeder, Earle 1998, p. 126
[147] ibid.

A typical Rooibos business integrates two or more of the above described steps as businesses also sometimes offer services to other factions of the industry.

4.5.2 Typical Example of Distributor

As it would be confusing to show all different varieties of integration amongst the players of the industry, the following chart will be used to exemplify a typical distributor for Rooibos.

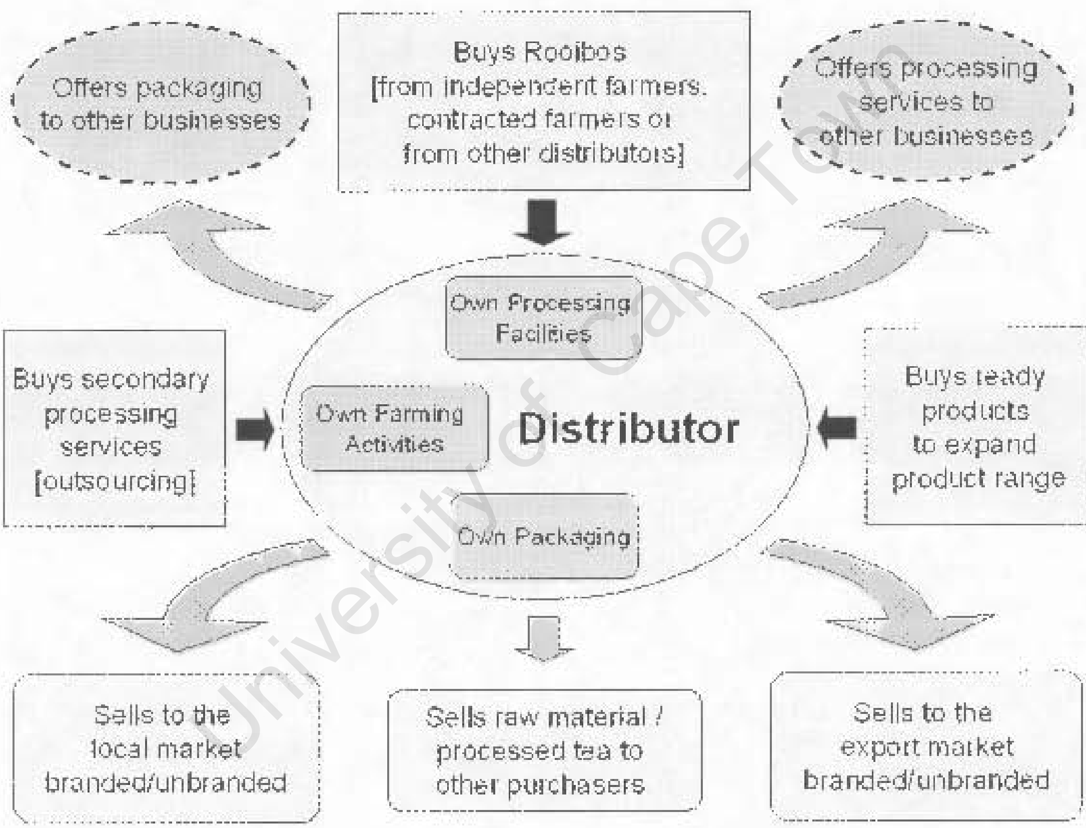

Figure 4 - 9

Typically, distributors are strongly integrated businesses. Beginning with the *raw material*, the fermented Rooibos, there are three possibilities: either the distributor produces Rooibos on his own farm, he purchases it from somewhere else or a combination of these two. Supplier of Rooibos can be independent farmers, contracted farmers or other distributors. In case the own farming activities produce enough raw material, the distributor can also sell it to other purchasers.

Possessing enough tea, the distributor has the following choices: *Secondary processing*, that is pasteurising and sifting, as well as flavouring the tea, can be done in-house, using one's own processing facilities or alternatively the distributor out-sources that work to another manufacturer. On the other hand the distributor can offer services to businesses without possessing their own processing facilities. Rooibos not sold in bulk must be *packaged*, for example in tea bags or other customer packaging. The distributor is also able to package his own products, although this is not very common. If he does, however, he is in a position to pack tea for other companies, too. Generally this service is purchased from a specialized tea packer who packs for different companies.
To expand the own product range the distributor sometimes *buys* ready products from other companies. This is advantageous in case the distributor wants to sell his products directly to a wholesaler or super-market, as these mostly want complete product ranges. In addition to that it helps to spread the risk by not depending solely on one product.
The *distribution* itself uses different channels to market the products. Firstly there is the local South African market. Here the distributor sells either to other distributors, who then again penetrate the retailers and supermarkets, or he sells branded or unbranded products directly to retail stores.
The same applies to the export market where customers are either tea traders who buy bulk or the distributor sells his products directly to a broker, wholesaler or retail store.

As research showed none of the South African Rooibos distributors is like the other. Many different combinations are conceivable. However, most of the important role players have one thing in common: They all are able to secondarily process the tea and each of them is represented on the huge export market.

4.5.3 Strategic Marketing

"All companies must look beyond their present situation and develop a long-term strategy to meet changing conditions in their industry."[148]

In *Marketing Management* (1984), Kotler emphasizes that there is no single optimal strategy for all companies. Strategic marketing depends on a company's position in the industry, opportunities and available resources.[149] Furthermore, Kotler remarks that the profit a company makes, is, apart from depending on the market size and growth rate, directly linked to its positioning strategy.[150] If the company pursues a clear strategy it is likely to perform well.[151] Players of the South African Rooibos Industry apply different marketing strategies. Every company's marketing and competitive strategy is by its very nature confidential and cannot be disclosed or published. Therefore, the aim of this section is not to describe the single strategies South African Rooibos companies employ, but to give a general overview on strategies which can be found on the market. The structure of this particular analysis will be based on Kotler's three strategies.[152]

The first strategy that can be found on the market is called the *Market Penetration Strategy*. There are three methods used to increase the market share of current products in the current market. Firstly, customers are encouraged to purchase more of the current Rooibos products in the same period of time. Secondly, market share is taken from competitors by persuading their customers to switch to another brand or product. And lastly, to find new customers who have not previously bought the product at all.

The second strategy is the *Market Development Strategy*, which is another approach used to improve success on the market. Basically, this entails searching for new markets. This can be done in different ways, such as looking for new distribution channels in the present location or expanding to new locations, or potential user types.

The last strategy is the *Product Development Strategy*, which modifies the present product in order to diversify the product range.

[148] Kotler 1984, p. 34
[149] ibid.
[150] ibid., p. 37
[151] Porter in Kotler 1984, p. 37
[152] Kotler 1984

Obviously, the majority of players in the South African Rooibos Industry do not follow the above-mentioned marketing strategies to the word. Rather, they apply combinations of these, and commence to focus particularly on one specific field, which works well for them.

4.5.3.1 Policies / Standards

As mentioned earlier, there are certain rules set up by the Department of Agriculture for the export of Rooibos. The regulatory body is the *Perishable Products Export Control Board (PPECB)*. It controls the quality and standards of Rooibos exports on behalf of the *Department of Agriculture* and its *Directorate Plant Production, Health and Quality.*

To export a consignment of Rooibos, the following requirements have to be approved by the PPECB:[153]

- The consignment concerned consists of the proper type of Rooibos
- The consignment concerned complies with the quality standards set out by the Department of Agriculture
- The consignment concerned complies with the food safety standards set out by the Department of Agriculture
- The containers in which the consignment concerned have been packaged are marked in accordance with the marking requirements set out by the Department of Agriculture

Figure 4 - 10

Food safety standards for Rooibos and Rooibos mixtures are to be examined for physical pollution, moisture content, *Salmonella* and bacterial contamination. The bulk tea is also tested for *Escherichia coli* and must be free from insects. A very important factor is chemical residue, for which not only a local standard must be complied to, but the standards of the importing country must also be met. Details of the standards can be found in the *Agricultural Product Standards Act* from 1990.[154] Furthermore, the Department of Agriculture sets standards for the containers in which Rooibos and Rooibos mixtures are exported, how bulk containers and retail packaging ought to be marked, how the Rooibos ought to be sampled by the PPECB and the methods of inspection of Rooibos and Rooibos mixtures. All information can be found in the Agricultural Product Standards Act, 1990.

153 South Africa. Department of Agriculture 2001. Agricultural Product Standards Act, p.6/7

154 South Africa. Department of Agriculture 2001

4.6 The Market

Different industries have different market intermediaries. Sometimes they have completely different functions, sometimes one institution integrates several tasks and sometimes they call the same function a different name.

The first part of this chapter deals with the structure of the market. Therefore the theoretical market forms and how the market for Rooibos fits into these, will be discussed. The different market intermediaries involved in the distribution process of Rooibos in South Africa and their characteristics are discussed in the second part.

Integration plays an important role in an industry not only to gain market share, but also occasionally to ensure the survival of a company on the highly competitive market.

Lastly, every industry and market has its regulatory bodies; for example in the case of Rooibos tea there is the *Perishable Products Exports Control Board*, (PPECB). The market regulation as well as an overview on the export market for Rooibos, which will be discussed at the end of this chapter.

4.6.1 Market Structure

"*Market structure is defined as characteristics of the organization of a market which seems to influence strategically the nature of competition and pricing behavior within the market.*"[155]

Literature describes the theoretical market forms and their classifications as follows:

[155] Bain 1968 in Scott 1995, p. 221

4.6.1.1 Theoretical Market Forms

Distinguished market structure, conduct and performance characteristics associated with theoretical market forms:[156]

	Theoretical market forms			
Organization and behavioural attributes	Pure competition	Monopolistic competition	Oligopoly	Monopoly
Market structure				
Number of firms	Numerous	Numerous	Few	One
Entry conditions	Easy	Easy	Moderate to difficult	Blocked
Products differentiation	Undifferentiated	Some differentiation	Variable	Unique product
Market conduct				
Recognition of interdependence amongst firms	Unrecognized	Unrecognized	Recognized	None
Feasibility of optional strategies	No	No	Yes	Yes
Market performance				
Technical efficiency	High	Moderate	Variable	Variable
Progressiveness	Low	Low	Variable	Variable
Earnings	Normal	Normal	Above normal	Above normal

Figure 4 - 11

[156] Padberg, Ritson, Albisu 1997, p. 138

On closer examination of the South African Rooibos market, one has to make a distinction between the entire export market as one closed unit, and the single enterprises it consists of. It is not possible to classify the entire industry as either monopolistic, oligopolistic or even as polypolistic competition. There are certain factors that distinguish each of the market forms from each other:

4.6.1.2 Monopolistic properties of the Rooibos Industry

Having met the requirements D.I. Padberg *et al.* describe in *Agro-Food Marketing*[157], the South African Rooibos Industry is regarded as a *monopoly*: it has an entirely unique product, which is indigenous, and therefore does not grow anywhere else, automatically blocking other companies from entering the market.[158]

Another component that supports the description of a monopolistic character of the industry, is the *price discrimination*.[159] Interviews with members of the Rooibos Industry, as well as comparisons of export prices for different countries (or even for different buyers within the same country), show that the industry is able to divide the market into segments as Rooibos is sold under different conditions to different customers.

In addition to this, the industry acts as a *price maker*. It can set prices and outputs at a level where profits are maximized. Only a monopolist would be able to do this without fear of loosing customers to other suppliers. Indicators for this are statements from industry members, who declare that "customers would pay anything just to get their share of the limited quantity of good quality Rooibos available"[160]

Although the power of the industry is great, it is not necessary for the South African government to intervene as in the regulation of public utilities, as the whole industry consist of a number of companies, which on the other hand explodes the theory of having a Rooibos monopoly.

[157] Padberg, Ritson, Albisu 1997, p. 139
[158] McChesney, Shughart II 1995, p. 16 and Hirshleifer 1988, p. 222
[159] Padberg, Ritson, Albisu 1997, p. 139 and Hirshleifer 1988, p. 240
[160] Interviews, anonymous

4.6.1.3 Oligopoly properties of the Rooibos Industry

If one looks at the South African Rooibos Industry not as a closed market, but at the independently operating companies, there are also reasons to see it as an *oligopoly*. A prerequisite for *oligopolies*[161] is that there are only a few firms competing with each other for a market share. At this stage there are only eight important companies, exporting Rooibos from South Africa. Rooibos is also sold by a few other South African companies but those eight count for 95% of the annual sales[162] (see *Appendix 11.1 South African Rooibos Industry – Addresses*).
Furthermore, due to the limited resource – there is only a certain amount of Rooibos produced each year - it is difficult for new companies to enter the market. At this stage, the only possible exception would be for a new company to take away Rooibos resources from one of the other existing companies. This is undoubtedly difficult. Only a company with large financial resources would be able to enter the market, as profit margins are too low and prices too keen.
Another effect, which results from the shortage of resources, is a recognizable interdependence between the individual companies. No company could change their output without the others noticing it. If one company were to sell more Rooibos, it would have to take it from the other companies' suppliers, by paying a higher producer price. This leads the enterprises to "engage in "strategic" rather than price-taking behavior".[163] Motivation towards coordination, coalitions or even cartels in an oligopolistic competition is very strong[164], especially if the number of competing companies is as low as in the Rooibos Industry. This is also supported by statements from interview partners, who said that marketing strategies, as well as producer prices, are being discussed amongst the members of the *Rooibos Forum*.
A further strategy some companies follow in an oligopoly is to differentiate their products from those of their competitors. Rooibos is available in different qualities, so highlighting this would be advantageous. There are also different production methods, as well as the fact that the Rooibos was only produced in a certain area, which can be used to differentiate one company from the others, e.g. *The Big Five Rooibos Company* markets its Rooibos as an *'estate' tea*.

[161] Padberg, Ritson, Albisu 1997, p. 138 and Hirshleifer 1988, p. 222
[162] Interview Engelbrecht
[163] Padberg, Ritson, Albisu 1997, p. 139 and Hirshleifer 1988, p. 222
[164] Padberg, Ritson, Albisu 1997, p. 139

4.6.1.4 Pure competition

Seen in its entirety, one could even see the Rooibos Industry as being part of a polypoly. Considering the enormous number of competing herbs and black teas on the hot beverage market, Rooibos faces perfect competition. Firms are sufficiently numerous and are unable to influence market outcomes.[165] Market entry is easy: without any problems, one could start marketing a "new kind of tea" as examples such as '*Mate*' or '*White Tea*' show. Looking at the German hot beverage market, prices are low and do not vary much between the various products. In the environment of perfect competition, all firms are price takers.[166] In this scenario, price-discrimination is not possible. Consumers would not "pay more than the market-determined competitive price, and no firm would sell [their product] for less"[167].

4.6.1.5 Conclusion

In this part of the research, the eight individual companies, which manufacture and export Rooibos from South Africa, will be seen as operating in an entirely oligopolistic competition. Aspects of the European import and consumer market for hot beverages will be discussed in chapter five, *The German Market*.

4.6.2 Market Intermediaries

The functions the players of the South African Rooibos Industry fulfil can be organised into seven different groups:

Production	Processing	Packaging	Distribution	Purchasing
	Regulation		Research	

Figure 4 - 12

[165] Padberg, Ritson, Albisu 1997, p. 137/138
[166] McChesney, Shughart II 1995, p. 10
[167] Hirshleifer 1998, p. 243

4.6.2.1 Production

Under 'production' one understands the cultivation and harvesting of Rooibos.* Pre-treated Rooibos seedlings are transplanted into plantations at the age of 3-4 months. At this age they have reached a height of approximately 10 to 15 cm. The number of planted bushes varies between 8 000 and 10 000 per hectare. After being "topped" to promote branching the first harvest can be carried out one year later. The first full crop can only be expected in the following year. The life span of a bush under full production adds up to four to five years. Harvesting the Rooibos means cutting off the branches about 35 cm above the ground. This is done either by hand or machine. The green tea is then tied to bundles and transported to the drying court. There the sheaves are cut to pieces of 3-5 mm length and mechanically bruised between two rollers to initiate the fermentation process. After watering and airing, the Rooibos is fermented in heaps, obtaining its typical colour and flavours. When the fermentation process has been completed the tea must dry in the sun. The dry Rooibos is then ready for further processing. One hectare planted tea bushes produces between 400 kg and one ton of dry Rooibos of which approximately 65 – 80% can be classified as tea, depending on the cut length. The rest is "waste material" (sticks).

4.6.2.2 Processing

The fermented and dried Rooibos is brought to one of the processing facilities in large sacks. There it has to be sifted several times to remove sticks and dust. The tea is graded according to appearance (colour), cutting length, flavour, and taste. To ensure a uniform quality and appearance of the finished product it can be mixed with teas from different regions of production. External factors, such as climate, soil type, and altitude of the plantation, as well as the production process itself, can have an impact on its quality. Finally the Rooibos is purified using steam pasteurisation to destroy all harmful bacteria.

* The production and processing is described using information gathered from interviews with Rooibos companies, Hayes 2000 and Montego Rooibos Herbal Tea 2003, Website

4.6.2.3 Packaging

Rooibos is either packaged loosely in polypropylene or recyclable paper bags. Sizes vary between 1kg and 35kg. For local consumption most of the tea is packed into teabags containing 2.5g Rooibos. Those teabags, in turn, can be put into foil pouches, cardboard boxes, or both varying in form and size.

There are also other forms of Rooibos such as bath-bags, tins, clay jars or loosely packed in paper bags.

Also part of the packaging is the print on the packaging material, which is either done by the packer himself or outsourced to a printer.

4.6.2.4 Distribution

The distribution process for Rooibos' many different facets has been discussed in earlier in chapter *4.5 Marketing*. Generally one can distinguish between the local distribution and exports. Locally Rooibos is distributed through the common channel system using a distributor who acts as a middleman between producer and wholesaler/ retailer.

Exported Rooibos can be either supplied directly from the manufacturer or local agents with do not own production facilities. Overseas buyers include large tea importers, who again act as processors (e.g. mixing and repackaging the tea) or distributors or, in some countries, the retailers themselves. In Germany the tea market is dominated by a few large importers, who specialize in buying tea from all over the globe.

4.6.2.5 Purchasing

Purchasing describes the buying of the raw material from the producers. Not every processor produces his own Rooibos, and if he does, large enough volumes are difficult to achieve. Which is why the tea is often purchased from various farms to be able to meet the increasing demand from the market.

Another facet of purchasing would be the procurement of packaging material or additives to refine the product and add value to it. Services such as pasteurisation, packaging or printing marketing material also fall under the category 'purchasing'.

4.6.2.6 Regulation

Every industry has its laws and regulatory bodies. Before 1996 the *Rooibos Tea Control Board* was the most important institution regulating the industry. Nowadays the Rooibos production, processing, packaging, labelling and distribution is regulated by the *Department of Agriculture and its Directorate Plant Production, Health and Quality* which controls the quality standards in the industry. An important issue is the quality of Rooibos. Especially for exports there are tight laws regarding pesticide residues. In terms of the Agricultural Products Standards Act, 1990, no Rooibos may be exported without a phytosanitary inspection certificate, guaranteeing that the product is residue free of toxic substances or impurities. In addition to this, regulations also take place in importing countries.

'Organic production' and 'Fair Trade' are also subject to numerous regulations. In the case of 'organic', the whole production and manufacturing processes must be certified by authorised companies such as *ECOCERT*, the British Soil Association or the German based *LACON GmbH*.

4.6.2.7 Research

Research takes place in different fields connected with Rooibos. One aspect would be to focus on the production and cultivation of the Rooibos plant as a commercial crop. It is important to know about diseases and pest, which could affect the yield. Several institutions are involved in researching the product's health properties and potential as functional food. Organisations include the Agricultural Research Council's Infruitec-Nietvoorbij at Stellenbosch, the ARC's Small Grain Centre (Bethlehem), the Medical Research Council of South Africa, as well as the Universities of Stellenbosch and the Free State.[168] Since the privatisation of the Rooibos sector, the industry has to fund its own research. There have been financial contributions such as from the South African Cancer Association, however the largest part of the funding has to be provided by the industry members themselves.

[168] Snyman 2000, p. 5/6

To avoid each company contracting a specific research project, resulting in an uncoordinated and fragmented approach, the *Rooibos Forum*, an industry forum looking at matters of common interest in the industry, has been founded. Each member pays into a fund, according to the volume of Rooibos sold by each company, which is then used for collective research.

4.6.3 Integration Types and Implications

Integration plays a significant role in the agro-food sector.[169] There are two dimensions of integration in industry organization: *horizontal* and *vertical integration*. Both tie individual entities in an industry together.

4.6.3.1 Horizontal integration

'Horizontal integration' refers to the amalgamation of companies that perform similar functions. By definition it "increases market concentration and, if firms in the industry are few, it can lead to greater control over supply of products produced in the industry and to enhanced market power."[170] Especially in industries with a dominant market leader, 'horizontal integration' helps small companies to be more successful on the market, as together they gain market power. Such agreements between companies can either be formal or informal.[171] An example of this would be the agreement between small Rooibos farmers with limited outputs to use a tea court for primary processing, together. This is a common practice since it is not economical to maintain the facility on each farm.

4.6.3.2 Vertical integration

In contrast to 'horizontal integration', 'vertical coordination' between companies combines consecutive businesses along the marketing or distribution chain, for a commodity. As with the horizontal agreements, vertical coordination can vary from loose contracts to outright ownership.

[169] Hayes 2000, p. 19/20 and Padberg, Ritson, Albisu 1997, p. 6
[170] Padberg, Ritson, Albisu 1997, p. 140
[171] Hayes 2000, p. 19/20

Most of the intermediaries in the Rooibos sector are in one way or another vertically integrated. Beginning with farming, the processing and distribution are often combined as one enterprise. Distributors own either complete farms or shares of Rooibos farms and do their own secondary processing; some even package the actual products themselves. Taking a closer look at some of the companies involved in the Rooibos business, one discovers that, although they might have different company names and functions, they are owned by the same people. This makes sense, as 'vertical integration' reduces risks and operating cost are lower in these organizational arrangements.[172] A distributor who also owns production facilities is also able to manufacture for other companies, in the case the amount of Rooibos he possesses is insufficient. Another benefit would be procured in the event of the Rooibos market weakening: the distributor could then sell other products produced by farms he owns.

But there are also disadvantages of 'vertical integration' in agricultural subsectors such as the Rooibos Industry. The larger the company and the more diversified their business operations and integration, the less opportunities exist to sell to or buy from independent farms and firms. A company exclusively specialized in one field such as secondary processing, can work much more efficiently and therefore is less cost intensive, but integrated companies must persist in their own processing. On the other hand, opportunities to outsource certain functions completely, decline the more integrated companies become.

'Vertical integration' might also be the reason to loose price and quantitiy information, and could be responsible for an increase in variablilty outside the included section of the subsector.[173] Disadvantages and possible overall gains from close coordination systems must be weighed up to see if it is worthwhile in applying.[174]

[172] Hayes 2000, p. 7
[173] ibid., p. 141
[174] Zuurbier, Peter J.P. Agribusiness oranizational structures for competitiveness in the global environment. Workshop held at Elsenburg Agricultural College 1999 in Hayes 2000, p. 17/18

The following general rules favouring 'vertical coordination' apply:[175]

- The higher the level of specificity of the assets, the greater the interest to integrate. The same holds true for information specificity.
- The higher the level of uncertainty, the greater the interest to vertically integrate. If information is difficult to assimilate or obtain.
- The weaker the legal and commercial structure concerning contracts, the greater the interest to vertically integrate.
- The higher the level of vertical integration, the better the transmission of information and the lower the effect of individual incentive (opportunism).
- The lower the levels of competition in supplying industries, the greater the interest to vertically integrate.
- The more frequent the transactions, the greater the need for integration.

Figure 4 - 13

4.6.3.3 Conglomerate integration

A combination of vertical and horizontal integration is also possible, in which case it is referred to as *conglomerate integration*. This kind of coordination refers to the branching out of companies into other lines of activity.[176]

There are three types of 'conglomerate integration'. Examples for each of them can be found within the South African Rooibos Industry.

Product extensions is the first type of 'conglomerate integration'. Nearly all Rooibos distributors offer two or more different, but related, products. Generally mostly Honeybush or other indigenous herbs and spices are produced, since distribution channels are very similar, if not the same. Customers of Rooibos and Rooibos products sometimes also purchase the other commodities as well. Business relations and existing marketing channels can therefore be used for different products without having higher marketing costs.

From the producer's aspect one often finds that farms do not solely grow Rooibos, but also fruit and vegetables; some even breed livestock to diversify their activities. Facilities, as well as farm equipment, can be used for different products. The diversification also reduces risks, such as losses caused by low producer prices, or crop failure.

[175] Adapted from Soler L.G. "Supply Chain Management and vertical Relationships in the Food Sector" Workshop held at University of Stellenbosch 1999 and Oster 1994 in Hayes 2000, p. 19/20
[176] Padberg, Ritson, Albisu 1997, p. 141

Market extension, however, means that a given product is sold in two different market areas. It is widely spread in the Rooibos sector. Rooibos farmers sell their tea not only to processors but also have it processed themselves. This ensures direct exportation to the distributor who not only exports Rooibos but also supplies the local market, as well as different industries, such as the extract business. It is beneficial to reduce the risk of loosing all in the case of a collapse in the market.
Finally, one speaks of *pure conglomeration* if a company is engaged in activities that are totally unrelated. Examples of this would be the company *Khoisan*, which, in addition to Rooibos and Rooibos products, also distributes baskets; and *The Big Five Rooibos Company*, which is also involved in the wine industry.

4.6.3.4 Agricultural cooperatives

One organizational form often found in the agricultural industry is the *agricultural cooperative*. Farmers especially, engage in such ventures, as to be able to compete in the generally strongly competitive environment, collectively.
The main goal of agricultural cooperatives is to improve bargaining power towards their suppliers and customers. It is much easier to negotiate a targeted price with the strength of a cooperative than as a single, economically insignificant party. On top of this, if the farmer can make use of the cooperative, the costs of distribution decrease, which has a direct impact on the farmer's income.[177]
An example of a readily working cooperative is *The Wupperthal Tea Co-operative*. This empowerment project consists of 50-60 small scale Rooibos farmers who have their own tea court and produce around 70 tons annually. Together they are in a position to do business with such worldwide operating companies such as *Fair Trade* and *Oasis*.
To be able to function, cooperatives generally provide their services at a cost to their members. The distribution and expenditure of the money is decided democratically. Occasionally, net earnings of the cooperative are returned to affiliated persons.[178]

[177] Padberg, Ritson, Albisu 1997, p. 148
[178] ibid., p. 139

4.6.3.5 Trusts / Cartels

To ascertain whether or not the South African Rooibos Industry is involved in trusts or cartels, the following information will be examined.

Jack Hirshleifer explains in *Price Theory and Applications* that a *cartel* is a group of companies who combine with the intention to raise prices and/or restrict output. The result is that they are able to act as a *collective monopoly*. In a cartel every involved company agrees to lower production to force consumer prices to rise. However, a cartel will only work if all companies stick to their agreement.

It is very tempting for a single enterprise within the cartel to produce more than agreed on, as this would lead to a greater profit. Therefore, particularly in an industrial environment where confidence between the competitors is not very high, it is very difficult to form a cartel.[179]

In addition to this most cartels/trusts violate the *antitrust law*, which prohibits any kind of agreement between competitors to fix the price of products and services, as this would result in a "restraint of trade". If such an agreement is effective, the cartel would have the power to control the market, which would lead to the elimination of competition.[180] "The law's oldest and, probably, most valuable rule states that it is illegal *per se* for competitors to agree to limit the rivalry among themselves."[181] An opponent to this *per se* rule is Robert H. Bork[182]. According to Bork, price fixing and market divisions can be beneficial to the industry as they enhance the efficiency of cooperate production. However, even if some of the participating companies save money, as they spend less on gathering price information, the certainty of output restrictions does not justify the opposition of this law.[183] If price fixing or dividing markets play only a minor role in the whole agreement, it could be construed as lawful. If the main aim of the joint venture is not to eliminate rivalry, and the effectiveness of the cooperation does not increase more than necessary for the purpose of the common economic activity, it is deemed within the law. Furthermore, the restriction of output caused by the agreement must not be a threat to the market. It must also refrain from being a primary purpose to restricting output.[184]

[179] McChesney, Shughart II 1995, p. 251
[180] 273 U.S. 392 (1927) at 397, United States v. Trenton Potteries Co. in Blair 1972, p. 575/576
[181] Bork 1993, p. 263
[182] ibid., p. 264
[183] ibid., p. 268
[184] ibid., p. 279

4.6.4 Regulatory Bodies

4.6.4.1 Market orders and boards

"Market orders and boards are government sanctioned institutions authorized to facilitate collective activities of procedures in the marketing of agricultural products."[185]

Their area of responsibility encloses quality and quantity control of a product and its orderly marketing. This includes the regulation of production as well as sales quantities to ensure producer prices. Market orders and boards also regulate packaging and grading systems. To enforce such regulations, mandatory inspections are employed. In addition to that the orders and boards coordinate research, advertising and promotion for the product. Product and market development, as well as sales follow-up and communication with plant breeders, are some of the main functions of marketing boards.[186]

4.6.4.2 Control boards in South Africa

Before 1994, South African agriculture was regulated by a control board system. These boards were authorized to regulate the industry from production to distribution of agricultural products.
In the case of Rooibos the *Rooibos Tea Control Board* acted as the sole buyer from producers and only the Board was allowed to process and sell the tea to approved exporters. It also implemented a *quota system* for producers based on their supply history, regulating the amount of Rooibos on the market.[187]
When the democratically chosen government came into power, the control board system was abolished and the *Rooibos Tea Control Board* was privatised.

[185] Padberg, Ritson, Albisu 1997, p. 150
[186] ibid., p. 151
[187] Botman, Berghuis 2003, p. II

4.6.4.3 PPECB

Information was obtained from *The WESGRO Background Report*[188], the annual report from the PPECB (2002)[189], their website[190] and a personal interview with Leon Ras, leading assessor at the PPECB in Clanwilliam.[191]

The most important regulatory body is the Perishable Products Export Control Board (PPECB). It has *ISO 9001* certification status and *EUROGAP Certification Body* accreditation. It's legal framework consist of the "*Control over Sale and Export of Agricultural and related products*"[*] and the "*Control of Perishable Products intended for export from the Republic of South Africa*".[**]
PPECB's some 260 staff members control the quality and standards of more than 200 different products, including Rooibos, exported from South Africa, on behalf of the Department of Agriculture. The PPECB is solely responsible for controlling the standards and quality regarding not only the product itself but also its packaging, marking and labelling for the export market.
Their services include giving advice to the producers such as pre-harvest grading or residue sample on request. All consignments ready for export are inspected and control samples for residue controls in Government Laboratories are taken. The PPECB is also a great source of information to industry members allowing them to access articles and export statistics in their database. *Export Notification*, *Cold Store Registration* and *Container Depot Inspection* also falls under the PPECB's responsibilities.

For the inspection of Rooibos consignments the relevant office is situated in Clanwilliam. The leading assessor visits the farms once a week, taking note of the compliancy of the farmer with the rules and standards set by *EUROGAP*[***] for exports to the EU, such as using certain substances. He also draws samples from the consignments, which he then sends to different laboratories where the sample is tested for pesticide residues and bacteria.

[188] Snyman 2000, p. 24
[189] Perishable Products Exports Control Board 2002, Annual Report
[190] ibid., Website
[191] Interview Ras
[*] A.P.S ACT (ACT 119 OF 1990)
[**] PPECB ACT (ACT 9 OF 1983)
[***] European Good Agriculture Products

"EuroGAP is a consumer-driven requirement that mandates Hazard Analysis Critical Control Point (HACCP) & International quality Management Organization (ISO 9000) in all areas of production for farms that want to export to the EU market."[192] The certification will, in all likelihood, become a minimum requirement for entry into the EU market.

Only if all tests are negative does the PPECB give the consignment an export certificate with a stamp of approval, thus releasing it for the export. Approximately 10% of all tested Rooibos is rejected. Costs for the testing are carried by the customer.

4.6.5 Exports

The Rooibos Industry has moved away from a purely sophisticated and health-conscious market. Rooibos has a strong market outside South Africa, both as a tea on its own, as well as a blend for other herbal and fruit teas. Increasing demand, especially in Europe and Asia, has notched up. Within the last five years, between 1998, when South Africa exported approximately 1 500 tons, and 2003, export figures more then quadrupled to 6 300 tons.[193]

According to Soekie Snyman "the introduction of flavoured and organic Rooibos products is believed to have played a major role in the increased export volumes of recent years"[194], but not in all importing countries. German companies, for example, almost solely purchased pure bulk tea (as opposed to retail packaging) and processed and packed it themselves to re-sell it at much higher profit margins. Also the market for organic tea in Germany is still insignificantly small.

[192] Mabiletsa 2003, USDA Foreigne Agricultural Service, GAIN Report
[193] Perishable Products Exports Control Board 2003
[194] Snyman 2000, p. 2

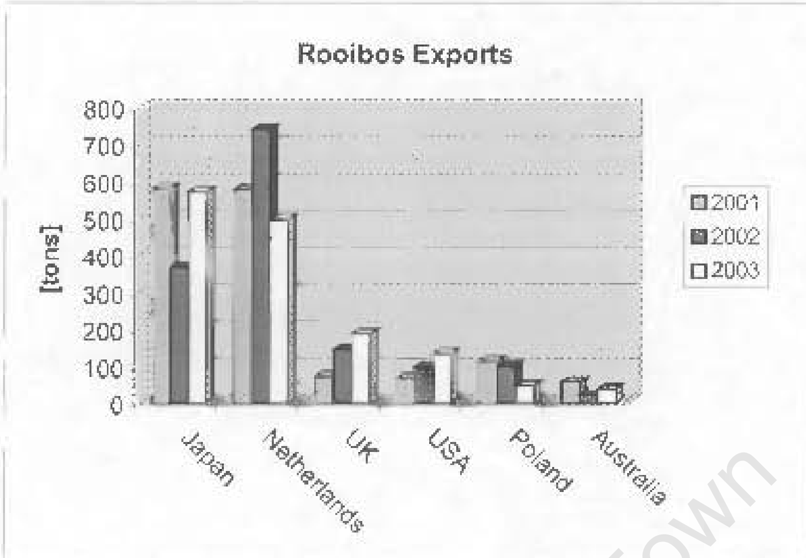

Figure 4 - 14

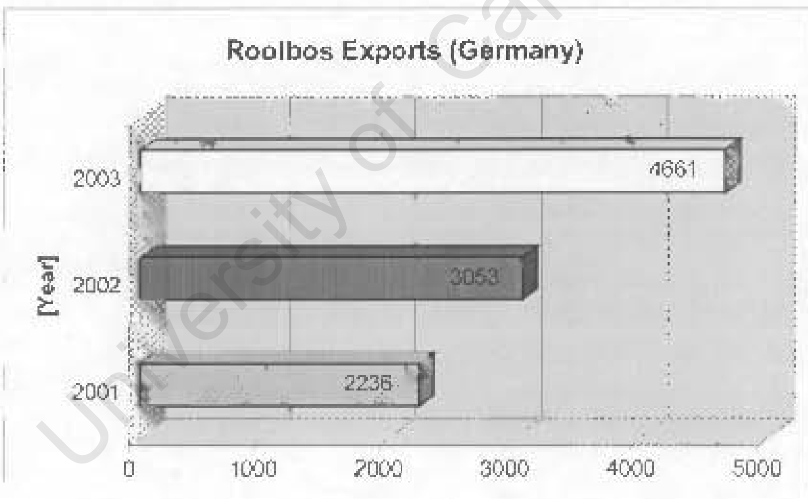

Figure 4 - 15

These graphs show Rooibos exports in tons, comparing the years 2001, 2002 and 2003.[195] They only show countries with total imports of more than 100 tons during the last 3 years. Although it did not have the highest rate of growth, one can clearly see that Germany played the most important role as an importing country in that period of time. The 8 largest importing countries (including Germany) made up almost 98% of the total South African Rooibos exports in 2003; only Germany's share of that was 4 661 tons or 73.8%.

[195] Annual Reports by the Perishable Products Exports Control Board

Note: Interviews with German importers showed that a big share of the imported Rooibos is exported again. One of the major importers even stated that they re-export approximately 50% of their Rooibos.

The charts also show that the export market is quite fluctuating but the total growth rate from 2001 to 2002 was 21% and 34% in 2003.

4.7 Pricing

In this chapter the origin of prices for commodities and their influences will be discussed. Several factors are important for the pricing of Rooibos tea. In the last years, for example, the rate of exchange of the South African Rand to the Euro had a huge impact on prices and therefore on earnings of the producers and processors. The quality and the availability of a product also play important roles in the pricing mechanism of commodities.
These influencing factors will be discussed in this section. In addition to that there will be a review of historical prices for Rooibos.

4.7.1 Commodity Pricing Mechanism

To understand the South African Rooibos Industry, it is important to have some background information about prices. There are several ways prices for commodities are set. The manner in which this happens is very important "in determining the returns that a producer [or any other intermediary in the distribution chain] receives."[196]

Bearden distinguishes between six possibilities how prices are set:[197]

The first and most limited method of the formation of prices is *administered pricing*. Prices are mainly set by the government or in a vertical organisation of the distribution channel. There is no room to adjust these prices for the market intermediaries; they must follow the guideline strictly.

196 Rhodes 1993, p. 262
197 Bearden 1998, p. 200

Another method in achieving a price for a commodity is called *collective bargaining*. Producers and processors of a product establish a bargaining cooperative, who then use the power of the group to achieve the prices they aim for. Forming cooperatives to gain bargaining power, even amongst direct competitors, makes sense, as trading partners will be forced to accept their terms in order not to lose business to competitors. This form of negotiating prices is used by Rooibos producers to achieve higher farm prices from the processors.

Formula pricing is mathematically calculating the transaction price by using one or more indicators of the value of a commodity. In the South African Rooibos Industry this method plays a minor role.

On *auction markets*, also called *organized exchanges*, which is commonly used for livestock, both traders and products are physically present at the same place.

If the distance between buyer and seller is too big, or they are geographically widely spread, *electronic markets* offer an easier way to negotiate prices than 'auction markets'. Products are not physically brought to an auction yard but attributes are described in writing and supported by visual portrays on digital video or photographs. Similar to the stock exchange, commodities are traded through telephone, computer and Internet.

For many commodities, according to Rhodes, the pricing system is a mixture of various price-setting systems.[198] However, for the South African Rooibos Industry virtually only one system applies: *decentralized individual negotiation* (DIN). This simply means that buyer and seller, in this specific case Rooibos exporter and tea trader or overseas customer, negotiate the price for the commodity without using an intermediary. The main reason why this system has established itself in the industry so well is because it is cheap. There are no "up-front" costs. The products do not have to be transported to a physical market, and no auction house or other intermediary has to be paid. Prices are mostly negotiated personally, on the phone or via e-mail, after samples of the product have been sent to the overseas customer. Additionally to the low marketing costs, there is a larger social aspect. Relationships between trading partners are established or grown. It has to be said that the cost of time involved is considerable, but is normally compensated by the advantages this method possesses.

[198] Rhodes 1993, p. 262/263

4.7.2 Tariffs and Import Restrictions

Traditionally, tariffs and quotas have been used by countries to keep domestic prices for products above international prices. This is done to encourage domestic producers and to reduce imports.[199] For Rooibos, there is no restriction of imports in Europe, as no own production exists. The only constraints Rooibos exporters to Europe face, are in the nature of food safety standards from the *European Community* (EC).

4.7.3 Rate of Exchange

"The currency of any country is like any other commodity; its price is established where the supply of and demand for the currency intersect. This price is the exchange rate."[200]

Within the last three years the rate of exchange between the South African Rand and the Euro fluctuated close to 100% (from strongest to weakest). The rate of exchange is an important factor for trade. In imports and exports especially, it plays a vital role, since expenses and earnings are often in foreign currencies and have to be exchanged to be utilized locally. The rate of exchange is influenced by several factors, such as the interest rate of a country, its economy and politics. In this chapter the impact of the volatile rate of exchange between the Rand and the Euro on the South African Rooibos Industry will be examined.

Generally speaking: the rate of exchange is the price one has to pay to buy another currency, for example the amount of South African Rand one must pay to buy one Euro.

4.7.3.1 Impact of exchange rate on trade[201]

The impact of the rate of exchange on the trade of any product will be discussed and explained using the example of the South African Rand and the Euro.

According to Schaffner, Schroder and Earle[202] both buyers and sellers influence the supply of, and demand for, a currency.

[199] Padberg, Ritson, Albisu 1997, p. 79
[200] Schaffner, Schroder, Earle 1998, p. 227
[201] adopted from Schaffner, Schroder, Earle 1998, p. 227
[202] Schaffner, Schroder, Earle 1998, p. 227

For instance, if one wanted to import South African products to another country, or use their services, one would have to buy South African Rand to pay for it. The same applies to foreign visitors and people or companies who invest in South Africa in form of equity or lend out money to South African debtors.
Sellers of the South African Rand are people who buy other currencies for South African Rand to pay, for example, for importing goods, travelling out of South Africa or investing offshore.

Figure 4-16 demonstrates the effects of supply and demand on the rate of exchange for South African Rand to Euro. Aforementioned buyers of the South African currency cause the demand curve to move to the right, thus implying a value increase. By contrast, sellers devalue the currency by moving the supply curve to the right. In the case of the Republic of South Africa, exports are always exceeded by imports, which places the currency under continuous pressure to loose value towards the Euro.

4.7.3.2 Effects of supply and demand on the rate of exchange[203]

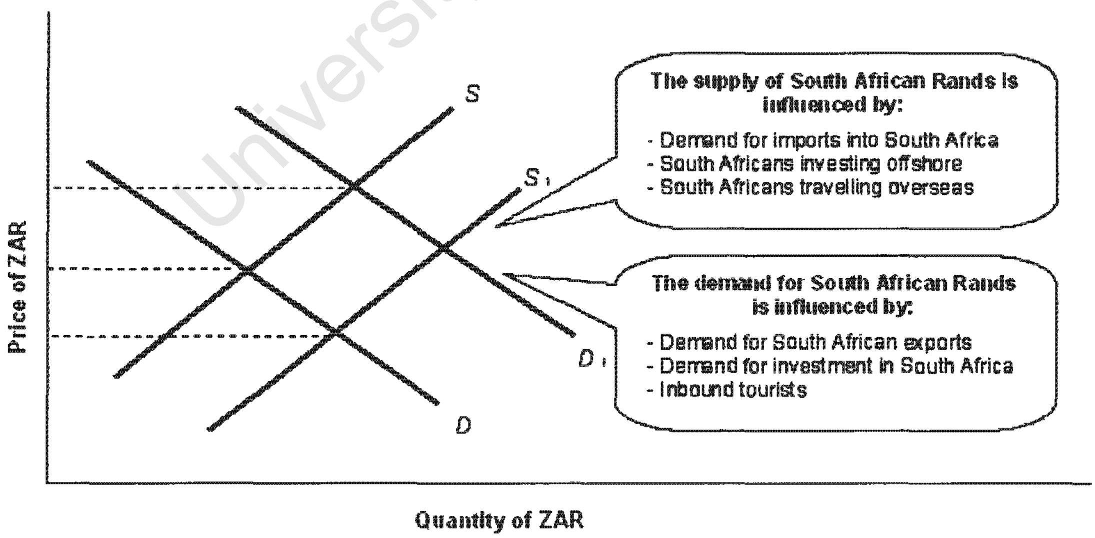

Figure 4 - 16

[203] adopted from Schaffner, Schroder, Earle 1998, p. 227

4.7.3.3 Imports / Exports

Import as well as the export of a country is strongly affected by the rate of exchange. The profitability in particular of these international transactions is impacted by a change in the exchange rate.
David J. Schaffner *et al.* outline the three cases which could occur if the exchange rate weakens or strengthens.
Those cases are as follows: If the currency of the exporting country strengthens, the price of the exported product in the importing country either increases, the exporting country earns less, or both share the difference.

What is most likely to happen is affiliated to the elasticity of demand for the product on the import market. In the example of the South African export market, this depends on the current market position of the product on the importing market, particularly on the competition the South African exporter has to deal with. The supplier could be a price maker, in the case his product faces little or no competition. If the buyer has no other source to buy the product from, he will have to pay the increase in price occurring from the strengthening of the South African currency. On the other hand, if the South African product can be easily substituted or there is a large selection of suppliers competing for it, it is questionable whether the importer will pay the higher price or rather switch to an alternative supplier. In case the South African seller is a price taker, which ensures from the product being totally undifferentiated by the supplier, he will have to cope with a decrease in his earnings to equalize the exchange-rate increase, otherwise the buyer will purchase from another source.[204]

In the case of South Africa as an exporter of Rooibos, a product that has identifiably unique features and is only limited to availability in South Africa, exporters are price makers, meaning they can increase the prices to level out the strengthening currency.
In addition to that, the authors state that the impact of movements in the rate of exchange on prices is greater in the maturity phase of the life cycle of a product than for example in the beginning.

[204] Schaffner, Schroder, Earle 1998, p. 228

This is due to the changing situation in competition during the time the product is on the market. Assuming that the South African export market for Rooibos is still growing, suppliers do not have to worry about this at that stage.[205]

However, findings from interviews with exporters show that it is true that they are price makers, but generally prices are set in contracts for a certain period of time, which leaves it completely up to the change in the exchange rate what the earnings of the exporters will be. Contracts are almost exclusively made in the currency of the buyer, which results in a loss of earnings for the exporter if the South African Rand increases towards the buyer's currency. This affected the South African Rooibos Industry greatly, especially during the last year, as the Rand[206] gained noticeable strength since the last contracts were made.

Figure 4 - 17

4.7.4 Commodity Grading and Standardization

The following definition will be used:

Grading is "the sorting of a product into quality classifications according to standards that are agreed upon by the industry."[207]

[205] Schaffner, Schroder, Earle 1998, p. 229
[206] DATASTREAM
[207] Rhodes 1993, p. 222

The grade does not tell one about the quality of the product, but rather ensures specific attributes given to it.

4.7.4.1 The purpose of grading systems

The purpose of commodities being standardized into grades is to be able to establish prices according to the quality of the product. If this were not the case, standards of quality could not be identified thus limiting the ability to signal a price-quality relationship. Buyers would not be willing to pay premium prices for the product because quality is not predictable, prices would be set on the assumption of an average quality.[208] Grading systems also help to describe the commodities without the buyer having to physically inspect them.[209] This, too, supports pricing efficiency.[210]

4.7.4.2 Setting up and evaluating grading systems

Generally grades for products are set by governmental or private organisations. For agricultural products in South Africa, this is done by the Department of Agriculture. It is also possible that agricultural producer boards, trade organizations, or processor groups set standards for a grading system. As soon as grades for a product are set, for example by an international consortium, typically it will be recognized as a general rule for the quality of the product. Grade standards should not change too often, as this would confuse producers as well as customers, resulting in potentially unjustified prices. If a new grading system is set up, or an existing one has been changed or adjusted, it requires extensive re-education of all participants in the industry.[211]

For Rooibos, there is no such standard or grading set by the government or any other organization. The only requirements that have to be fulfilled are the "quality and food safety standards for Rooibos and Rooibos mixtures" set by the Department of Agriculture.[212] These are minimum requirements for the export and do not divide Rooibos in specific grades.

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[208] Rhodes 1993, p. 252/253
[209] Mehren 1961, Journal of Farm Economics in Rhodes 1993
[210] Rhodes 1993, p. 253
[211] ibid., p. 253/254
[212] South Africa, Department of Agriculture 2001, Agricultural Product Standards Act

However, before the abolition of the Rooibos Tea Board in 1996, there was a standardized grading system for Rooibos. This system was changed in 1978 from five different classes of Rooibos to only three, namely *Super*, *Choice* and *Standard*. In 1991 *Select Grade* was added at the lower end of the system.[213]

Today's Rooibos Industry still uses the old terms for classifying their products and consumers will find these terms on the local packaging, but one cannot talk about a uniform system anymore. Rather, producers, as well as processors and distributors, developed their own grading system in which they call their superior quality *super grade* or *export grade*.
A grading system only makes sense if there is a control mechanism.[214] This is one reason why there is an ongoing trend in the South African Rooibos Industry towards integrating the grading system into management systems such as *total quality management (TQM)* or *ISO 9001 standards*, which are widely accepted in the European Community and other parts of the world. Lastly, a grading system is only useful if it is affordable, which means its costs cannot be more than the customer is willing to pay for it.

4.7.5 Managing Risks – Storage of Rooibos Tea

The amount of Rooibos available on the market plays a big role for the price of the product. From the information of the WESGRO Background report on Rooibos, historical data from the Rooibos Control Board and from interviews with producers, it emerges that the larger buyers and processors of Rooibos follow a storage-strategy whenever possible. To ensure stable supplies and therefore stable prices, surplus tea - either from good crops or bad sale's years - is stored. Farmers who supplied Rooibos Limited were forced, via a quota system, to keep a certain percentage of their yield in years when supply exceeded demand. Rooibos is perfectly suitable for storage, as the quality of the product does not wear down, even if it is stored over a long period of time. The minimum reserve supply used to equal one average crop. In years when demand for Rooibos exceeded supply, this reserve was put on the market to fill the gap of underproduction.

213 Hayes 2000, p. 5
214 Rhodes 1993, p. 259

The main disadvantage of this strategy is that production costs increase as storage is expensive, and that funds are tied.[215]

Producers report that, at this stage, warehouses, even those of the largest suppliers, are almost empty. The persistent and ever growing demand for the product on the international market, as well as the low crops in the last years, forced the industry to sell their reserve supplies. Farmers are already forecasting a low crop for the years 2003/04, as winter rains this last year were not as abundant as necessary for a good growth of the bushes. Therefore, the industry will once again neither be able to comply with demand on the market nor fill up warehouses.

4.7.6 Commodity Prices Through Time

A big concern for people involved in the agricultural marketing process is price movements. Decisions about production, the moment of purchase, and sales and marketing are strongly dependant on the price of a commodity. Not all business are able to carry large inventories; in the perishable products industry it is sometimes impossible.

Padberg *et al.* distinguish between four different classes of price changes over time:[216] Firstly *long-term price trends,* which are caused by macroeconomic factors such as a country's inflation or changing supply and demand for the product (In the South African Rooibos Industry the rate of exchange is of particular interest in this category). Secondly, *seasonal price movements* are very important to Rooibos retailers, as hot beverages such as tea, are mostly drunk in the cool season and demand for iced-tea increases in summer. Exported products especially have to be observed carefully as seasons in the importing country might differ from the ones in which the product is produced. Seasonal causing fluctuations in the price can be easily levelled out if paid attention to, as they repeat regularly every 12 months. *Cyclical price movements are similar to this.*

[215] Snyman 2000, p. 23/24
[216] Padberg, Ritson, Albisu 1997, p. 57

The only difference to the previous example is the length of one cycle. And finally *year-to-year* and *irregular price changes*, which are unpredictable and therefore a high risk for the industry members, as well as the consumer.

Of course commodity prices such as for Rooibos may include a combination of price movements caused by any of the four categories.[217]

4.7.7 Historical Market Information

4.7.7.1 Production, sales and stock

The history of Rooibos production before the abolition of the Rooibos Control Board in 1996 is of little consequence in this study. Therefore it will only be touched on briefly, and the charts will be presented without a detailed description of the background to the plot figures. In-depth information on the history of South African Rooibos production can be found in the annual reports[218] of the *Rooibos Control Board*, from which the following information was also taken from:[*]

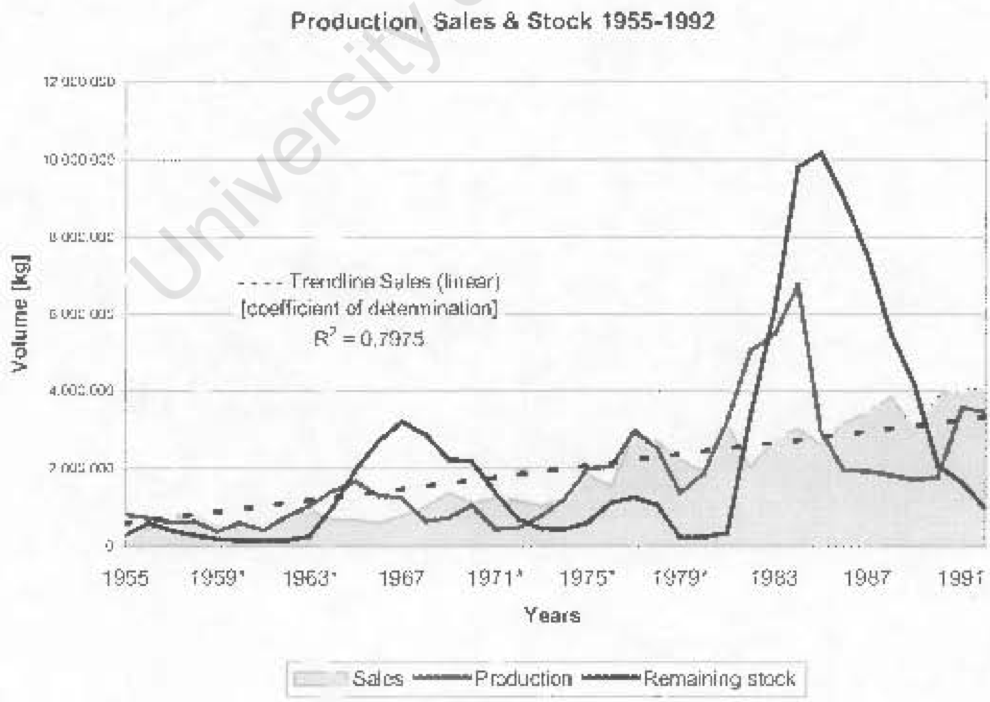

Figure 4 - 18

[217] Padberg, Ritson, Albisu 1997, p. 57
[218] Rooibos Tea Control Board, Annual Reports in Hayes 2000, pp. 36-52
[*] Years marked when marketing quotas were enforced

In this graph the red line represents the Rooibos production in kilograms over the years. *The Rooibos Control Board* was authorized by the Minister of Agriculture to set quotas to regulate production. The blue line shows the remaining stock of Rooibos at the beginning of the new year. One can clearly see the two peaks in 1967 and 1985, when the remaining stock more than doubled the actual sales.
The light blue area stands for the Rooibos sold nationally and internationally by the *Rooibos Control Board* over the years. The trend-line (dotted, black), which refers to the sales figures is evidence that over the period from 1955 to 1992 Rooibos sales increased continuously. By looking at only the first and last year an absolute increase in sales of more than 1 400% can be calculated.

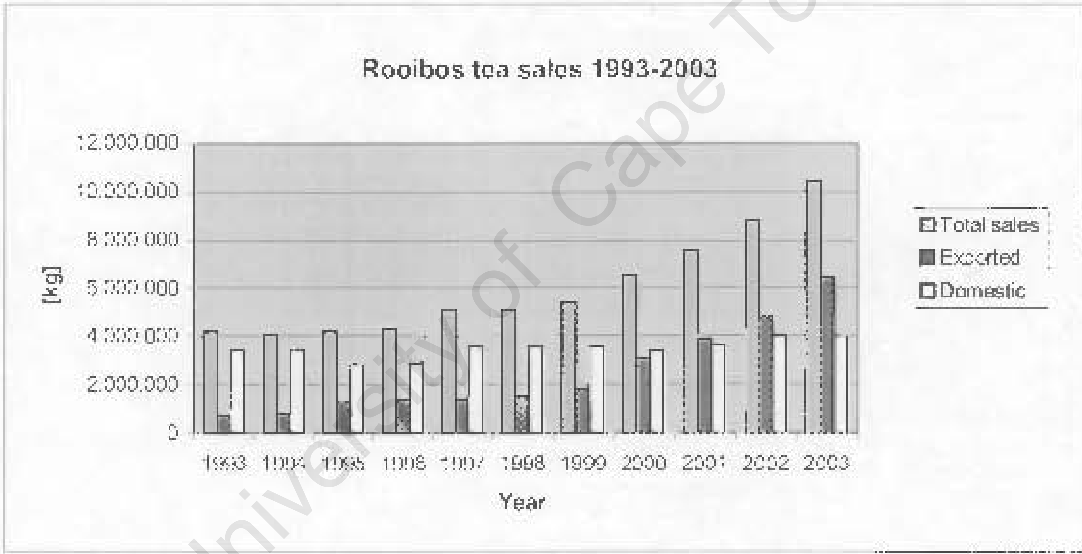

Figure 4 - 19

Figure 4-19 shows the sales figures of the South African Rooibos Industry of the years 1993 to 2003. Total sales figures almost doubled from 1999 to 2003, whereby domestic sales increased only gradually. They grew at a rate more or less to those of the South African population. This is a sign that the product has reached maturity in the market. It is also interesting to note that from the year 2001 exports continuously exceeded the domestic sales. The most dominant importing country hereby was Germany with a share of over 70% in 2003.

4.7.7.2 Historical prices

As under the rule of the *Rooibos Control Board*, the industry had a one channel marketing system, producer prices were solely set by the board. In this graph advance producer payments are outlined in form of the light blue surface, the red line represents the prices in Rand per kilogram, which packers had to pay to buy Rooibos from the Control Board.

All prices are deflated using the year 1995 as basis.[1]

The dotted lines show an average producer price of R 3.20 over the entire period. The average packers price is around R 6.58 per kilogram Rooibos sold by the board. As can be seen from the graph, producer and packer prices were almost on the same level in 1992 as in 1955. Both are far below average over this period.

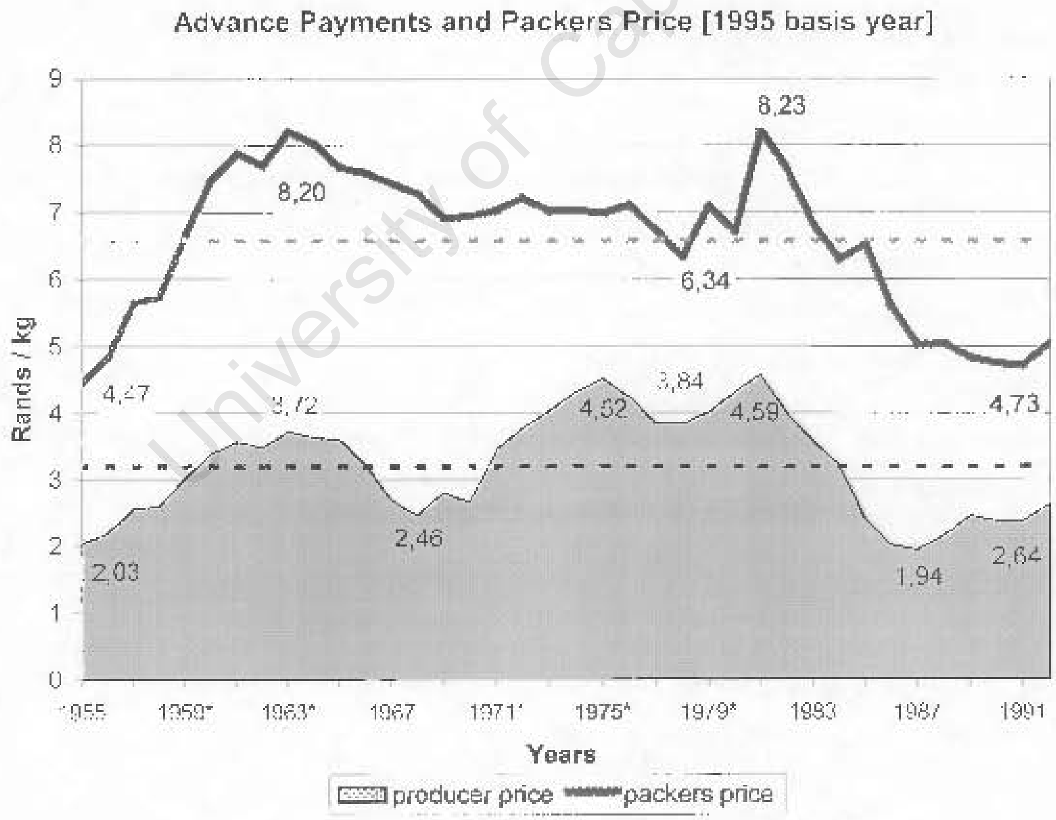

Figure 4 - 20

[1] South African Reserve Bank Deflator Index

4.7.7.3 Historical prices: 1993 - 2003

Year	Price [R / kg]
1993	5.25
1994	4.80
1995	5.50
1996	6.50
1997	5.30
1998	3.80
1999	4.80
2000	5.50
2001	6.50
2002	11.00
2003	12.00

Figure 4 - 21

As from 1993 there were no official numbers issued by the *Rooibos Tea Control Board*. Data had to be collected from different sources, which led to gaps and friction between numbers. The table above shows average producers prices per kilogram for non-organic Rooibos taken mainly from the PPECB and the WESGRO Background Report.[219] For further details on production and prices for this period of time please see chapter *4.4.1 The Early Industry*.

4.7.7.4 Risks

Over the years Rooibos prices have been fluctuating strongly. The reasons being not only in the analysis of supply and demand of the market, but also in changing climatic conditions. Small-scale producers in particular suffer from this if they are unable to diversify, which is often the case, as they do not have the resources to compete with large-scale commercial farmers in the industry.

The growing industry of organically produced Rooibos is also high at risk, as insect plagues and diseases, which can lead to crop failure, cannot be fought with chemicals due to the strict regulations of the certifiers.[220]

[219] Snyman 2003, pp. 22-24
[220] Arcnosc 2001, p. 9/10

5 The German Market

Chapter five begins with a brief section on the applied methodology for both primary and secondary data collection. It continues with an overview of the German retail market for food and its structure, including descriptions of the leading companies and their roles within the market. This is followed by details of the German retail market for beverages and in particular for tea. Furthermore chapter five gives an overview of the German organic market. It concludes with information about the German consumers. Finally the findings of the interviews conducted with German tea companies will be presented.

5.1 Methodology German Market

As the sub-sector analysis proved itself to be a good method when investigating the South African Rooibos Industry, the investigation of the German market also partially followed this conceptual framework. In this case the sub-sector was defined as the German tea industry with its different horizontal and vertical links in the marketing chain.

5.1.1 Data Collection

5.1.1.1 Review of secondary data sources

To gain information on the objectives outlined in the general methodology, secondary data on the German market and industry for Rooibos was collected systematically reviewing different sources. Information on product characteristics were obtained form the *Wirtschaftsvereinigung Kräuter und Früchtetee e.V. (WKF)*, reports of research institutions, published and unpublished research papers, articles in consumer magazines such as *Stiftung Warentest*, as well as from books. Industry and market data came from the annual reports of the *German Tea Association*, records from industry members, reports from marketing research institutions such as *ACNielsen*, government publications, journal articles and the Internet.

5.1.1.2 Primary data collection activities

Limited by time, budget and geographic constraints, the primary data collection had to rely on rapid reconnaissance methods such as guided informal interviews with players of the industry and knowledgeable key informants.

Field data collection began with informal interviews with people involved in the German tea-trade and processing industry. In addition to the in-depth interviews, an informal telephone interview with Dr. Monika Beutgen, chairman of the *Wirtschaftsvereinigung Kräuter und Früchtetee e.V. (WKF)* was held. The data from those interviews were used to verify and complete data gained from secondary sources.

Primary data was also generated through a questionnaire survey amongst German students.

The investigation of the German market was designed to answer the following questions.

- What is the role of tea in the German retail market for food / beverages?
- What are the characteristics of the German retail market?
- What are the characteristics of the German market for tea / Rooibos?
- What are the characteristics of the German market for organic food / tea?
- What are the characteristics of the German consumer?
- What are the trends on the market?
- What are the forecasts for the future of the market and industry?

Figure 5 - 1

5.1.2 Methodology Interviews

A highly productive method of collecting information regarding the German market for tea, in particular for Rooibos, is to conduct interviews with those who are directly involved with the industry. These interviews would shed light on the industry itself, as well as enabling additional information on the German consumer market for herbal and fruit teas, as well as for Rooibos, to be collected.

Guided, informal yet in-depth interviews were conducted with key companies. Through this method, it was possible to make adjustments to the questioning during the interviews.

Due to the diversity of interviewees, statements were expected to differ. This method allowed for flexibility in conducting the interview, as not every question posed would be relevant to all companies, as well as allowing for a more fluid interview.

Focus groups, although a more compact form of information gathering, were decided against, since, due to the strong competition within the industry, important information on sensitive topics such as prices, customers and marketing strategies could be withheld. Additionally, it would also have been difficult to bring all concerned companies together for a focus group, due to time constraints.

5.1.2.1 Selection of interview partners

Companies to be interviewed, as well as individual interviewees , were selected according to information gained from previous interviews with members of the South African Rooibos Industry. Additionally, possible interviewees were found using the list of members of the WKF and by researching company web sites.

Four companies, categorised as *trading companies*, and two categorised as *specialized tea companies* were approached. The four trading companies can be defined as market leaders in their field; the two *specialized tea companies* market the largest national brands for fruit and herbal teas, and are therefore the main players of the industry. Since connections between the different categories of companies exist, pairs of companies with a supplier-buyer relationship were chosen.

Initially all companies were approached by e-mail to enquire as to who would be the most suitable person for the interview.

Once this was established, a further e-mail was sent to these potential interviewees introducing the researcher and his work, as well as requesting a meeting (find e-mail in *Appendix 11.4 Letter to German Companies*). In addition to this the names of the general managers of the South African companies, who recommended the person, were mentioned.

This was hoped to increase the chance of an interview. The confidential nature of all information given during the interviews was highlighted. After initial contact, appointments for the interviews were made.

The following people were willing to be interviewed:

- **Sebastian Sieben** (Director Product Management)
- **André Khavvam** (Food Technology Engineer / R&D)
  Martin Bauer GmbH & Co. KG
  Dutendorfer Strasse 5-7
  91487 Vestenbergsgreuth
  Germany

- **Marco Sinram** (Purchasing Manager Tea, Herbs, Fruits)
- **Jürgen Voigt** (Tea Department)
  Gebr. Wollenhaupt
  Gutenbergstr. 33-35
  D-21465 Reinbek
  Germany

- **Marco Braun** (Sales/Marketing)
- **Fiona Lenz** (Purchasing Department)
  Kräuter-Mix GmbH
  Wiesentheider Str. 4
  D-97355 Abtswind
  Germany

- **Rolf Klein** (Marketing Manager)
  Ostfriesische Tee Gesellschaft mbH
  Am Bauhof 13-15
  D-21218 Seevetal
  Germany

Unfortunately it was not possible to gain an interview at the two other companies during the researcher's visit to Germany.
Due to the fact that some of the companies were located in the northern part of Germany and others in the southern part, coordination of the times for the interviews was very important and could not consider the order companies were visited.

5.1.2.2 Interviews

All four interviews took place at the headquarters of the respective companies. Interviews were unstructured, although the researcher carried a checklist of questions to assure that important points would not be overlooked, as this method had proven to be successful during the interviews conducted earlier on. The guideline for the interviews can be found in *Appendix 11.5 Guideline Interviews Germany*. To minimize interruptions by writing, all interviews were recorded on tape (after the agreement of the interviewees). This also allowed for a speedier interview. The effort to keep the interviews informal seemed to encourage frankness on the part of the respondents. All interviewees seemed to be interested in the researcher's work and asked for a copy of the final report. The interviews were scheduled to be roughly 1.5 to 2 hours long.

All interviews started with a short introduction of the researcher and his work, which inevitably lead to the interviewee asking questions about the South African Rooibos Industry.

Although interviewees occasionally anticipated answers to subsequent questions and asked questions themselves, generally the interviews were conducted in this order: The first topic entailed the company itself. Information about the position of the company within the marketing chain, the company's products range, as well as suppliers and customers, were discussed. After getting a picture of the company, questions about the industry, its size and members, as well as its problems were discussed for both tea in general, as well as for Rooibos in particular. The third topic was the consumer market. Here it was aspired to gather information about new market trends, quality issues, consumer behaviour, and competition. Lastly the future of the German tea market, as well as that of Rooibos itself, was discussed. The interview ended with questions about expected growth rates and an outlook to the future.

5.2 The German Retail Market for Food

"The German retail market is one of the most competitive and diverse markets in Europe, with low levels of consolidation and many different classes of retailer clamoring for market share"[221]. The market value declined in the period between 1998 and 2002 by 4.8%, indicating a loss of almost 7 billion € due to altered spending power, bad buyer demand and Germany's general economic situation.[222] This made market share competition even tougher.

As large hypermarkets and discounters continue to grow, floor space expands even though the market value becomes less. In the year 2002 there were approximately 2.8 million people employed by German retailers, roughly half of them full-time.[223]

This section gives an overview of the size and different organizations of the German retail market and how they affect each other. There is also a brief description of the leading companies and an outlook for the next years.

5.2.1 Market Definition

To be able to give information on the *food retail market in Germany*, such as its value, volumes and segments, it is first necessary to define it. The German food retail market includes all food sales of discounters, hypermarkets, supermarkets, cooperatives, convenience stores, independent grocers, butchers, bakers, fishmongers and all other retailers who sell food and drinks for off-premise consumption.

The term *retailing* stands for all activities involved in selling goods and services to end-consumers. Thus "a retail sale is one in which the buyer is an ultimate consumer, as opposed to a business or institutional purchaser"[224].

[221] Datamonitor 2003, Food Retail in Germany and O'Connor 1998, Chain-Store-Age
[222] Anonymous 2004, AUNUGA brings the good times back, International Food Ingredients
[223] Hauptverband des Deutschen Einzelhandels 2004, Website
[224] Beckman, Davidson, Talarzyk 1973, p. 234 in Stern, El-Ansary 1998, p. 43

5.2.2 Market Value

The value of the German food market is calculated at the retail selling price (RSP).[225]

In 2002 the value of the German food retail market reached the amount of US $127 billion, thus connotating a decline of 1.2% compared to the previous year. The compound annual rate of change of the market was –1.2% for the period 1998 – 2002.[226]

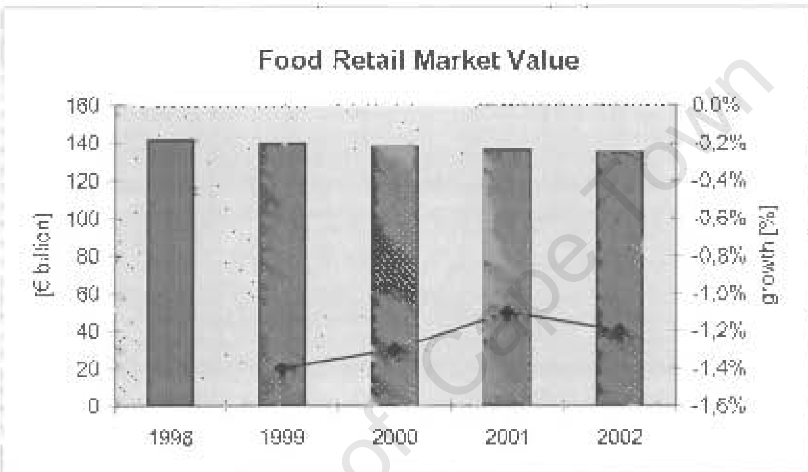

Figure 5 - 2

5.2.3 Market Volume

The volume of the German food retail market reached 34 billion m² floor space in 2002, or a growth rate of 1.3%. The compound annual growth rate of the market volume was 2.6% for the period 1998 – 2002. The strongest growth (4.8%) was in 1999.[227]

[225] Datamonitor 2003, Food Retail in Germany
[226] ibid.
[227] ibid.

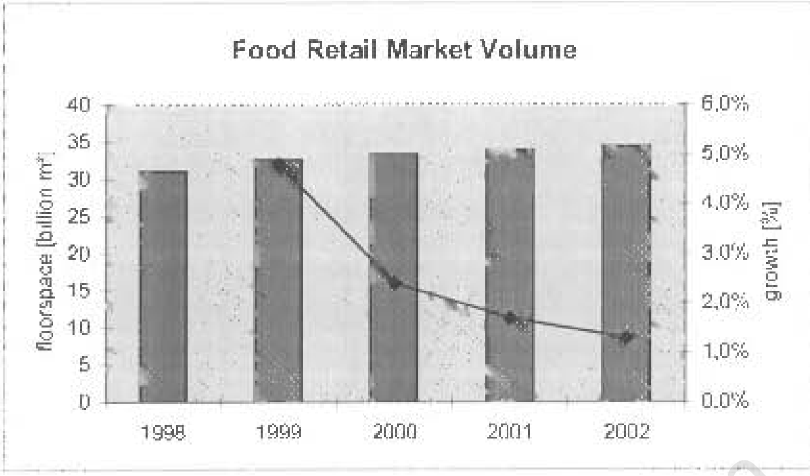

Figure 5 - 3

5.2.4 Market Segmentation

Discounters represent the largest channel of retailer in the German market. All together they account for 27.1% of the entire market value. Hypermarkets are the next largest share, accounting for 18.0%. Together with Supermarkets (16.7%), the three largest categories of retailers generate 61.7% of the market value.[228]

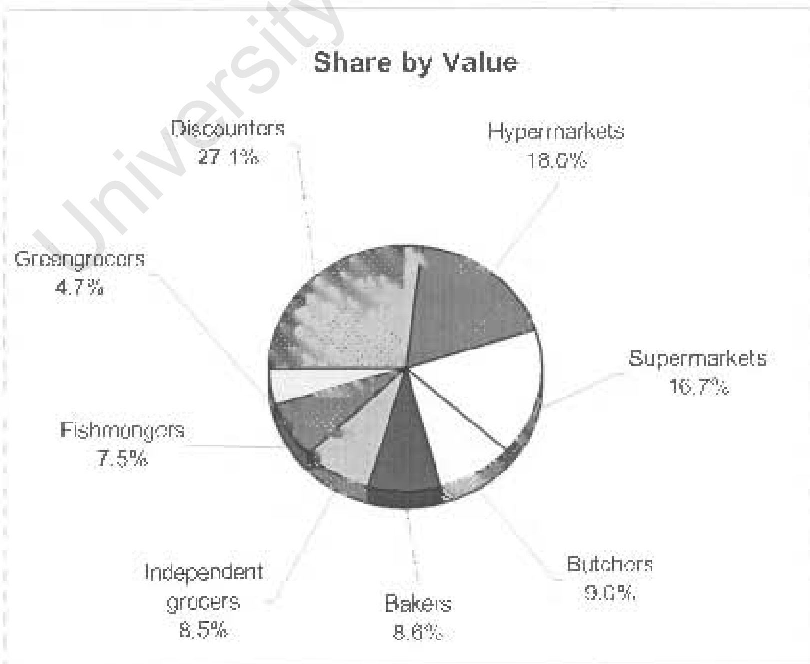

Figure 5 - 4

228 Datamonitor 2003, Food Retail In Germany

5.2.5 Characteristics of Retail Institutions

Retail institutions can be classified according to certain characteristics and their form of organization:[229]

Starting with one of the largest single retail organizations, ***Department Stores*** sell a wide variety of merchandise, including piece goods, home furniture, hardware and groceries. As their name suggests they are organized in departments. Research found that Department Stores are typically located in downtown shopping districts or in shopping centres and their customers are chiefly women. Typical examples in Germany would be *Hertie* and *Karstadt.*

The term ***Specialty Store*** is mostly used for small to medium-sized establishments or boutiques handling limited lines of soft or hard goods. This category includes grocery stores that specialize in selling a broad selection of a restricted class of goods, such as ethnic and organic food.

Chain Store Systems include two or more units having a central ownership or control. They are centrally managed, which gives them high buying power. A characteristic of Chain Store Systems is that the included stores are commonly very similar to each other regarding size, interior layout and location.

Low-margins and high turnovers are typical for ***Supermarkets***. The definition of a Supermarket in the food industry is "a large, departmentalized retail establishment offering a relatively broad and complete stock of dry groceries, fresh meat, perishable products, and dairy products, supplemented by a variety of convenience, nonfood merchandise and operated on a self-service basis."[230]

Planned Shopping Centres are complete shopping facilities, including adequate parking space under one roof. The stores in a Shopping Centre are coordinated by one management and leased to various retailers. An advantage of these integrated developments is that included stores engage in joint advertising and promotions.

Finally there are ***Discount Houses,*** commonly referred to as ***Discounters***. These retail establishments, who emphasize rapid merchandise turnover represent roughly 38% - over 14 000 point-of-sales - of the total German consumer market.[231] They stock a broad assortment of merchandise in relatively inexpensive buildings, equipment and fixtures and offer limited customer service.

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[229] Classification adopted from Stern, El-Ansary 1982, p. 47/48
[230] Stern, El-Ansary 1982, p. 47/48
[231] IRI 2004, Supermarket Review

This leads to relatively low operating costs and therefore the ability to offer lower prices than most supermarkets. Discounters can be found selling both soft and hard goods. They are commonly referred to as "grocery stores where the discount principle is the cornerstone of the sales approach"[232]. The three discount-principles are low cost, low price and high turnover.[233]

In Germany the image of discounters has changed from small, run-down sites on street corners where only people from low-income classes shop, to an institution where anybody can buy good quality groceries at low prices. The German consumer accepts this different way of retailing as part of everyday life.[234] The success of the discounter is due to certain trends in the industry such as the bad buyer demand, Germany's general economic situation and an altered expenditure distribution.[235] Furthermore, German consumers have a low level of brand loyalty and are very price sensitive. In addition to that, in the view of their customers, some discounters have become an own brand. For instance some consumers trust that Aldi sells "everything always" at a low price.[236]

There are two kinds of Discounters, namely ***Hard-** and **Soft-Discounters***.

Hard discounters such as *Aldi* sell a limited range of fast-moving goods, sometimes straight out of their boxes. They already account for a large share of grocery sales in Germany. Axel Tenbusch specifies four criteria in "*Retailing in Germany: Another year of success for discounters*" that can be used to differentiate hard- from soft-discounters: Firstly the *size of assortment*. Hard-discounters sell only a limited amount of different goods. In contrast to soft-discounters, which stock approximately 2 000 – 3 000 different items, hard-discounters offer only an assortment of roughly 500 – 1 000 articles. The second difference is the *assortment strategy / branded items*. Hard-discounters' assortments are based on private label products. In contrast to soft-discounters, which focus on manufacturer products, hard-discounter's assortments are only used to complete special categories at stores such as Aldi. This strategy is also reflected in *pricing*. Hard-discounters generally offer low prices whereas prices at soft-discounters are only low for manufacturer brands. Lastly the *location and size* of the stores differ.

232 Tenbusch 2002, European Retail Digest
233 ibid.
234 Bell 1999, European Retail Digest
235 Anonymous 2003, Economic and financial indicators, Economist
236 SevenOne Media 2003, Market Analysis, p. 6

New hard-discounter outlets are mainly found in industrial suburbs and range from 600 – 800 m² in size. Soft-discounters can vary from 300 – 800 m², sometimes up to 1 500 m² and are generally situated in the town centre.[237]

Supermarkets in Europe have already realized the effectiveness of the discounters' strategy and have subsequently adopted it. They form alliances with other retailers to gain bargaining power towards the suppliers to be able to defend themselves against cut-price assaults. Another practice is to sell own-label food products, which are usually 15 – 20% cheaper than manufacturers' brand products and on top of this help to advertise the supermarket.[238]

5.3 Structure of Food Retail in Germany

5.3.1 Overview of the Food Distribution Sector

The German market for food distribution shows a large number of different organizational forms and arrangements among enterprises. One can categorize these according to the presence or absence of co-operative based or contract-based membership to a group.

Distributors with no such group affiliation, such as the mega-outlet giants Aldi and Tengelmann, do not use wholesale channels to purchase inventories, but rather obtain centrally coordinated volume purchase directly from the manufacturer. The food divisions of large department stores such as Karstadt and Hertie are similarly structured.

The linkage to a central organization or group either having a co-operative or a voluntary arrangement, linking affiliated but still independent members together, forms the most important segment of the industry. The co-operative form of market organization has a long tradition in Germany; it helps food distribution in particular to assist small independent retailers to gain power. Co-ordination between centralized buying, wholesale and retail concentrates inventory purchase and additional services in a central organization. Large groups such as *Edeka* and *REWE* meanwhile are reorganized to corporate entities, which lead to stronger acquisitive activities such as forward integration.

237 Tenbusch 2002. European Retail Digest
238 Anonymous 1993, Store wars, Economist and Bell 1999, European Retail Digest

Members who sometimes belong to more than one voluntary chain have contracts with a group of wholesalers to secure steady supplies. A typical example of such a chain is *Markant*, the successor of German food distributors.[239]

Country[240]	Stores per 1000 People
Netherlands	0.40
UK	0.67
Switzerland	0.97
Sweden	0.68
Austria	0.90
Germany	0.90
Spain	2.7

Figure 5 - 5

The density of food stores in Germany is relative high. With a population of roughly 88 million there are approximately 79 000 stores retailing food in Germany. One reason for this high number is the large range of discounters in Germany.[241]

Store Size m²	Germany[242]	Austria	Switzerland	Belgium[243]	Netherlands	UK
>2,500	25	12	18	15	5	45
1000-2500	17	15	32	43	29	26
400-999	40	40	25	30	54	14
100-399	13	28	20	8	11	10
<100	5	5	5	4	2	5

Figure 5 - 6

Figure 5-6 shows that the largest share of food in Germany is sold in stores of a size between 400 and 1000 m². As mentioned earlier, discounters, which account for more than 30% of the German grocery market[244], fall into this category of store size.

[239] Mafels 1992, International Review of Retail, Distribution & Consumer Research
[240] ACNielsen 1999
[241] Bell 1999, European Retail Digest
[242] Germany, Austria, Switzerland: ACNielsen 2001
[243] Belgium, Netherlands, UK: ACNielsen 1999
[244] Bell 1999, European Retail Digest

Therefore the choice, particularly of brand products for the German consumer, will be limited even though he / she may have the facility to switch stores.[245]

Retailer[246]	Total Sales in €bn (excluding foreign trade)
Metro Group	34.4
REWE Group	9.2
Edeka / AVA Group	7.2
Aldi Group	6.7
Tengelmann Group	5.6

Figure 5 - 7

Looking at the top 50 companies involved in German food retailing, the listed (Figure 5-7) leading five companies account for 62% of all grocery sales. With the exception of Aldi, all are conglomerates also involved in other retail activities other than food such as clothing, electrical and DIY products, which are also included in the total turnover.[247]

5.3.1.1 Private label

The penetration of retailer controlled brands (both private label and exclusive brands) in Germany, account for approximately one third of all grocery expenditure.

Food Sales From Private Label[248]

	%
Aldi	90+
Markant	6.4
Edeka	9.2
Spar	9.4
REWE	21.9
Tengelmann	18.9
Metro	13.8

Figure 5 - 8

[245] Bell, 2001. European Retail Digest
[246] Lebensmittel Zeitung 1999
[247] Bell 1999, European Retail Digest
[248] ACNielson 2001

With more than 90% of all its sales, Aldi clearly leads the market for private label food in Germany. This is because Aldi is the enterprise with both the greatest operation simplicity and highest integration.

It is interesting to note that Dick Bell, author of "*Food Retailing in Germany, Austria and Switzerland*" writes that the variation in private label penetration in Germany is not due to "a predilection for national consumers to favour private label at the expense of brands"[249], but is due to the strategy of the various retailers within the country. German consumers want to buy high quality products at a low price and are persuaded by the retailers' marketing strategy and the brand's ability to deliver relative value.[250]

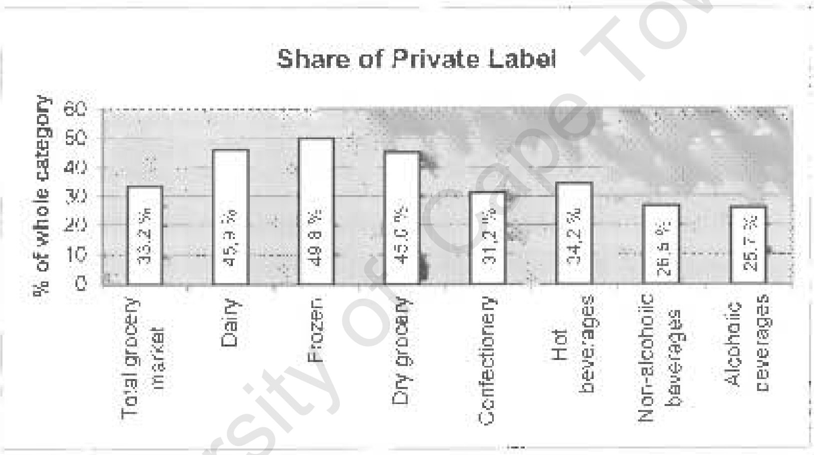

Figure 5 - 9

More than 33% of Germany's total grocery markets are private label products, which is in third place in the European market, exceeded only by Belgium and the UK. Particularly high are the shares of frozen food, dairy products and dry groceries. The category 'hot beverages', into which tea falls, has a private label share of more than one third, and is still growing by 2.9% a year. Only in Belgium is this share higher.[251]

249 Bell 1999, European Retail Digest
250 ibid.
251 PLMA's 2003 International Yearbook in Joppen 2003, Engineering & Ingredients

5.3.1.2 Market concentration

	%
Edeka[252]	19
REWE	18
Aldi	15
Markant	15
Spar	9
Total	**76**
HHI	*1216*

Figure 5 - 10

With the top five food retailers accounting for 76% of the grocery market, Germany ranks only eighth within the European countries when it comes to comparing market concentration.[253]

The Herfindahl – Herschman Index (HHI) indicates the level of retail concentration by adding the squares of the market shares of each competitor within the relevant product category and geographic market. With a HHI measure of 1216, Germany is less concentrated than many of the European countries, however, compared with other industrial sectors, Germany's grocery market is heavily concentrated, enough to warrant the interest of competition authorities, says Richard Bell, associate fellow of the Oxford Institute of Retail Management at the University of Oxford.[254]

5.3.1.3 Market integration

The German retail market is far from fully integrated. Many of the stores are still owned and run independently. Of the top five retailers in Germany only Aldi owns and controls all of its stores. Others are structured as buying- or marketing and buying groups such as Markant and Spar. All Edeka stores are independently owned franchise operations. Germany's second largest retailer, REWE, is busy restructuring the group to increase the proportion of its outlets directly owned and controlled.[255]

[252] ACNielsen 2001
[253] Bell 2001, European Retail Digest
[254] ibid.
[255] ibid.

5.3.1.4 Differentiation

"The ultimate measure of differentiation is profitability."[256] The more distinct the competition the lower the levels of profit. The profitability in the German food retail sector is generally low and consistent with the low levels of own label penetration and the slow pace of supply chain integration. Too much floor space and low consumer prices result in retail margins often less than 1%[257], which is a historical low.[258]

It is essential for a successful differentiation strategy not to make a profit only through cost efficiency where price competition is very high, but rather through individual retailer performance such as private label sales. There is no general differentiation strategy. Aldi, for instance, is highly integrated and sells more than 90% under its own private labels and therefore runs a successful differentiation strategy. The company also differs from other major retailers in store size and location strategy. It is therefore not surprising that Aldi's profitability is relatively high compared with other companies being less differentiated and integrated.[259]

5.3.2 Competition

Germany's retail food market is one of the world's most competitive.[260] Again discounters are one step ahead of other organizations. Discounters have been able to grow their revenue by 88% during the last decade, whereas the achieved growth rate of the total grocery market was only 10%.[261] This is partly due to discounter's prices strategy for grocery products, which are on average more than 20% cheaper than for instance in the UK.[262]

No major company on the German retail market for food dominates this. At the moment Edeka has the highest share with 19%, followed by REWE's 18%.

Prices are the most important factor for attracting consumers and therefore gaining market share, which is why competition in the retail sector triggered a price-war on the German market.[263]

[256] Bell 2001, European Retail Digest
[257] Tenbusch 2002, European Retail Digest and MercerMC 2004, Website
[258] Mercer Management Consulting 2003, Mercer Studie zum Einzelhandel in Deutschland
[259] Bell 2001, European Retail Digest
[260] Dunn 1997, Dairy Industries International and Datamonitor 2003, Food Retail in Germany
[261] Tenbusch 2002, European Retail Digest
[262] Tenbusch 2002, European Retail Digest and MercerMC 2004, Website
[263] SevenOne Media, Market Analysis, p. 06

5.3.2.1 Price-war

Price-wars are identified by competing companies struggling to undercut each others prices.[264] Companies which specialize in a specific sector have less problems coping with a price-war than others. Particularly smaller suppliers are hit hard by the predetermined prices offered by large discount chains such as Aldi and Lidl.[265] That the *Wal-Mart Stores Inc.* as well as two other German grocery retailers were forced by the German antitrust authorities to increase prices on basic food items which they were selling below cost on a continuing basis, as this violates German trade laws, shows just how dire this situation has become.[266] These trade laws support the opportunity to fight for business using approaches other than lowering prices and therefore give smaller companies a chance to compete.[267]
But what is the reason for the price-war in Germany? With its large market and the presence of trade laws limiting competition, Germany should be a paradise for retailers. Reasons include "the combination of stagnant demand and growing glut of supply, expansion of retail space, the growth in numbers of the "hard discounters", and the family firms who own their shop sites but undervalue their property, bringing down their required returns."[268]

5.3.3 The Role Players

5.3.3.1 REWE-Zentral AG

The German based *REWE-Handelsgruppe* (commercial group) is controlled by the *REWE Zentral AG*. The REWE group includes more than 12 000 retail outlets throughout Europe, which makes it Europe's third largest food retailer and number two in Germany. Its turnover in 2002 accumulated to US $43.8 billion. The REWE-Handelsgruppe operates as a cooperative, including more than 20 different franchises such as *REWE – der Supermarkt*, *MiniMal*, *Penny*, *HL-Markt*, *Kaufpark*, and the *Toom Markt*, just to mention a few. The two other areas of concern are wholesale and tourism. REWE is based in Cologne, Germany.[269]

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264 Asseal 1990 in Heil, Helsen 2001, International Journal of Research in Marketing
265 Anonymous 2001, Supermarket price-wars threaten supply, Dairy Industries International
266 Beck 2000, Wall Street Journal (Eastern Edition)
267 Dunn 1997, Dairy Industries International
268 Anonymous 2000, Cheap and cheerless, The Economist
269 Datamonitor 2003, Food Retail in Germany

5.3.3.2 Edeka Zentrale AG

The Edeka Group is a voluntary merger of independent grocery retail businesses and one of the largest retail cooperatives in Europe. Its structure and organization is 'bottom-up', from the individual member over regional wholesale companies up to the Edeka central organization. All together there are approximately 9 100 Edeka stores, 6 700 independently owned stores of the members and 2 400 wholesale businesses.[270] Also part of the group's controlling system are a number of drugstores and wine producing subsidiaries. For 2001 the company reported sales of US $29.1 billion.[271]

5.3.3.3 Metro Group

With annual revenues of € 51.5 billion in 1999, the *Metro Group* is the third largest retailing group in Europe and number five in the world. Metro's core market, with approximately 53% of its sales activity, is Germany. Here the company operates with seven businesses, namely *Cash & Carry*, *Real*, *Extra*, *Media Markt*, *Saturn*, *Praktiker* and *Galeria Kaufhof*.[272] These chains cover the fields of supermarkets for professionals, electronic equipment, department stores, home equipment stores and food stores. Roughly half of Metro's sales are in the food sector.[273] Affiliated businesses make use of jointly organized supplies, logistics, informatics, advertising and financing.[274]

5.3.3.4 Tengelmann Group

The *Tengelmann Warenhandelsgesellschaft OHG* (Tengelmann Group) is present in 16 countries and includes almost 7 000 stores worldwide, including 2 700 *Plus* outlets in Germany. With a turnover of US $28.2 billion in the fiscal year 2002, which was an increase of 25% compared to the previous year, the company is one of the world's largest retail companies. The Tengelmann Group is headquartered in Mülheim in Germany and controls stores, retailing food, pharmaceuticals, home-improvement and textiles, as well as discount stores.[275]

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[270] Edeka Group 2004, Website
[271] Datamonitor 2003, Food Retail in Germany
[272] ibid.
[273] M+M EUROdATA 2002, Markant
[274] Datamonitor 2003, Food Retail in Germany; Yahoo finance 2004, Website and METRO Group 2004, Website
[275] Datamonitor 2003, Food Retail in Germany

5.3.3.5 Aldi Group

Aldi is the first and still most successful of the hard discounters in Germany. Its name originates from the founder's name '**Al**brecht' and the word '**di**scount'. The discount chain has been growing steadily over the last two decades and now covers roughly half of the total turnover of all discounters in Germany.[276] In Germany Aldi consists of two independent companies, namely *Aldi Nord* and *Aldi Süd*, which divide the country geographically into north and south. Aldi Süd also operates stores in Austria under the name *Hofer*.

Aldi no longer has the image of selling low quality products to fringe groups but is meanwhile accepted by most German consumers as a place where good quality private labels – often produced by brand companies - can be found at a reasonable price. The ability to provide customers with such low prices comes from Aldi's efficient structure and cost effective presentation of store goods. Aldi is also recognized as having a tough but fair attitude towards suppliers.[277] The company's total sales, excluding foreign trade, were approximately € 6.7 billion in 1999.[278] However, as Aldi does not publish business reports, it is very difficult to find reliable data.[279]

5.3.3.6 Schwarz-Unternehmensgruppe

The *Schwarz-Unternehmensgruppe* includes *Lidl,* one of the top ten German food retailers also operating within the whole of Europe. Its other chain stores include *Kaufland, Ruef* and *Handelshof.* The *Lidl Stiftung & Co.KG* manages the discounter sector, the self-service store, cash & carry, as well as the wholesale sector. Other areas of business are supplies and a collection department. According to M+M Eurodata net profits accumulated to € 12.5 billion in 2000 of which roughly half accounted for the discounter business.[280]

[276] Tenbsuch 2002, European Retail Digest
[277] Academicus.ch – Online Encyclopaedia 2004
[278] Lebensmittel Zeitung 1999
[279] Detusche Presse Agentur (dpa-AFX) 2004, Website
[280] Einzelhandel 2004, Website

5.3.3.7 Norma

Norma is an independently operating, hard-discounter chain, present in Germany, France and Czechoslovakia. 16 subsidiaries supply and manage more than 1 300 stores. Norma's organization has a flat hierarchy, where strategic and company wide decisions are made solely by the management board. The product assortment includes food, convenience goods and non-food special offers. Norma is busy expanding their coverage of the market by either buying stores of competing companies or renting real estate. Important criteria for new outlets are good transport links, as well as spacious shopping and parking facilities.[281]

5.3.3.8 SPAR

Spar originates in the Netherlands. Its name derives from the motto "**D**oor **E**endrachtig **S**amenwerken **P**rofiteren **A**llen **R**egelmatig" which translates into "everyone profits if we work together". Spar's core business is based on wholesale, to supply approximately 2 500 independently owned Spar retail businesses, as well as corporate owned retail business. This includes *Intermarché*, *Eurospar*, *Superspar*, and the *Netto* discount chain. There are also around 2 900 petrol stations and kiosks supplied by *Spar Convenience*. Wholesale business as well as independent retail are coordinated by the *Deutschen Handelsvereinigung SPAR e.V.*. Services the wholesale business offers include the distribution of a large assortment of branded and private label goods, logistics, central marketing as well as consulting.[282]

5.3.3.9 Markant

The *Markant Handels und Service GmbH Deutschland* handles the business of the Swiss based *Markant AG* in Germany. The trade cooperation's task is it to ensure the independence and therefore the future of small and medium-sized trade businesses. It does so by coordinating areas such as purchasing goods, central regulation, logistics, communication and marketing, as well as finance for its members.

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[281] Norma 2004, Website
[282] Edeka Group 2004, Website

Members include private and cooperative enterprises in the fields of wholesale and retail with more than 20 000 outlets in grocery trade. This equals a store size of approximately 7 million m². Important food outlets in Germany include *Markant Markt / Center*, *Markant nah & frisch*, numerous *IK – Ihr Kaufmann* and *shop'n go* stores, as well as approximately 1 700 *Ihre Kette / ...täglich nah* subsidiaries. Mega companies such as *BBB +R/ZEV Süd*, *Kaufland*, *Schlecker*, *Dohle*, *dm Drogeriemarkt* and *Wal*Mart* are also affiliated with Markant.[283]

5.3.4 Summary and Outlook

In summation one can find some distinguishing characteristics of the German retail market. Firstly, compared to other north European countries, Germany has the highest number of retail outlets per thousand people, meaning the density of food stores is high. Many of the stores are still independently owned, resulting in a low level of market integration as well as in low concentration. Secondly, medium sized stores make up most of the sales on the consumer market and thirdly, limited range discounters make up a large proportion of the market and are therefore uniquely significant. Discounters are also responsible for the relatively high share of private label food sales and are jointly responsible for the ongoing price-war, which led to very low retail margins.

Dr. Alex Tenbusch, Director Trade of ACNielsen, Germany, predicts the following for the German grocery trade in the mid term:[284]

The number of consumers will continually decline making single households more and more important. At the same time, sales from existing floor space will become less leading to increased concentration among retailers. Discounters will take the most profit out of the new market situation and continue - even increase - their success. To be able to put up with the ongoing price-war, retailers will have to focus more on private label sales. Prices will continue to be an important factor in helping companies to succeed on the market.

Datamonitor expects the market to reach US $ 136 billion by 2007: a growth of 7.2% from 2002. Floor space will reach a volume of 38 billion m², increasing by 11.6% until 2007.[285]

283 Markant 2004, Website
284 Tenbusch 2002, European Retail Digest
285 Datamonitor 2002, Food Retail in Germany

5.4 German Retail Market for Beverages

5.4.1 General Market Overview

The German market for soft-drinks is expected to reach a volume of 22.8 billion litres in 2006. That would mean a compound annual growth rate of 2.8% over the period from 2002 to 2006.[286]

The largest segment in terms of volume is constituted by bottled water, however, in terms of sales value, *carbonates* are the largest segment due to the relative low price of bottled water in Germany. That is why juices also have a higher sales value than water, even though volumes are considerably lower. With respect to consumption, however, bottled water is by far the fastest growing of these three segments and is anticipated to maintain this position over the next years.

Market researchers state that the German soft-drinks market is relatively mature, comparing the high penetration of energy and sports drinks on the market to those of other countries.

Hot beverages, on the other hand, diverge from the German market. The volume reached 19.783 million litres in 2000. With a predicted compound annual growth rate of –1.4% over the last 4 years, the volume will reach 18.685 million litres at the end of 2004, a decrease of 4.2% since 2001.[287]

Within this sector, coffee is by far the largest category, followed by food drinks, which have a small but nonetheless still significant presence. Marketing initiatives from leading manufacturers of instant coffee help to increase consumption. Roasted and ground coffee manufacturers are forced to market flavoured brands in order to restore growth rates. Tea represents the smallest of the market segments.

5.4.2 Market Volume

The German market for soft-drinks reached a volume of 20.378 billion litres by 2002. That is a growth rate of 4.1% in 2002 and a compound annual growth rate of 4.2% in the period of 1996 – 2002. The strongest growth was in 1999 when the market grew by 4.9%.

[286] Datamonitor 2002, Germany – Hot Drinks. Market Profile
[287] ibid.

The market for hot beverages differs from this volumes declined from 21.150 billion litres in 1996 to 19.509 billion litres in 2001, thus leading to a negative annual compound growth rate of –1.6% in that period. The largest decline in the market was in 1998, when the volume shrank by 2.6%.[288]

5.4.3 Market Segmentation

Carbonated beverages represent the largest segment of the German market for soft-drinks with a total share of 41.2% in 2002. Juices follow with 25.7%, closely trailed by bottled water (25.1%). Energy and sports drinks have a market share of only 6.6% and tail-lights are new age beverages with only 1.4% market share.

Coffee remains the largest proportion in the German market for hot beverages, and represents 74.5% of the market in terms of value in 2000. The smallest sector with only 11.5% is tea.[289]

5.4.4 Competition

Germany is said to be Europe's largest market for soft-drinks. Carbonates, the main segment, is dominated by only three companies: *Coca-Cola* with its brands *Coke*, *Coke Light*, *Fanta* and *Sprite* have a market share of roughly 60%, followed by *PepsiCo* and *Cadbury Schweppes* at third place. All other manufacturers of carbonated drinks play only a minor role.

For other segments such as bottled water, energy and sports drinks and to a lesser extent for the juice segment, regional manufacturers play a much more important role, fragmenting the segments significantly. The reason for the high popularity of fruit juices and nectars in Germany is the consumers' trust towards the high quality and product safety of locally manufactured products. The drinks enjoy a positive image and a broad range is available countrywide.

Leading companies on the German market for hot drinks are: *Union Deutsche Lebensmittelwerke*, *Kraft Jacobs Suchard*, *Unilever*, *Nestlé* and *Tchibo Holdings*.[290]

[288] Datamonitor 2002, Germany – Hot Drinks. Market Profile
[289] ibid.
[290] ibid.

5.4.5 Market Forecasts

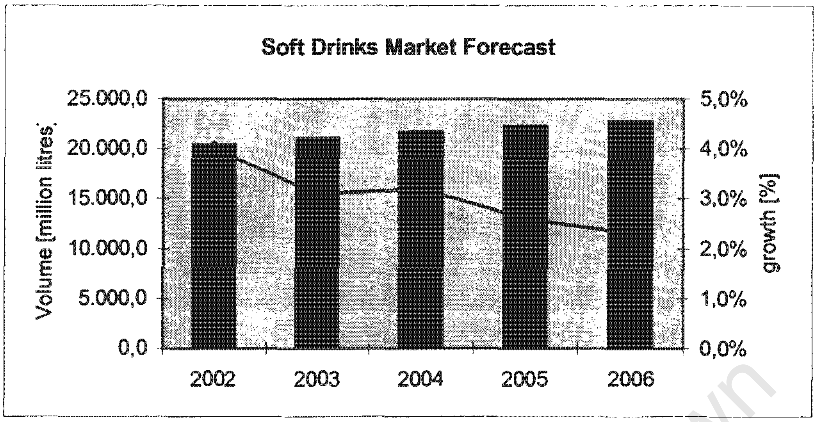

Figure 5 - 11

The German market for soft-drinks is expected to reach a volume of more than 21 500 million litres in 2004 and 22 765 million litres in 2006, a total increase of 11.7% since 2002. However, the growth rate is declining and will be only on a level of 2.3% by 2006, which brings the compound annual growth rate down to 2.8% over that period.[291]

The market for hot beverages acts differently: growth rates were negative in the last years (CAGR = -1.4% in the period from 2001 – 2004). The predicted volume in 2004 is 18 685 million litres, which is a decrease of 4.2% compared to 2001, when the volume was still over 19 500 million litres.[292]

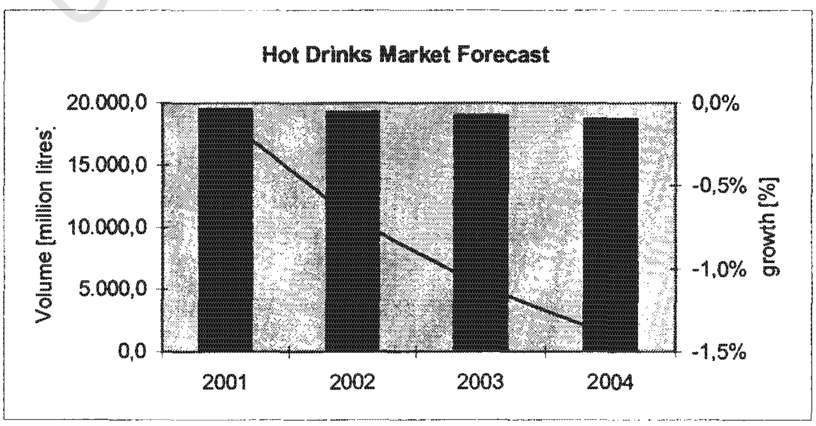

Figure 5 - 12

[291] Datamonitor 2002, Germany – Soft-drinks. Market Profile
[292] ibid. – Hot Drinks. Market Profile

5.5 German Market for Tea

With an annual import volume of 22 000 tons of tea out of a total volume of 40 000 tons in Europe, Germany is by far the most significant import market for tea in Europe.[293]

5.5.1 The Major Categories of Companies

The German market for tea wholesale consists of two major categories of companies namely *trading companies* and *specialized tea companies.*

The first category is comprised of companies such as *Martin Bauer GmbH*, *Haelssen & Lyon*, *Gebr. Wollenhaupt GmbH* and *Kräuter Mix GmbH*. These companies are tea traders or importers, buying tea directly from the producer and adding value to the product by ennobling the tea through blending, flavouring and packing it. The trading companies purchase the raw materials directly from tea gardens, plantations and tea agents or tea brokers. Some of them have contracts with tea farmers, who produce directly for the company. Business segments differ from company to company, including blending, flavouring, analysis of the raw material, cleaning, cutting and standardizing.
Customers are mainly wholesalers with own brands, other tea traders, packers or specialized tea shop chains who either buy the readily blended or flavoured product or the ingredients to do this themselves. A significantly high share of the tea is then re-exported.
Approximately 10 to 15 companies dominate this segment of the German market for tea wholesale.

The second category of companies is specialized tea companies. The most important companies in this segment include *Ostfriesische Teegesellschaft mbH (OTG)* and *Teekanne GmbH* who mainly dominate the market for branded teas in Germany (>60%). This segment also includes companies that sell products to wholesalers, central buying co-operatives and tea specialty shop chains under their own brands or unbranded. They either purchase their tea from above mentioned trading companies or include this function and deal directly with the producers.

[293] Eastern Tea 2004, Website in Engelbrecht 2004, Thesis

Some of the companies create their own blends and flavours, others buy the tea readily prepared to their instructions. Packaging can be in-house or outsourced to specialized packers.

These businesses are more closely connected to the end-consumer than tea traders. They are heavily involved in marketing- and consumer-research as well as advertising, enabling them to react to changes on the market and new consumer trends immediately.

25% of the market consists of trademarks or private labels produced for supermarket- or discounter-chains. Companies producing these products also fall into the category of specialized tea companies.

5.5.2 Specialized Marketing Channels

Black tea, as a rule, is sold on a weekly basis. The biggest share, by far, of the produced quantity of tea is offered on auctions held at different places of the relevant area of cultivation. This is not only true for exported tea, but also for tea consumed in the country where it is produced. Only certain high quality teas in smaller quantities are occasionally sold directly from the plantation or place of production to the tea importer or packer. These sales are called "garden contracts".

Once the tea is sold on an auction, a broker, who also acts as auctioneer and is generally appointed by the relevant tea authority, will sort the teas according to quality and quantities to "lots" (typically 20 or 40 units of 50 or 60 kg). The broker will examine and rate each of the offered consignments and send samples to interested parties and companies registered as buyers for the auction. For his services the broker and auctioneer typically charges 0.5 to 1% commission.[294]

Buyers are typically tea brokers (import) or tea trades who then sell the tea to local importers, large teahouses or packers. Some will then act as buyers at the auctions themselves. From here the tea is either sold to wholesalers or directly to the retailer.

[294] Deutscher Teeverband e.V. 2004, Website

Figure 5-13 illustrates the possible marketing channels for black tea.[285]

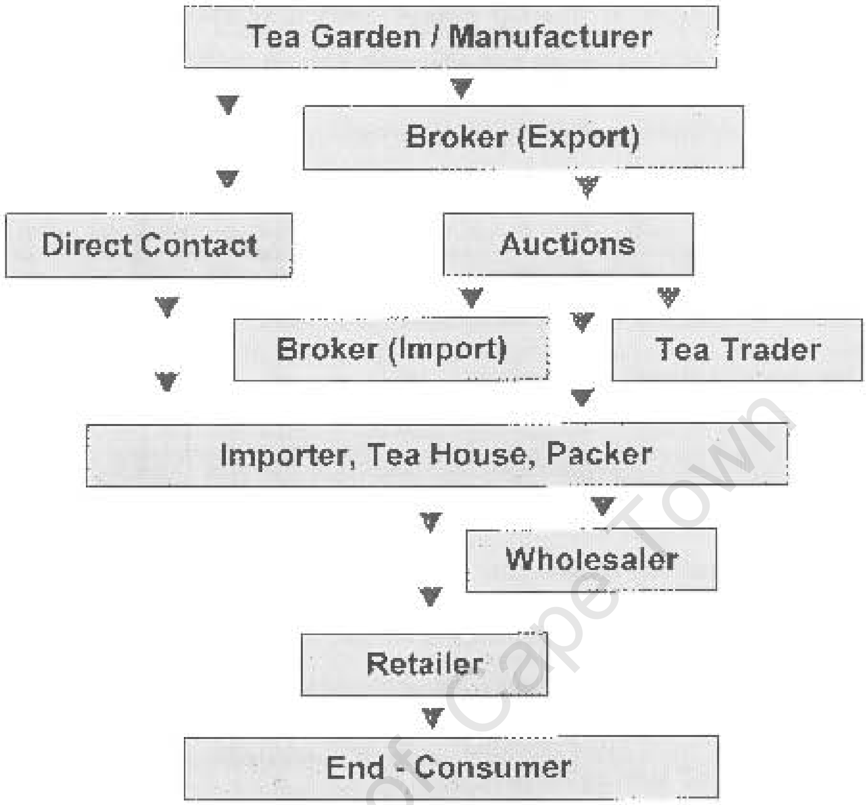

Figure 5 - 13

5.5.3 The WKF

WKF stands for "*Wirtschaftsvereinigung Kräuter- und Früchtetee*". The association was founded in 1997 as a German e.V. (registered society) and dedicate themselves to all professional and economical problems regarding imports, production, packaging and the marketing of herbal and fruit-teas, in the interest of its members and the consumers. Its members represent roughly 90% of the German market for herbal and fruit teas.

The main activities of the WKF fall into the segments food-law, food-knowledge and nutrition-psychology. Furthermore the WKF develops guidelines and publishes papers in the areas of food labelling, food-hygiene and functional food to present them to national and European decision-makers. The WKF also collects and publishes market data.

[285] Adopted from Deutscher Teeverband 2004 Website

5.5.4 Tea Distribution in Germany

Compared to other teas that originate from the *camilla sinensis* plant, black tea leads the market with 82% of all sales. Green tea has not been able to continue its growth from the last years and seems to have settled with a market share of 18% which is equivalent to the result of the previous year. Roughly 40% of all black and green teas are sold in teabags.[296]

Classic food retailers such as supermarkets and department stores are the most important points-of-sale according to a study of the *German Tea Association*.[297] 44% of all black and green teas were purchased at these retailers. Discounters had a share of 17.2% closely followed by specialized tea shops with 16.2% of all sales. Direct marketing is far behind (4.6%), as well as all other distribution forms.[298] This supports the notion that tea consumers attach greater importance to competent consultation and variety, rather than buying tea in passing.

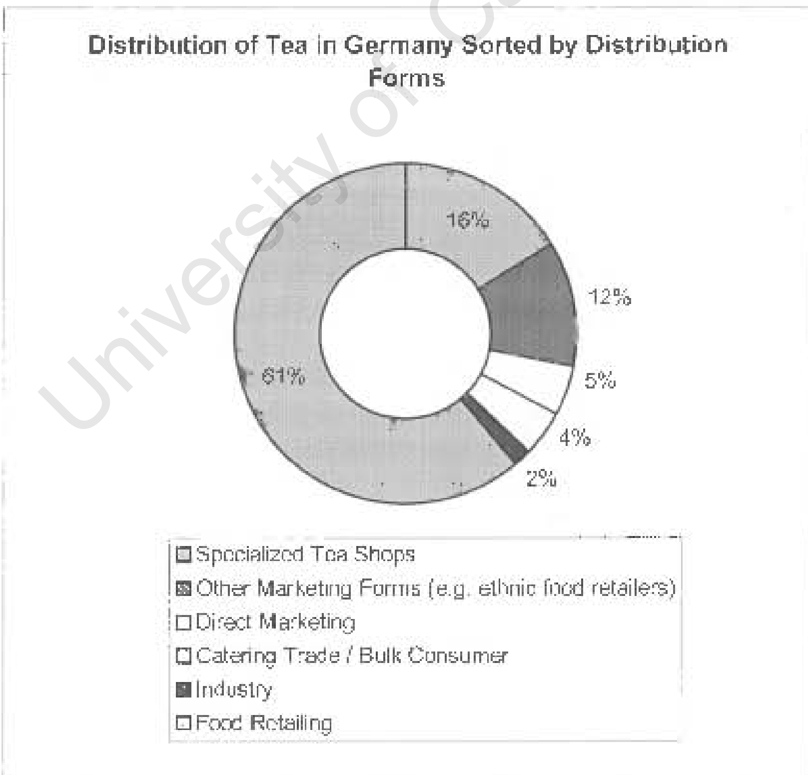

Figure 5 - 15

[296] KommEnt 2003, Society for Communication and Development
[297] Deutscher Teeverband 2004, Website
[298] KommEnt 2003, Society for Communication and Development

5.5.5 Alternative Distribution Channels in Germany

Apart from the conventional retail outlets Germans visit to purchase their goods, there are several other opportunities to shop for groceries, although these sales play only a minor role compared to the rest of the industry. Nonetheless, some product categories do well using specialized distribution methods. Hereinafter the most common ones will be dealt with:

5.5.5.1 Mail order

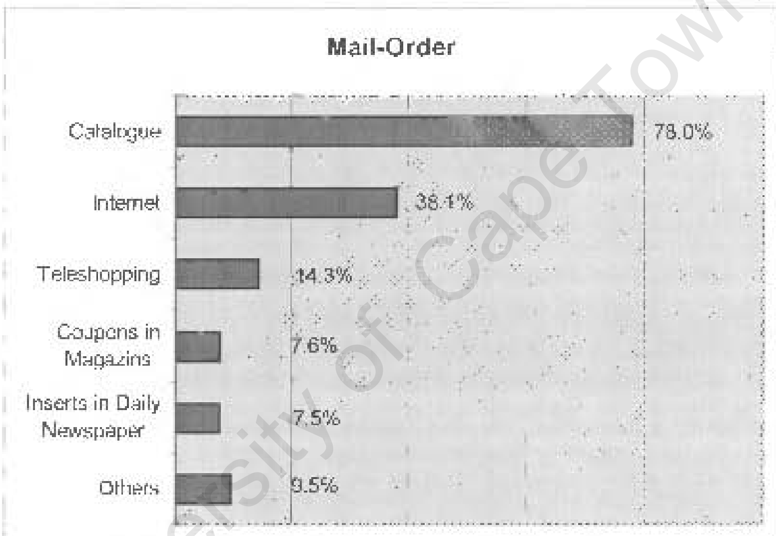

Figure 5 - 16

Mail order holds only a small share of the total retail market. 78% of consumers who ordered goods did so from catalogues and roughly half as many used the Internet for purchases. Contrary to the general trend on Germany's retail market, there was a growth of 3.6% in 2002. Ordered goods from online-business alone added up to 250 million ,k Product categories purchased the most by mail order include clothes, books and videos/DVDs. Apart from a few smaller businesses, the mail order market for groceries is not yet seen as an acceptable alternative for German consumers.[299]

[299] SevenOne Media 2003, Market Analysis, p. 8

5.5.5.2 Fair Trade

Fair Trade businesses, or 'alternative trade', operate "under a different set of values and objectives than traditional trade [...]"[300]. In contrast to important factors for conventional businesses such as turnover, growth and profit, here the people and their well-being are of immediate importance. Also the preservation of the natural environment of producers and manufacturers comes before profit. As Fair Trade in general has already been discussed earlier in chapter *4.4 The Industry* the focus here lies on retailing.

Fair Trade represents a relatively small niche market. Europe-wide "Weltläden" (world shops), the traditional and still most important distribution system for Fair Trade products, had annual sales of approximately 92 million € in 2002. Although the number of paid employees in such outlets increases, the high number of 96 000 honorary workers[301] in the industry reflects the solidarity concept behind Fair Trade.[302]

Apart from the approximately 800 "Weltläden" in Germany, which mostly focus on action groups related to churches, Fair Trade products are available in more than 22 000 supermarkets, chemists, health food shops as well as committed Internet trading companies countrywide.[303]

However, with the exception of coffee trade, where Fair Trade methods are well established, this kind of distribution plays a very small role in the whole German food distribution system.

5.5.5.3 Reformhaus / Health food shop

The idea of health food shops dates back to the beginning of the 20^{th} century. Nowadays they have their own place on the German retail market for food and can be found in every city and major town.

The product assortment customers find at a health food shop include wholesome food, vegetarian specialties, special diet products, complementary food products, cosmetics and personal hygiene based on natural products as well as mild natural medicine, many of the products in organic quality.

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300 Renard 2003. Journal of Rural Studies
301 KommEnt 2003, Society for Communication and Development, p. 13
302 Renard 2003. Journal of Rural Studies
303 Die Verbraucher Initiative e.V. 2004. Verbraucher Konkret, p. 12

A customized product assortment of roughly 5 500 products on average, with high focus on quality and naturalness, makes health food shops competent retail outlets for wellness-orientated, active consumers.

Currently there are roughly 2 200 of such retail outlets in Germany.[304] Together they form the business association "*neuform Vereinigung Deutscher Reformhäuser* e.G." headquartered in Oberursel. The *neuform*-central deals with sector-specific problems such as joint marketing and developing the market segment. It also helps the outlets with their store-design, educating employees and, depending on the size of the business supplies them with a core assortment of 2 000 to 3 000 products from more than 50 producers.

Excluding independent health food shops, the members of the *neuform*-association generated a turnover of 658 million € in their businesses in 2003; 58% of which came from the food segment.[305]

5.5.5.4 Specialized tea shops

If customers want a greater variety of teas to choose from than supermarkets or other retail outlets can offer, or if they require competent consultation on tea, specialized tea shops are the best place to go to.

Here one can choose between some 200 different teas and their blends, mostly sold loose and in customized quantities. Most tea shops also offer tea-accessories such as china or cookies and small gifts related to tea that can be gift wrapped as a present.

Specialized tea shops are very active in their marketing and sales promotions. To attract customers and increase sales some offer mail-order services and business via Internet or are involved in direct marketing by being present on weekly markets and fairs. A common practice by the owners of such shops is to organize seminars on tea on a regular basis. Here people can learn about the product and share their passion for tea with others. In the outlets customers can find abundant information on tea in form of posters and brochures and are sometimes offered to sample new creations or trends. In this way many trends have been started before big conventional retailers even though about including the new products to their existing assortment.

[304] Reformhaus.de 2004, Website

[305] Kannamüller 2001, Apotheke & Marketing, p. 4 and Reformhaus.de 2004, Website

There are several chains and franchise businesses in Germany such as "*Der Teeladen*" with more than one hundred outlets, but most tea shops are independently owned. Specialized tea shops can be found in every town - there are even examples of flourishing businesses in towns with less then 5 000 residents.[306]

5.5.6 General Market Segments

In contrast to Ostfriesland, an area in the northern part of Germany, generally black tea does not play the major role in the rest of the country (therefore all statistics about tea exclude this area). All together 308.3 million packages of tea were sold in Germany in 2003. That is an increase of 9.8% compared to the previous year. Black and green tea, both from the plant *camilla sinensis*, have a total market share of roughly one third in Germany, loosing about 1.2% compared to 2002. The remaining 66% is split up in the segments fruit mélanges or fruit teas and herbal teas and their blends. Furthermore one has to distinguish between flavoured and unflavoured herbal teas.

With almost 50%, the biggest share is herbal tea. In this segment 151.4 million packages were sold in 2003, about 14% more than in the previous year. Fruit teas have an even higher growth rate with 20.2%, and a market share of more than 27%.[307*]

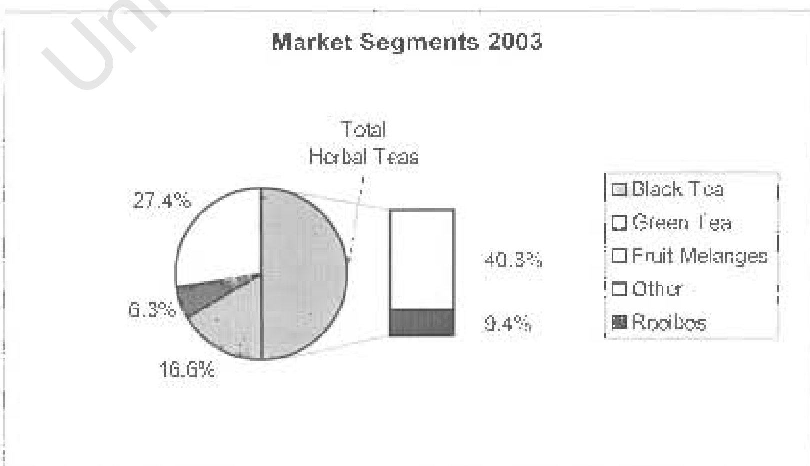

Figure 5 - 17

[306] Wollenhaupt 2004, Newsletter No. 02/2004
[307] ACNielsen 2003
* Data until week 48, 2003, food retail excluding Ostfriesland, including chemist's

5.5.7 Market Report Herbal and Fruit Teas 2003

In contrast to the general downward trend for consumer goods in Germany, the market for herbal and fruit teas notched up a record profit for 2003. Herbal and fruit teas are "in" – looking at the latest market data for 2003 from the WKF leaves no doubt about that. The positive trend of the years before does not only continue but the popularity of the infusions made form herbs and fruits by the consumers grew.

The WKF notifies in a press statement from the 18.05.2004 that herbal and fruit teas sales increased by 8.7% in 2003. The total market for herbal and fruit teas is now as much as 36 950 tons, 2 964 tons more than in the previous year, which is roughly 900 million more cups of tea consumed in Germany.*

The largest share of the market with approximately 37% is made up of herbal- and fruit-tea-blends. This segment also showed the highest growth rate with 11.5%, attributed mainly to the flavoured herbal- and fruit-tea-blends. With a volume of 9 761 tons the growth rate of this segment amounts to 16.3%. Non-flavoured blends showed a positive tendency compared to 2002, and grew by 1% to 3 840 tons in 2003.

So called "mono-teas" such as camomile, mint and Rooibos still form the largest segment of the total market with 23 349 tons and a growth rate of 7.2% in 2003. Particularly Rooibos tea enjoys great popularily on the German market. Compared to the other mono-teas, Rooibos once again comes out on top with sales having increased by 60%, or an increase of 1200 tons.

* Calculated on the basis of 3g per cup

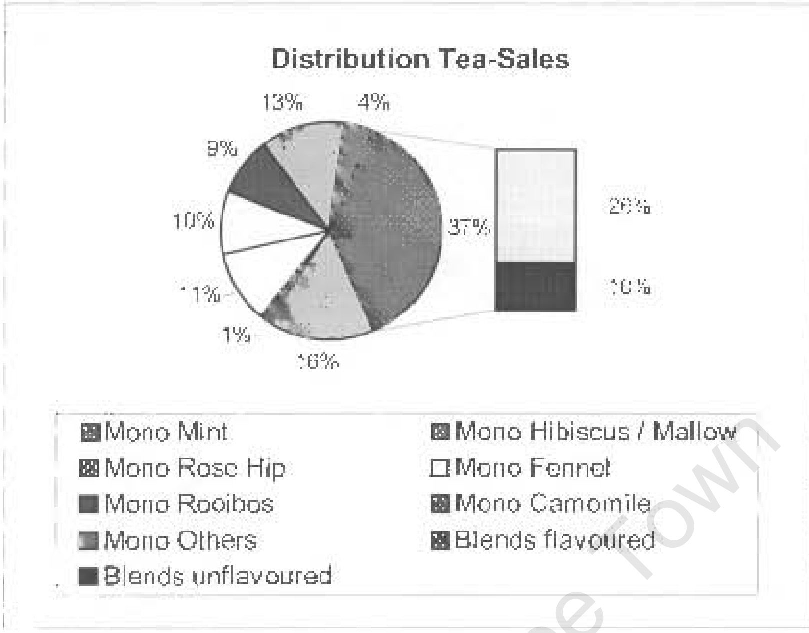

Figure 5 - 18

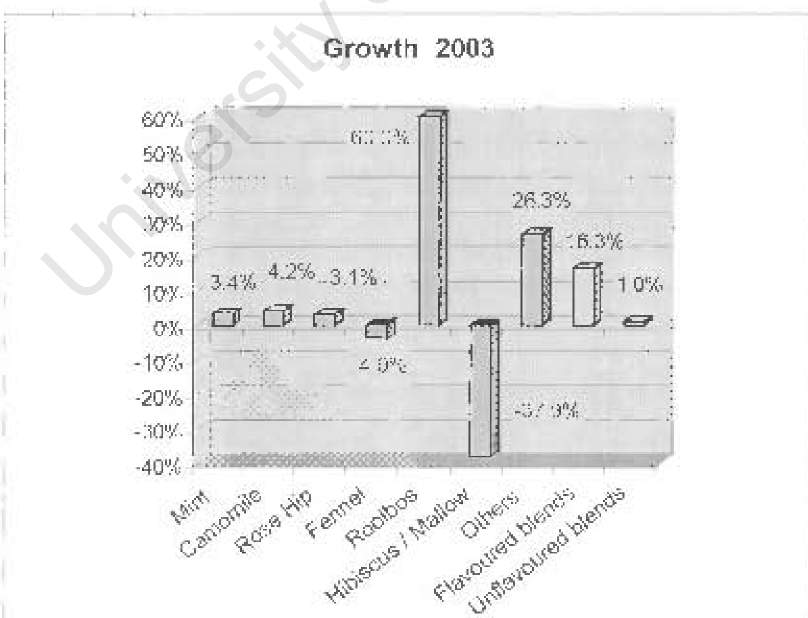

Figure 5 - 19

Camomile enjoyed the second largest increase in this segment with 4.2%. It continued its success from the previous year when it grew by 13%, which is a plus of 188 tons to a total of 4 661 tons in 2003. Mint still remains the best selling herbal tea with 5 869 tons. It was also chosen as the medicinal plant of the year 2004. The third most often sold mono-tea was rosehip of which 3 926 tons were sold during the year.

The WKF is optimistic about a new tea: *Maté*. Sales remained on a stable level but imports increased drastically. Maté could be used as ingredients in herbal-blends as Rooibos is used in fruit-blends.
All together the WKF is optimistic about the future of herbal- and fruit-teas. Increased demand for healthy food by consumers will support tea sales. New blends in combination with established classics as well as various new flavours will ensure the future of the German tea market.[308]

5.5.8 The Role Players – Leading Companies

The companies described in this section have been chosen due to the fact that they represent the different categories of tea businesses in Germany. In addition to that the researcher visited four of these personally and conducted interviews (see *Appendix 11.2 Interviews*). This list of companies neither reflects the whole German market nor is in any order of importance. All of them are well-known tea businesses and important players in the German tea industry. Other important companies involved in the herbal- and fruit-tea industry can be found in *figure 5-14*, members of the WKF.

5.5.8.1 Teekanne

Rudolf Anders and Eugen Nissle, *Teekanne*'s founders, were the first to sell blended, packed tea at consistently high quality. The Teekanne Group has been a family business for over a century, and the headquarters are situated in Düsseldorf, Germany. With its 1 300 employees it is represented in eight countries around the globe with own production facilities and/or branches.

[308] Wirtschaftsvereinigung Kräuter und Früchtetee e.V. 2003, press releases

Subsidiaries include the *Pompadour Teehandelsgesellschaft mbH*, *Westdeutsche Teehandelsgesellschaft mbH & Co KG* ýs well as the *Teehaus GmbH* and *Redco Foods Inc.* in the USA.

Teekanne and its state-of-the-art production facilities' management system both comply with *DIN EN ISO 9001* and the company operates according to its *HACCP* concept (Hazard Analysis Critical Control Point), which is designed to identify points within the processing that could affect product quality and helps to ensure consistent food safety.[309] Düsseldorf is also the location for the company's largest production facility, where tea blends are created using roughly 12 000 tons of raw materials a year for Germany and various other export markets. The Teekanne Group produces over 6 billion tea bags a year, 2 billion thereof in Düss The tea is sold under various brands, the most important include *Pompadour Gold*, *Teekanne* and *Teefix*. According to own statements of the company, the share of their *Teekanne*-brand on the German food retail market lies around 47.5%, which makes them the market leaders in the tea segment.[310]

Teekanne also offers the popular Rooibos tea to their customers; besides pure Rooibos there is a range of flavoured Rooibos ranging from vanilla to cream-caramel to Rooibos orange, both in tea-bags or loose, available under the *Teekanne*–brand.[311]

5.5.8.2 Gebrüder Wollenhaupt GmbH ÿ

Founded in 1881 the Gebrüder Wollenhaupt GmbH is one of the most important traders for tea and vanilla in Germany. Nowadays Wollenhaupt focuses increasingly on the development of the fruit and herbal tea market. The company enjoys an international reputation and its global connections and innovative corporate philosophy is a strong basis for good partnerships with customers all over the world.

Among its customers are individual tea dealers and specialized tea shops who can initiate business with Wollenhaupt with as little as 2kg of tea per order, as well as wholesalers buying several thousand kilogram at once, all enjoying the high quality range of standard teas as well as Wollenhaupt's creative new tea varieties.

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[309] Teekanne GmbH 2004, Website

[310] A.C. Nielsen in Teekanne GmbH 2004, Website

[311] Teekanne GmbH 2004, Website

Under the management of the brothers Dirk and Jörg Wollenhaupt, who are committed to the traditional principles underlying the success of their preceding generations, the company generates total sales of roughly 45 million €, selling about 5 000 tons of tee and 100-120 tons vanilla each year. Wollenhaupt's share on the German market for Rooibos is about 10-15%. Close contact to the customer as well as quality consciousness and competence are important principles for the 120 employees.

Wollenahaupt's high quality standards are proven by the companies ISO 9001:2000 certification, which was successfully finished and assessed in November 2003. As a tea-trading company, Wollenhaupt also operates internationally, exporting roughly half of its tea.[312]

5.5.8.3 Martin Bauer

Martin Bauer applies its established knowledge from over 70 years of operation on natural products to benefit its clients from the food and pharmaceutical industries. The company focuses on the trade of black tea, herbal-, fruit- and medicinal-teas as well as on other plant-based raw materials either in pure form or blended and flavoured. Its customers include specialized tea companies and packaging companies, but no small buyers such as individual specialized tea shops. Export is also an important scope of the company's business. Martin Bauer is a member of the *nature network*, offering direct access to resources around the world and global know-how on plants. Additionally the company offers comprehensive scientific services including laboratory analyses and consults customers with product development and registration services.

The high product quality is secured by consulting contract partners and producers in all matters related to cultivation and raw material processing. In addition to that, quality is guaranteed by the company's primary processing principle: the preservation of the valuable ingredients using technologically optimized processing and carefully protecting stock by using the residue-free MABE-PEX technology and the patented dioxide recovery technology. Martin Bauer's quality management system is based on the DIN EN ISO 9001:2002 standard and complies with all legal specifications from the food and pharmaceutical fields, as well as specific customer requirements.

[312] Gebrüder Wollenhaupt GmbH 2004, Website and Interviews Voigt, Sinram

The HACCP concept as well as the alliance with drug legislation for pharmaceutical companies (GMP) are also part of the company's management.
Martin Bauer purchases raw materials in over 80 countries on 5 continents and in the establishment of production areas all over the world. To be able to supply Martin Bauer, producers must comply with GAP (good agricultural practice) specifications. All steps of the cultivation process must be documented and able to be audited. In addition, some of Martin Bauer's products are subject to inspection by *BCS Öko-Garantie GmbH* as well as *kosher* certification.

According to Martin Bauer GmbH their market share in the Rooibos segment lies at more than 50%.

5.5.8.4 Kräuter Mix GmbH

With annual sales of 51 million € and its 240 employees*, the Kräuter Mix GmbH is one of the most important role players on the German market. The company was founded in 1919 and is currently managed by Christoph Mix. As a trading and processing company, the product assortment ranges from air-dried food products, pharmaceuticals, fruit- and herbal-teas to ready packed products. The company also works as a subcontractor. Approximately 30 countries supply Kräuter Mix with raw materials through contract cultivation. Its customers are found in industry and trade for food, products for veterinary purposes, medicinal herbs, fruit and herbal infusions as well as retail for health food, pharmacies and drug stores. More than half of its business is conducted on the export market.
The company has a production site in southern Germany where raw materials are dehydrated and refined (cleaning, cutting, grinding, blending, sterilizing, fumigation). To be able to supply a constant quality over the year, Kräuter Mix stores an average of approximately 200 000 m³ or 10 000 tons of its products**. Food-safety is guaranteed by practicing an HACCP-system. Kräuter Mix is eco-certified***, has a Kosher-Certificate, its management system has a DIN EN ISO 9001 certification and has permission to manufacture pharmaceuticals****.

* figures from 2003
** figures from 2001
*** according to VO-EWG 2092/92
**** approved by the government of Unterfranken, according to § 16 of the Drug Law (interview Braun, Lenz and Martin Bauer GmbH 2003, Website)

5.5.8.5 Ostrfriesische Tee Gesellschaft

The Ostfriesische Tee Gesellschaft, with 262 employees*, is part of the Laurens Spethmann Holding AG & Co, and has its headquarter in Seevetal in northern Germany. With a total of 1 600 employees the group made a turnover of 550 million € in 2003. Roughly 70% or 385 million € were produced by OTG, the tea section of the holding. That is approximately 35% market share (volume) for brand tea in Germany.[313] Most of the sales come from the OTG-brands Meßmer and MILFORD, but Onnes Behrends Tee and Marco Polo are also important brands of the company. In addition to OTG's own brands, the company is in charge of various trademarks all over the world. OTG does not purchase tea directly from the producer but buys it through tea traders. Some of the bulk tea is blended at self-owned facilities, but most comes readily packaged for the retail market. Customers consist of food retailers, either represented by central buying co-operatives, or buying through wholesalers or brokers, as well as drugstores, health food stores and specialized tea shops. OTG buys roughly one quarter of all Rooibos imported by Germany and either sells it locally or exports it again.

5.5.8.6 Hälssen & Lyon

The Hamburg based Hälssen & Lyon is a fourth generation family business. More than a century of experience in the tea trade and their close cooperation with both customers and producers has made them one of Europe's leading teahouses. The company focuses on high quality black tea from all over the world but also trades with green teas, fruit and herbal infusions as well as more exotic specialties such as Rooibos, Maté and Honeybush, flavoured or natural. In Hälssen & Lyon's factory the company is able to apply all existing decaffeination processes and blend their raw materials. Organic teas are part of the company's product assortment as well as tea extracts in various forms. To guarantee the highest possible quality and food safety, Hälssen & Lyon applies a HACCP concept and uses an ISO 9001 certified management system.

* figures from 2002
313 ACNielsen 2004

Their manufacturing plants include facilities to blend, sift, cut, pulverize, granulate, decaffeinate, add vitamins and package the various teas. In their warehouses Hälssen & Lyon are able to store up to 10 000 tons of quality teas to be supplied to customers with the same quality throughout the year.[314]

5.5.9 Price Development

The WKF predicts a bottleneck in the supply of important raw materials for the herbal- and fruit tea production. The reason for this is crop failures all over Europe for important herbs due to a long dry season in 2003. This leads to significantly higher prices for raw materials. In some cases the industry even expects that there won't be enough crop to supply the market until the next harvest in summer 2004. Mint, camomile and balm, some of the most important raw materials for the herbal-tea industry, were affected the hardest and in some cases harvested quantities were down by 30%.[315]

But not only in Europe did farmers have to battle with drought. Rooibos tea, which is gaining popularity worldwide and had a share of 4 500 tons in 2003 of the German market for herbal- and fruit teas, was hit hard by the lack of winter rainfalls in the Western Cape region in South Africa. Here producers will be in a strong position towards German importers as volumes might not be enough to supply every customer with the demanded quantities. Another reason for the higher prices for the raw material Rooibos is the fluctuation in the South African currency against the Euro, as the Rand strengthened significantly in 2003 and contracts are generally in Euro.[316]

5.5.10 Quality / Food Safety

The European food industry, with its 26 000 companies and over 2.6 million staff, is the leading branch of industry in Europe. Total annual production accounts for 600 billion €.

To ensure high quality and food safety standards, it is necessary to be able to trace all steps in the production and trading process.

[314] Hälssen & Lyon 2004, Website
[315] Wirtschaftsvereinigung Kräuter und Früchtetee e.V. 2004, Höhere Preise bei Kräutertee
[316] Greß 2004, unpublished article

As from the beginning of 2005 companies involved in the food production, manufacturing and trade will be obliged to record "who has supplied what and what has been supplied to whom"[317]. This traceability applies to the whole European food industry. All links in the chain must be able to have a look at the documentation at all times. The system includes four core elements: Identification, data capturing and storage, data-linking and communication.[318] Furthermore, the traceability of the products must be reflected in the labelling. This is not just to reduce risks for consumers but can also be used to win back their trust in food products.[319]

Tea is one of the most natural food products. Either organically grown or using conventional methods, tea belongs to the purest and cleanest food on earth. This is being ensured by extensive quality- and control systems. However, regarding quality, flavour and purity, most conventional teas still lead over those produced organically.[320] Considering flavoured teas, the German magazine *Stiftung Warentest* tested 58 different teas of which more than half were clearly too strongly polluted with pesticide residues. However, residues found were not threatening for the human body.

To reduce risks for the consumer caused by contaminated food products, different systems are being used in the industry. A commonly applied concept is HACCP.

HACCP stands for *Hazard Analysis and Critical Control Point.* The concept provides an analysis of all steps of the production processes beginning with purchasing of raw materials and ending with the customer. With HACCP, possible dangers that might give rise to health hazards are checked, monitored, controlled and eliminated if necessary. The HACCP are even taken into account if they seem to be unnecessary. The HACCP concept concentrates solely on safety, not on product quality. Meanwhile the German food-hygiene ordinance requires all manufacturers of food and drinks to operate their own self-controlled system based on HACCP.[321]

[317] Anonymous 2003, Food safety, food safety and food safety, Food Enigineering & Ingredients
[318] Einzelhandel 2004, Website
[319] Anonymous 2003, Food safety, food safety and food safety, Food Enigineering & Ingredients
[320] TeeGschwendner 2003, Teeliste, p. 15
[321] Wollenhaupt 2004, Newsletter No. 01/2004

5.5.11 Organic Tea

As the biggest consumer of organic food in Europe, Germany has a firm commitment to natural food as well as to high quality standards.[322]

Organically grown teas, however, does not seem to play a major role for German consumers. This is due to the fact that tea is believed to be a natural, healthy product that does not need to be produced organically. By far the more important reason why organic tea has such a small market share is its price. German consumers are very price sensitive. Taking the example of mint-tea, which is one of the most consumed mono-teas on the German market, if produced organically, retail prices increase by the factor 9 per cup. Only few health conscious consumers are willing to spend that much money on a product, which is already believed to be pure and natural.[323]

Stiftung Warentest also found that most of the cheaper conventional teas are also of a high quality[324] and it seems that such differences in price are not justified as even organically grown teas are only seldom completely free of residues.[325]

The same reasons apply to Rooibos tea. Price differences between organically grown Rooibos and conventional products are not as high as for mint-tea, but only a few consumers are willing to spend twice the price. In addition to this consumers prefer blends and flavoured Rooibos to the pure product. So far it is very difficult to use organic natural flavours in tea, as these are perishable products and cannot withstand the long shelf life of Rooibos.

It is to be seen if organically grown tea is able to gain market share in Germany.

5.5.12 Rooibos

Germany accounts for 73% of the international Rooibos market. In 2003 a total of 5 576 tons of conventional Rooibos was exported from South Africa, its only country of origin. 4 276 tons were imported by German tea companies.[326]

322 Mellgren 2003, Gourmet Retailer
323 Stiftung Warentest Online 2004, Pfefferminztee – Ökotee vorne – auch im Preis, Website
324 ibid.
325 ibid., Kamilletee – Aufgüsse mit Überraschung
326 Perishable Products Exports Control Board 2003

During the last years, most of the leading companies included Rooibos in various blends and flavours in their product lines. From an insiders' tip to a shooting star – that is how one could describe the career of Rooibos on the German market. The number of passionate consumers is still growing fast. Starting off as an unknown niche product intended only for health conscious people, nowadays most German tea-drinkers know Rooibos tea and statistics prove that they also drink it.
Due to its good taste and its meanwhile well-researched pleasant characteristics, Rooibos is expected to keep on selling extremely well in future.[327]

5.5.12.1 Variety

In 2003, roughly one quarter of all Rooibos in Germany was used as components in herbal tea blends. 90% of the rest was sold as flavoured Rooibos. The sometimes "exotic" creations are mostly available in loose form sold in specialized tea shops all over Germany. However, the biggest share of the flavoured Rooibos is sold through supermarkets and discounters. There, the customer most commonly chooses between *vanilla* and *caramel* flavoured tea, conveniently packaged to 20 or 25 teabags. Examples are the *Meßmer Ovambo*, *Meßmer Rooibos Karamell*, *Teekanne Rotbusch Vanille* and *Teekanne Rotbusch Sahne-Karamell*.

[327] Zittlau 1998 in Wirtschaftsvereinigung Kräuter und Früchtetee 2004, Der rotbraune Südafrikaner

The following list shows an excerpt from the different Rooibos creations offered by three companies available on the German market in 2003. Some of the flavours are only seasonal available.

Wollenhaupt	Truffle	Rooitea Kirsche
Vanilla	Creamy Melon	Rooitea Fierpunsch
Cream / Caramel	Organic Vanilla	Rooitea Zitrone
Strawberry/Cream	Cinnamon / Plum	Rudolph mit der roten Nase®
Lemon Love®	Green Rooibos Green original	Rooitea Apfelstrudel
Cram/Caramel	Green Rooibos Grüne Grütze	Im Himalaya®
Raspberry/Vanilla	Green Rooibos Irish Honey®	Auf hoher See®
Kalahari	Green Rooibos Rubarb / Cream	Rooitea Kimberley®
Rooitea with red wine extract	Green Rooibos Tropical Punch®	
Seabuckthorn	Anti Ageing Chai massai	***Martin Bauer GmbH & Co. KG***
Golden Nougat	Kilnenny Love®	Vanille
Spekulatius	Lemon Love®	Rotbusch « Rool-Chai »
Rooibusch Tee Sternschnuppe®	Nutcracker	Rot Buschfeuer
Pineapple/Lemon Rooibos Tea	Orange	Sahne-Krokant
Green R. Ice Tea Lemon	Original	Sanddorn-Sahne
Green R. Peach Nectar®	Capetown	Wildkirsch
Green R. Sea Buckthorn/Cream	Sea Buckthorn	Pflaume-Zimt
Green R. Tuiso Royal®	Choco / Mint	Organic Rooibos pure
Green R. Tropical Punch®Green Groats	Sternschnuppe®	Organic Rooibos Apfel
Green Rooibos	Tiramisu Venezia	Organic Rooibos Lemon
Take it Easy®	Kalahari	Organic Rooibos Mint Vanille
Anti-Ageing Rooitea		Ananas-Maracuja
Spring Tea	***Tee Gschwendner, Der Teeladen***	Blue Heaven
Heiss auf Eis	Rooitea Captain's Vanilla Cup®	Beerenkorb
Pineapple-Lemon	Rooitea Vanille	Bratapfel
Baked apple	Rooitea Caramel	Cool Lemon
Organical Rooitea	Rooitea Sahne-Caramel	Fierpunsch
Gourmet pear	Rooitea Kuruman®	Erdbeer-Vanille-Sahne
Creamy Lemon	Rooitea Oranje®	Grüner Rotbusch „Apfel-Amaretto"
Earl Grey	Rooitea Bafana®	Kirschblüte
Strawberry / Cream	Rooitea Marlon®	Marangoplus
Fireside	Rooitea Dschungelfeuer®	Orange
Rasperry / Vanilla	Rooitea Earl Grey	Paradiso

Figure 5 - 20

5.5.12.2 Prices

On the German retail market, Rooibos tea is sold loose, packed in 50g – 500g bags or conveniently in double chamber tea bags containing 1.25g – 2.75g in packs of 10 – 100 teabags.

Prices vary drastically starting from about 1.00 € to 3.00 € for loose pure Rooibos and 3.70 € to 8.50 € for pure Rooibos in teabags. Flavoured Rooibos in loose form starts at 2.50 € to 5.00 € and in form of teabags customers pay 1.50 € to 6.40 €. Organically grown Rooibos costs between 2.10 € and 4.20€*. The researcher deliberately refrained from calculating average prices, as this would give an inaccurate impression. Only a small share of Rooibos is sold in the more expensive specialized tea shops or health food shops. On the other side there are the discounters who are able to sell private label products at very low prices. Here are some examples of Rooibos brands in large supermarket chains in Germany:

SPAR (region north)	Teekanne pure Rooibos	20 teabags	2.19€
	Teekanne vanilla Rooibos	20 teabags	2.19€
	Teekanne caramel Rooibos	20 teabags	2.19€
	Meßmer vanilla Rooibos	20 teabags	1.79€
	Meßmer caramel Rooibos	20 teabags	1.79€
PLUS	Meßmer vanilla Rooibos	20 teabags	1.55€
REAL**	Teekanne caramel Rooibos	20 teabags	1.89€

Figure 5 - 21

The large differences in prices*** are due to the different natures of the retail outlets. Supermarkets and discounters often offer only a limited range of different Rooibos teas and give only little or no advice for the consumers, whereas in specialized tea shops, the products are more expensive but retailers offer up to several hundred different tea flavours, allowing the customer to choose from a large selection. In specialized tea shops the customer also pays for the professional counselling by the well trained staff members.

* all prices calculated for 100g, no specials included

** branche Jettingen, Germany

*** prices enquired directly from supermarkets 2004

5.5.12.3 *Availability*

The increasing demand for Rooibos tea in Germany over the last years, and the change from being a niche product for health conscious people only to a trendy everyday product, resulted in a change of the distribution system to the end-consumer.

Ten years ago, consumers could only find Rooibos tea in assorted health food shops, drug stores and specialized tea shops. Nowadays Rooibos is available in almost every supermarket, department store, discounter, health food shop, specialized tea shop and even in some petrol stations. The availability at discounters, with their limited product assortments, especially, is proof of Rooibos tea as a common product for the German consumer, which he or she can purchase easily.

5.5.12.4 *Market data (Rooibos)*

Rooibos only recently gained enough market share on the German tea market to be worth mentioning. As late as 1999 the Wirtschaftsvereinigung Kräuter und Früchtetee e.V.(WKF) did not even include market data about Rooibos in their annual reports. The first time one could find some figures about this "new trend-tea" was in 2000 when the total volume reached 1 300 tons. In 2001 Rooibos started its success story on the German market when it grew by 10.8% to 1 450 tons. In 2002 it kept its position as the fastest growing amongst the mono-teas with a growth rate of 37.9%. Not ceasing, in 2003 the Rooibos segment grew by 60% to 3 200 tons, making the tea the fifth most popular tea in Germany. In 2003 Rooibos had a share of 9.4% on the total market for tea, which is 19% of the total market for herbal teas.*

* numbers differ from the total volume of imported Rooibos as a share of it is being exported again

5.6 The Organic Market

For the purpose of this report the term "organic product" refers to products that have been independently certified as grown without chemical addition.

5.6.1 Overview

The global market for organic products is estimated to be worth US $ 11 billion, which is equivalent to 2% of the total food market. According to *Nick Robins*[328] from the International Institute for Environment and Development, *M. Blowfield*[329] and *N. Robins et al*[330], developing countries account for US $ 500 million. Europe had a share of US $ 5 billion in 1997[331] and was therefore the world's largest market for organic products. Europe's most important product groups on the organic market are vegetables, fruits, potatoes, dairy products and cereals.[332] In Germany, the government has initiated a program, which focuses on converting 20% of the total German food production to organic methods by 2010. Therefore an estimated US $ 34 million has been allocated to inform producers, as well as consumers, of organic food via new labels that are expected to increase transparency on the market.

The reason for the development of the German organic market is concerns by consumers over chemical levels in both meat and vegetables. Organic products are generally considered to have a higher level of food safety. In addition to this, the German health food market was subject to change regarding the distribution system. Changing from the 'woolly socks-image' of the health food shops to modernly managed supermarkets, or "market in the market" distribution systems, helped the industry attract new customers. Classic health food shops, as well as innovative new concepts such as the "Bio-Supermarkt", where customers can find a convenient, multifarious assortment of groceries in a pleasant shopping atmosphere, have contributed to the success of organic products.[333]

[328] IIED Robins 1997
[329] Blowfield 1999, Ethical Trade, A Review of Developments and Issues
[330] Robins 2000, Who Benefits?, in Barrett 2002 Food Policy
[331] Willer, Yussefi 2000 in Barrett, Browne, Harris, Codiret 2002, Food Policy
[332] Michelson, Hamm, Wynen, Roth 1999, Organic Farming in Europe economics and policy
[333] Klaus Braun Kommunikationsberatung Synergy, Bio Supermärkte in Deutschland

In 2002 the German market for organic products reached a value of US $ 3.5 billion, which equalled a compound annual growth rate of 13.3% over the last 4 years. This places Germany as the largest organic market in Europe.[334] By value, organic products already account for 35.7% of the European market.
Market researchers anticipate the German market to achieve a value of US $ 5.7 billion by 2007, equalling a compound annual growth rate of 10.2% over 5 years. Particularly horticultural produce, meat, and dairy products will take advantage of the increased demand.[335]

5.6.1.1 Labelling

Whereas various labels can identify global organic products, labelling organic food on the German market is standardized nationwide by the "*Bio-Siegel*". This organic label stands for the controlled production and manufacturing of organic goods, which only certified products are allowed to use. Legal ground for the use of the "Bio-Siegel" is the "*EG-Öko-Verordnung*" (EC–eco-regulation)*. The „Öko-Kennzeichengesetz (Öko-KennG)" of December 2001 and the „Öko-Kennzeichenverordnung (ÖkoKennV)", both regulations and laws about the usage of eco-labels, of February 2002 lay down provisional penal and administrative fines in case of improper use of the label.
Which products can be labelled? All unprocessed agricultural products and processed products that are intended for human consumption can be labelled with the "Bio-Siegel". The share of agro-ingredients of the manufactured products that are organically grown must be at least 95%. The ingredients of the remaining 5% must be specified when applying for the label. Imported goods can also be labelled if they comply with the *EG-Öko-Verordnung* and are controlled.
The "Bio-Siegel" also plays an important role for company advertising. Both price tags, as well as, for example, shelves that contain the bio products, can be labelled with the organic label, provided that the products comply with the regulations.

Generally, the "Bio-Siegel" informs the consumer that the labelled product is organically grown, as opposed to using conventional methods.

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[334] Anonymous 1998, Major Markets for Organic Food and Beverages. International Trade Forum
[335] Datamonitor 2003, Organic Food in Germany
* Decree (EWG) No. 2092/91 and consecutive

It does not replace the individual labels issued by other associations or companies, such as those of the "Öko-Anbauverbände" (association of eco-cultivators) or private labels of producers.[336]

The application for the German eco-label is unbureaucratic and free of charge. After only two years of introducing the "Bio-Siegel", 17 000 organically produced products used the label. However, despite all the advantages for the industry and consumers, one ought to be cautious, as the "Bio-Siegel" does not guarantee the labelled product to be free of residues. Although cultivation methods are controlled, traces of pesticides or other contaminations in the labelled product might be found.

5.6.1.2 Market value

The International Trade Centre foresees a continuing rise to take place in the organic sector of the food market in Europe. On the consumer side, Germany has the biggest market for organic food products within the EU, due to its 88 million inhabitants[337], and holds a value of more than 4 billion €.

Market researchers predict that by 2007 the German organic food market will reach a value of approximately US $ 5.7 billion, an increase of 62.6% since 2002. The compound annual growth rate of the market in the period 2002-2007 is predicted to be 10.2%. The market is set for a period of increasing growth. The annual market growth is forecast to rise from 9.3% in 2002 to 10.7% in 2006.[338]

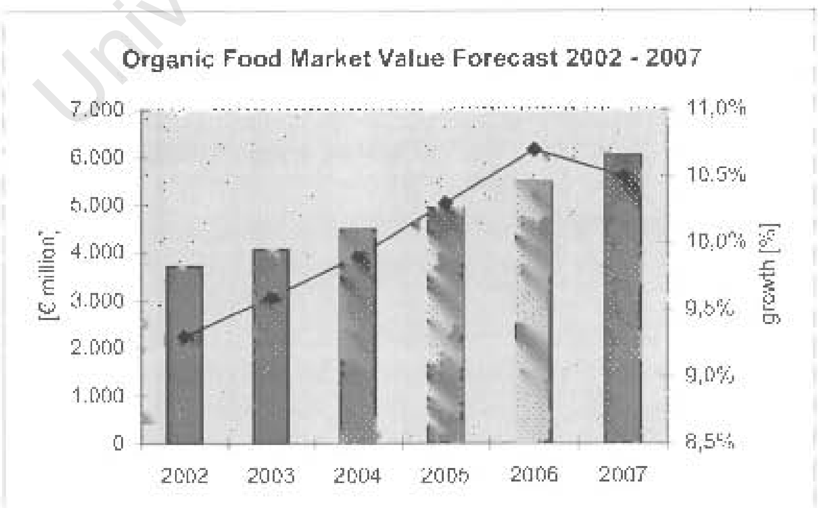

Figure 5 - 22

[336] MeorMC 2004, Website
[337] Barnhoorn 2003, International Food Ingredients
[338] Datamonitor 2003, Organic Food in Germany

5.6.1.3 Market segmentation

Organic fruit and vegetables with a current market share of close to 30%, in conjunction with cereals, bread, cakes and pastries (26.3%), and dairy products (27.6%), form the largest part of the German organic market. Organic dairy products, in particular, have rapidly gained popularity amongst consumers.[339] Organic meat could profit from epidemics in the European agricultural sector such as swine fever, foot-and-mouth disease and mad cow disease, as German consumers become more cautious when it comes to meat and meat products. Organic meat, with 11.2%, forms the 4th largest segment of the organic food sector in Germany.

With a remaining 5.3%, all other segments are relatively small and play only a minor role in the German food industry.[340]

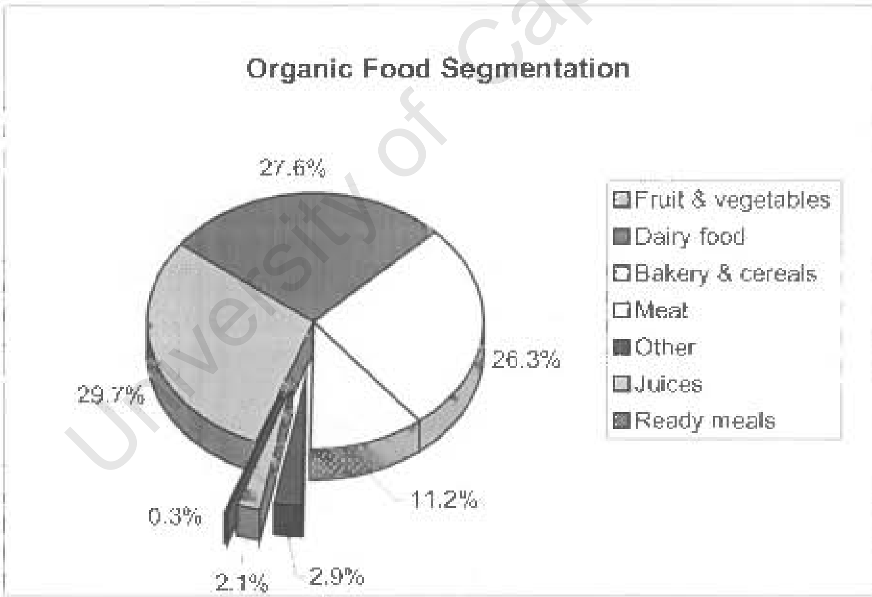

Figure 5 - 23

[339] Jones 2001, Dairy Industries International and Anonymous 2000, Organic boom as demand grows 27%, Dairy Industries International

[340] Datamonitor 2003, Organic Food in Germany

5.6.2 Distribution

In 2003, one third of all German consumers of organic food products went shopping at health food shops, closely followed by those who shopped at health food specialists (28%). In contrast to conventional grocery shopping, direct marketing plays a major role in organic food distribution. 18% of all goods were purchased through direct marketing, such as farm-stalls and weekly markets. Conventional grocers such as supermarkets, department stores and discounters had a share of 9% on the organic food-retailing sector. The share of organic supermarkets is only 7% and bakeries and butchers combined account for only 5% of the market.[341]

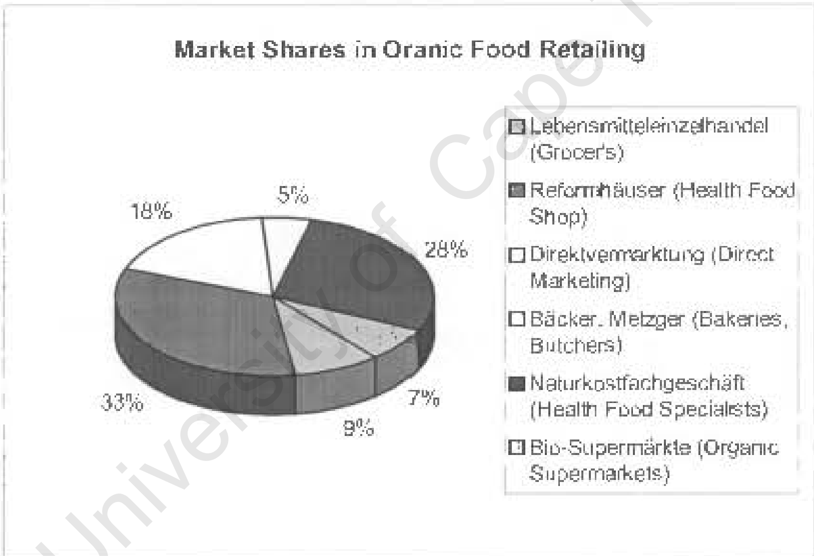

Figure 5 - 24

5.6.2.1 Bio-markets and supermarkets

Organic supermarkets are found mainly at 1B locations* in cities and large towns. More and more of these outlets can be found in smaller towns with high buying power. In 2002 there were 180 organic supermarkets in German cities and towns, most of them having opened during the previous three years.

[341] Klaus Braun Kommunikationsberatung Synergie 2003

* Retail associations and real estate agents divide areas with stores into categories according to the number of people passing by. The classification 1A is attributed to stores with the highest number of potential customers

According to a recent study, the market for natural food will continue to grow. In the year 2007 it is predicted that the number of bio supermarkets will increase to 350, with more than a 520 million € turn over.[342]
Bio supermarkets are generally managed by independent businesses owning one or two outlets. In contrast to conventional food retailing, organic supermarkets have no standardized marketing plan and therefore appear individually on the market.

As with standard supermarkets, organic supermarkets offer customers comfortable and quick shopping using floor-spaces from 200m² to 1 000m². Normally customers can choose between 5 500 products, which, in larger outlets, can range up to 10 000 organic articles. The range of goods focuses on fresh products such as fruit, vegetables, pastries and dairy products. Compared with conventional supermarkets, the meat sector is still under-represented. Non-food products have a share of approximately 10%, predominantly consisting of natural cosmetics.

The distribution of different product categories in 2002 was as follows:[343]

Fresh products	52.7%
Dry products	37.2%
Natural products	10.1%

Figure 5 - 25

The percentage of regular customers is relatively high, although these same customers will just as easily purchase items in conventional supermarkets or discounters. Only a small amount of consumers purchase all the goods they need at organic supermarkets.[344]

[342] Einzelhandel 2004, Website
[343] Klaus Braun Kommunikationsberatung Synergie 2003, Betriebsvergleich Naturkost
[344] ibid., Bio Supermärkte in Deutschland

In 2002 the share of organic supermarkets on the entire health food retailing sector was relatively small, with 16.6%. Experts estimate the share will increase to 37%, or the equivalent of 595 million € by 2007. The entire market is expected to reach 1 500 million € by that time.

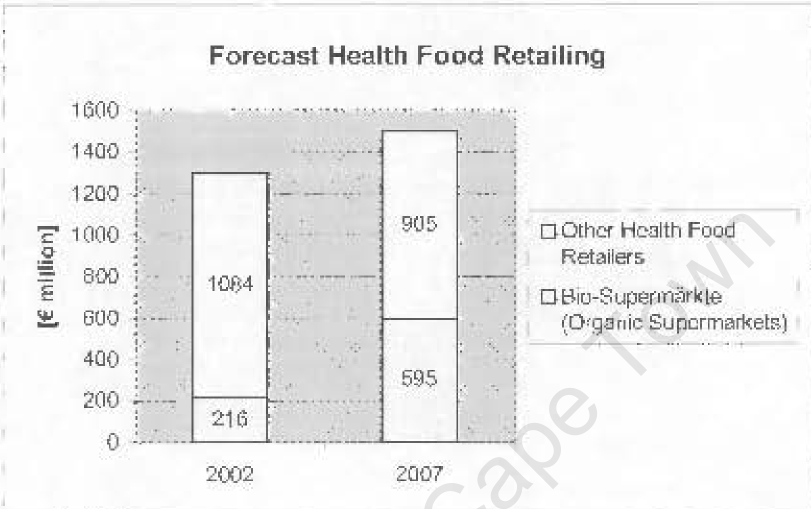

Figure 5 - 26

Market experts believe the structure of the bio supermarkets already to be changing. The average floor-space will increase by almost one third and the product range will be extended to an average of more than 6 000 products. Typical attributes of conventional supermarkets, such as good value for money, large product range and convenient and quick shopping, without foregoing staff intensive attributes, such as competent consultation and service, will be even more characteristic for bio supermarkets than it is nowadays. Sales promotions, attractive presentation of the products, as well as the design and interior of the outlets will help the customer to enjoy shopping.[345]

A recent study by *Image Survey International,* a German advertising company, about decision-making aids for producers and wholesaler in the organic industry, investigated factors that are important for organic food retailers when purchasing their product range from the wholesale or producer.

With 91% the most important factor for the managers of organic food retail outlets is customer satisfaction, followed by taste and high quality (88%) and consistent quality (87%).

[345] Klaus Braun Kommunikationsberatung Synergie 2003, Bio Supermärkte in Deutschland

Respondents with less than five years experience of food retailing found the availability of products very important, whereas the delivery period and frequency increases in importance with growing experience and floor-space.

Organic labels are very important, especially private organic labels, which are surprisingly seen as more important than the governmental "bio-Siegel".

Interestingly, only 39% of the owners of retail outlets find that prices are 'very important'. 53% think prices are 'important' and 8% of the respondents believe they play only a minor role, which leads to the conclusion that prices play a role but only in conjunction with other criteria. What is also interesting to note is that the product design as well as advertising are also seen as playing only minor roles.[346]

5.6.3 Customer Profile

According to a recent study "Bio-Frische im Lebensmitteleinzelhandel" (organic-freshness in food retailing) by the CMA/ZMP*, only every second German purchases organic products. 72% of those customers buy organically produced goods 'sporadically' or 'rarely', 20% shop from 'time to time'. Only 8% are regular buyers.

Researchers think retailers might be more successful converting sporadic buyers into frequent buyers than approaching those who do not purchase organic products.[347]

Young customers buy organic products more often than older people. In a representative survey in September 2003, EMNID, one of the leading German polling institutes for market and media, found that 15% of the customers buy organic food because they want to live a healthier lifestyle. 22% of those customers who do not purchase organic products are however still interested in organic quality.[348] In a more recent survey by EMNID from 2004, consumers were asked why they purchase organically produced food. The following graph clearly shows that health aspects, followed by safety aspects and the naturalness of the products, are the three main reasons for purchasing organic food.[349]

[346] ISI-Studie 2003 in Bio Supermärkte 2004, Qualität hat ihren Preis, Website

* Centrale Marketing-Gesellschaft der deutschen Agrarwirtschaft mbH / Zentrale Markt- und Preisberichtstelle für Erzeugnisse der Land-, Forst- und Ernährungswirtschaft GmbH

[347] Kreuzer 2003. Bio-Frische im LEH

[348] EMNID-Institut 2003, Ökobarometer

[349] ibid., Ökobarometer in Bio Supermärkte 2004, Qualität hat ihren Preis, Website

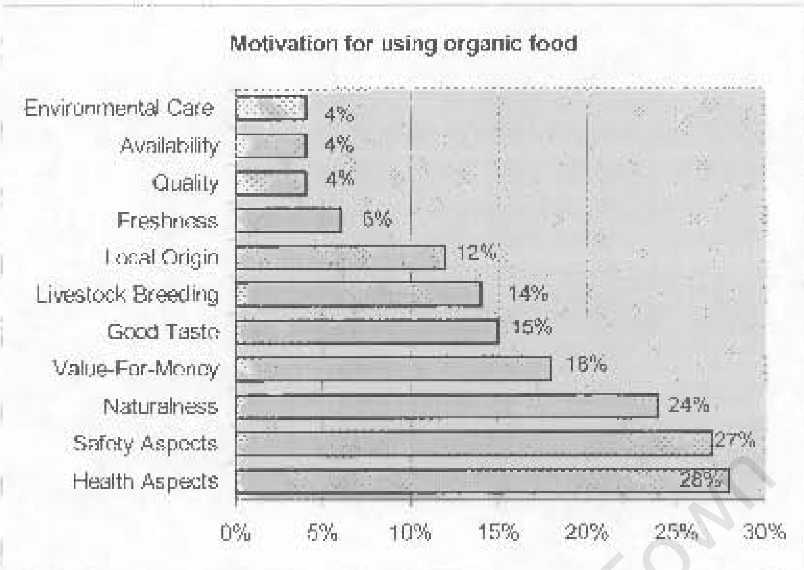

Figure 5 - 27

Buyers of non-organic food were asked for their reasons why they prefer conventional food products. As mentioned earlier, the main reason is the price premium one has to pay for organic products. Higher prices keep more than half of the consumers from 'going organic'. Although willing to pay the price premium, 19% of the respondents do not buy the products because they have doubts about the authenticity of the organic nature. This is clearly due to a lack of information on the various organic labels on the consumer market. The third most often cited answer was the sparse availability of organic products. However, one needs to take into consideration that some organic products are widely available in supermarkets, whilst others can only be purchased in specialty shops.

Interestingly 8% of the consumers do not purchase organically produced goods because they are dissatisfied with the quality. Only 4% of consumers buy organic products due to the quality. These findings are summarized in *Figure 3-28*.[350]

[350] EMNID-Institut 2003, Ökobarometer in Bio Supermarkte 2004, Qualität hat ihren Preis. Website

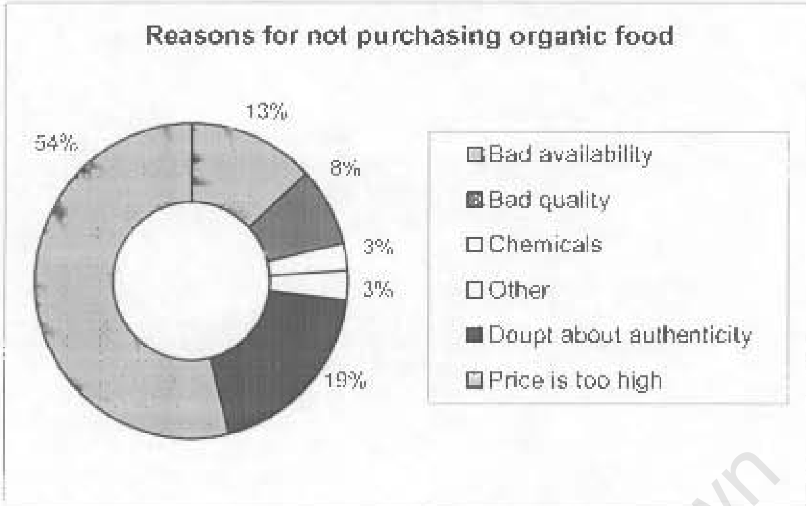

Figure 5 - 28

5.6.4 Prices for Organic Products

Consumers have to spend more money for organically produced groceries than for conventional food. Potatoes, in particular, have a high price disparity. The average price for 1kg organic potatoes (1.42€) was almost three times higher than for conventional potatoes (0.53€). One litre organic milk costs on average 0.97€, 39¢ more than conventional milk. Other examples include eggs, where the average price difference is 67%, and meat, for which customers have to pay almost double the price if it is produced organically.[351]

The price premium of tea depends on the type of tea and the place of production, and can range between 100% and 1 000% when compared to conventional teas. The premium price, especially, for locally produced herbal teas is close to 10 times higher than for conventionally produced products.

[351] Bio Supermärkte 2004, Website

5.7 The German Consumer

5.7.1 Shopping Habits

A survey conducted by the women's magazine Brigitte, analyzing shopping habits of German women between the age of 14 and 64, found that 96% of the target population shop at *discounters*. Only 2% of all respondents shop at *health food shops* and *delicatessen* often, but roughly half never shop at these places.

Similar ratios apply to *organic retailers /producer* where only 4% shop there often but more than half of the respondents never shop there.
Generally the results of the survey lead to the assumption that German women prefer to purchase their goods at 'conventional' retail outlets instead of shopping at 'specialized' retailers.[362]

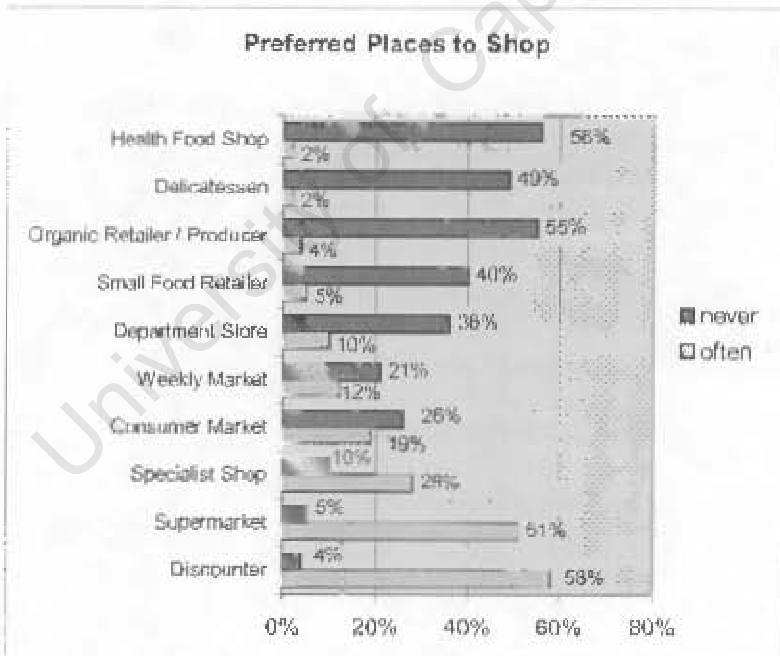

Figure 5 - 29

[362] Brigitte 2001, Kommunikationsanalyse 2002

Figure 5 - 30

On average in 2001, German consumers shopped for groceries 158 times. Thereof they went to a consumer market 51 times; they shopped at discounters other than *Aldi* 39 times; 24 times at an *Aldi* outlet; 29 times at supermarkets and 17 times at a chemist's.[353]

The marketing research institute ACNielsen found that Friday, with a share of 23%, is the most popular day of the week for Germans to do their shopping for food and non-food articles.[354] Germans shop the least on Mondays and Tuesdays (13%), followed by Wednesdays (15%) and Thursdays (18%). The weekend is used by 18% of all German shoppers to purchase their goods. The relative low number for Saturdays and Sundays is due to the restricted opening hours on Saturdays and the strict trading restrictions on Sundays. Opening hours in Germany's retail trade are short compared to other European countries. Shops are allowed to be open from Monday to Saturday from 6 a.m. to 8 p.m. On Sundays only outlets with special permits such as gas stations, bakeries and kiosks are allowed to sell their goods. A survey conducted by the online marketing research institute *Dialego*, published in the *Handelsblatt*[355], found that 66% of the respondents wish for longer opening hours; more than 55% speak out in favour of completely abolishing restrictions for the retail trade.

353 ACNielsen Haushaltspanel 2001
354 ibid.
355 Dialego Netjet 02/2003

An opinion poll by the "Hauptverband des Deutschen Einzelhandels" in 2003 published the following results: When it comes to shopping behaviour, the most important factor for German consumers is the price. More than half of the German consumers lay emphasis on comparing retailers and their prices and therefore shop at different retailers. 26.7% of all consumers are even prepared to shop at cheaper retailers that are further away. The price of the product is for 79.2% more important than the brand, and only 19.5% of respondents state that they only buy the best quality.
When it comes to the purchasing experience the number of consumers who lay emphasis on this is even smaller with only 9.5%. Less than 5% of all consumers follow new trends.[356]

German consumers are well informed about the products they shop for and put a large emphasis on the characteristics of the groceries they consume. This reflects their drive towards longevity and their healthy lifestyle. This is also the reason for the global move towards organically produced food products.[357]

5.7.2 Price and Quality

The German consumer directly links the price of frequently purchased food products to its quality.[358]

However the correlation between the price and quality of food products, both in Germany and internationally, is only limited as the following graph shows:[359]

[356] Hauptverband des Deutschen Einzelhandels and O'Conner 1998, Chain-Store-Age
[357] Engelbrecht 2004, Thesis
[358] Faulds, Lonial 2001, Journal of Economic & Social Research
[359] ibid., Table 5

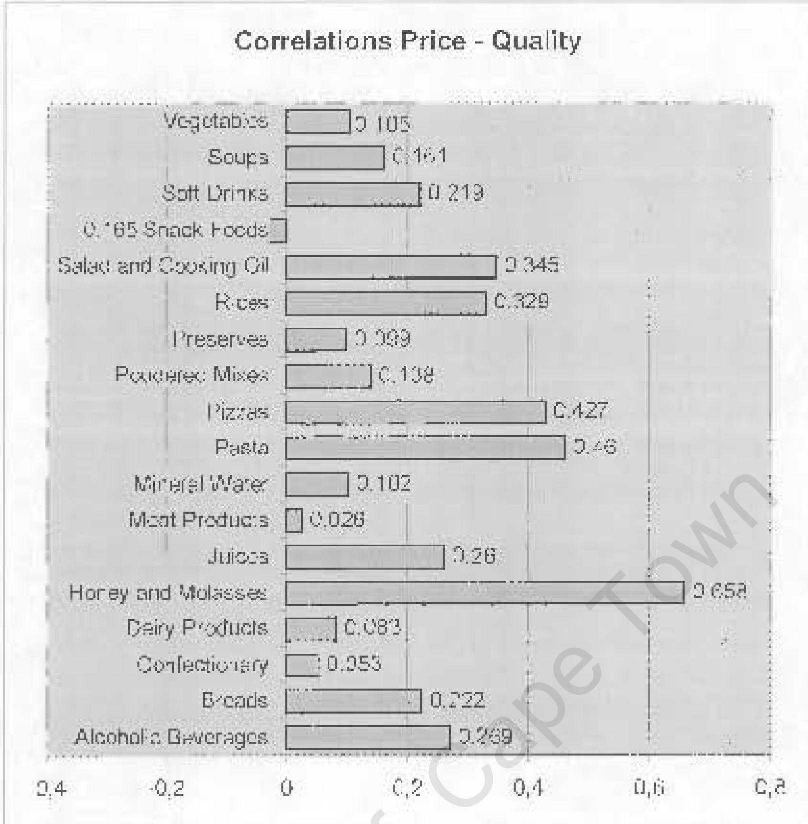

Figure 5 - 31

German consumers are very price sensitive. This is also the reason why it is true that organic products are preferred to conventional ones by the consumers, but are not purchased due to their higher prices.

A poll by the *Allensbach market research institute* revealed that about 75% of all Germans would like to live a healthier life-style by eating more organically produced food.[360] However, they don't.

In three representative surveys during the last decade (1994, 1999 and 2001) for the German market, German consumers stated that at least 28% of the food they purchase was organically produced.[361] However, market data shows that this is not the case. The market share for organic food in Germany does not exceed 5%. The respondents' answer, which was a five-fold overstatement, can be explainable by the high quality image organic food enjoys by German consumers, leading to this enormous exaggeration of consumption. *Michelsen et al.* try to explain this in two different ways:

[360] Anonymous 1997. Wholesome food, unwholesome profits, The Economist
[361] Michelsen, Hamm, Wynen, Roth 1999 in Mann 2003, Food Policy

Firstly there is the argument that "the preference patterns of organic food in Germany would be similar to those of luxury cars [...]"[362]. What the author is saying is that the overstatement took place for the reason of social acceptance. Since the budget of the consumers is restricted, the market share of organic food is low. However, knowing that Germans on average only spend approximately 11% of their budget on food* and prices for organically produced food in Germany are on average only 1.5 times higher than for conventional products, which is likely to decrease once the consumption increases, this argument does not sound very plausible. A better explanation would be that, even though there is a reflecting willingness for the purchase of organically grown products, "these reflective preferences are contradicted by market preferences."[363] According to the theory of reflective preferences, the price should not play such a big role in the decision making process whether to buy the product or not. However, as reflective preferences do not always lead into a real willingness to pay, the market share for organic products remains low.[364]

5.7.3 Tea

The main reason why Germans consume tea is for its taste. However there are several other reasons why Germans drink tea. Most of these are in one way or another connected to health and wellness.

The media is very important regarding opinion forming for German consumers. TV-programs, newspaper articles and, particularly important, consumer magazines, contribute to a great degree to the consumer behaviour. Consumers react immediately to news and explanation by the media.

A recently conducted research by *Stiftung Warentest* found that black tea not only stimulates the human body (due to its caffeine content) but at the same time has relaxing properties as the tannins slow down the absorption of caffeine by the body (depending on how long the tea was brewed).[365]

[362] Michelsen, Hamm, Wynen, Roth 1999 in Mann 2003, Food Policy
* excluding alcohol and tobacco
[363] Brennan, Lomasky 1983, Finanzarchiv in Mann 2003, Food Policy
[364] ibid.
[365] Stiftung Warentest Online 2004, Tee für Körper und Seele

For green tea the same consumer magazine found that it has cancer preventive properties and also affects the human immune system positively.[366] As one can imagine, this type of news helps a product to establish a good image.

Particularly important for the wellness sector are fruit and herbal teas. They enjoy a great popularity on the German market. One reason for this is the fact that they are low in calories. This property is highlighted in many publications by the WKF and other institutions, and consumers lay emphasis on it.

Teekanne promotes Rooibos tea, as supplementation for juices and water, for children. Drinking Rooibos is a perfect way of balancing increased needs for liquids caused by doing sports and playing.

Furthermore Rooibos is naturally free of caffeine and therefore can be consumed by children even just before bedtime.[367]

That Rooibos does not contain caffeine does not play such an important role for adults. Despite the fact that the caffeine in black tea leads to dehydration in the human body, there will be no harm for adults regarding the body's water balance even when consuming higher quantities of tea.[368] Drinking tea that contains caffeine in summer when it is hot and humid outside is even promoted by *Stiftung Warentest* to counteract low blood pressures.

5.7.3.1 Tea that Germans like

Since the early 80's flavoured herbal and fruit teas complemented the traditional product lines on the German market. Whereas during the 80's exotic flavours such as 'pina colada' or 'jackfruit' where much in demand among customers, nowadays indigenous fruits such as cherry, strawberry, raspberry and apple are preferred. Also combinations of local fruits enjoy popularity being marketed under names such as 'fruits of the forest' and 'red groats tea'.[369]

Over the years the image of herbal and fruit infusions changed drastically. Herbal and fruit teas are versatile and "trendy". They are used more and more often as ingredients in sophisticated recipes for desserts or cocktails. Particularly in summer iced-teas made from herbal and fruit infusions enjoy growing popularity.

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[366] Stiftung Warentest Online 2004, Tee für Körper und Seele
[367] Teekanne GmbH 2004, Aktuelles: Rooibos
[368] Stiftung Warentest Online 2004, Tee und Kaffee auch gegen den Durst o.k. and Trinken Reichlich auftanken
[369] Wirtschaftsvereinigung Krauter und Früchtetee e.V. 2003, press releases

The most popular tea in Germany is still peppermint, followed by chamomile, rose-hip, and fennel. With a growth rate of 60%, Rooibos takes on fifth place on the popularity scale for tea amongst German consumers.[370]

Having a share of approximately 60% in volume, herbal and fruit teas form the largest segment of the German tea market. Consumers in the eastern states of Germany are particularly fond of herbal and fruit teas. More than half of the eastern German population consumes tea daily or several times a week. In the western states, still one-third state that they consume tea daily or several times a week, 90% thereof in form of teabags.[371]

In a survey conducted by *Britta Bade* in cooperation with the WKF, students were interviewed about their tea consuming habits, in particular for herbal and fruit teas. The results confirmed that there is no significant difference between the frequencies and quantities of tea consumed by female and male respondents. Furthermore the research found that there is no connection between the age of the first consumption of herbal and fruit teas and the frequency and quantity of the consumption later. However the frequency and consumption of the teas is strongly linked to the time of the year. Tea is traditionally consumed as a hot drink, mostly at home.

Particularly in the cold season consumers like the heating effect and nice smell of tea and therefore consume much higher quantities. Also interesting to note is the fact that the least tea is consumed in restaurants and coffee shops. There, people traditionally consume coffee and coffee-like hot drinks. Generally, tea in combination with other drinks, such as tea-fruit juice blends, plays a minor role.
The main reason why herbal and fruit teas are consumed is clearly for their taste and the enjoyment for the consumer. However, respondents do know about the health benefits of special teas such as chamomile or fennel but do not put emphasis on them as much as on the taste. One could say that consumers drink tea for enjoyment and get the health attributes as an added benefit. Lastly the research found that the reasons why people consume herbal and fruit teas are not significantly different for men and women.[372]

[370] Wirtschaftsvereinigung Kräuter und Früchtetee e.V. 2003, press releases
[371] ibid., annual market report and Brigitte 2002, KA 2002 Kommunikationsanalyse 2002
[372] Bade 1998, Verwendung und ernährungsphysiologische Bedeutung Kräuter und Früchtetee

5.7.4 Consumer Trends

New consumer trends and innovations seen on the world food fair *ANUGA*, held in Germany in October 2003, were summarized in *International Food Ingredients* with only one word: *convenience*. Consumers like "[...](e)asy-open packages, longer shelf-life containers, "smart" products, and easy-to-use foods [...]"[373]. Convenience also stands for ready-made food products, but with top quality. Regarding the packaging of food products, trends go towards stylish, informative, and often functional packages. Being environmentally friendly and the ability to be recycled are also important factors for future packaging.[374]

But by far the more important trends are found connected to the products themselves and what they are able to give the consumers.

5.7.4.1 Wellness, health & fitness

The term "wellness" was brought to Europe in the late 1980s as another variety of the American fitness movement. Today we know better. Yet an exact description of the term is difficult. Wellness is about the interplay between inner balance and physical well-being.

It has to do with 'letting go', 'knowing oneself' but above all with calmness and pleasure. For that reasons tea in particular is a perfect product to find to a new wellness orientated enjoyment of life.[375]

Wellness is rated very highly amongst Germans.[376] As the health and wellness trend continues, manufacturers are seeking new uses for tried-and-true healthful ingredients.[377] This is highly influential for what Germans consume. Against misconceptions and prejudice towards Germans' food diet, it is not as heavy and unbalanced as commonly believed. Willi Pfannenschwarz, owner of *Seitenbacher Natural Food Factory* stated in an interview that German consumers have "a firm commitment to natural foods and organic products"[378].

373 Anonymous, 2004, ANUGA brings the good times back, International Food Ingredients
374 ibid.
375 Deutscher Teeverband e.V. 2004, Der Teemarkt in Deutschland and Wellness, Websites
376 Mellgren 2003, Gourmet Retailer
377 Everage, Mellgren 2003, Gourmet Retailer
378 Mellgren 2003, Goumet Retailer

While enjoying traditional food, the 'German diet' is rather diverse including "all sorts of ethnic foods"[379].

Another proof of the balanced diet of the Germans and their health-consciousness is the fact that they are the third leanest population in Europe.

Not only food but also drinks belong to a healthy diet. Mineral- and healing-waters, as well as cool-drinks, play the largest role in Germans' soft-drink diet, of which roughly every consumer consumes an average of 110 litres per year of both. The third largest segment, with a per capita consumption of 40.5 litres per year, is fruit-juices and nectars. In contrast to other European countries spring- and table-waters play only a minor role. Here the consumption lies at about 5.7 litres a year.[380]

Interesting to note is that the consumption of soft-drinks increased over the last years. Particularly spritzers and energy drinks are booming (424.5 million litres spritzers in 2002).[381] The trend goes towards "red-spritzers" made from juices with a red colour, and "wellness-" as well as "sport-spritzers". Some of the trendy drinks are enriched with vitamins and other additives. Another trend is "near-water-products". These are flavoured or enriched water drinks without carbonisation.[382]

For a natural and health conscious diet the WKF recommends herbal and fruit teas.[383] Furthermore the association promotes those teas for their 'fitness-factor'.

Especially in spring, many people plan to eat healthier and do more sports to get fit. Here as well, the WKF recommends taking care of the important liquid household of the body by drinking water and unsweetened herbal and fruit teas, as they are available in many different flavours and contain no calories.[384] Fruit and herbal teas also help the body to replenish it with important minerals lost during sport.[385]

Compared to juices and lemonades, teas contain no sugar and therefore no calories. Herbal and fruit teas are mostly caffeine free (except Maté or teas containing guarana or cola nuts) and can therefore be consumed at any time of the day in any quantity.[386]

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379 Mellgren 2003, Gourmet Retailer
380 Gesellschaft für Konsumerforschung 2003 in SevenOne Media 2003, Market Analysis, p. 14
381 Gesellschaft für Konsumerforschung 2003, GfK consumer scan
382 SevenOne Media 2003, Market Analysis, p. 14
383 Wirtschaftsvereinigung Kräuter und Früchtetee e.V. 2003
384 ibid., Trinkfest und Trinkwecker für Trinkmuffel
385 ibid., Fit mit Kräuter und Früchtetees
386 ibid., Fit mit Kräuter und Früchtetees

According to the recommendations of the German society for nutrition (*Deutsche Gesellschaft für Ernährung e.V.*) everyone should drink at least 1.5 to 2 litres a day.

Herbal and fruit teas are not only positive for physical fitness but also improve the fitness of the mind. If the cells are sufficiently supplied with liquid, the metabolism is able to excrete harmful substances better, the skin looks fresh and energy levels increase.[387]

Wellness-teas as hardly any other new product group, established very well within the last two years. Generally wellness-teas are blends from herbal and/or fruit teas especially developed to make one feel good.

"Feeling well and fitness", health and *joie de vivre* are the main concepts behind wellness-teas. In wellness-teas two seemingly unrelated origins are united: Firstly the US-American belief that only a physically well trained body can house a high-energy mind and secondly the Far Eastern belief that physical energy comes from a powerful mind and harmony of body and soul. Modern wellness-teas combine knowledge from old cultures with the latest results from modern sciences.

That is why not only *ayurvedic* herbal teas from India, the South African *Honeybush* and *Rooibos tea* or the South American *Maté* found their places on the market but also new blends of less exotic herbs and fruits such as *peppermint*, *balm*, *rose-hip* and wild herbs from the Alps help people to feel well. Most grocery retailing markets offer a vast variety of wellness products so that the consumer need only choose which herbal or fruit tea he/she prefers.[388]

Rooibos fits particularly well into the wellness-scheme. Relaxing and stimulating properties are claimed attributes of Rooibos tea. The South African national drink Rooibos contains mineral nutrients and trace elements as well as vitamin C that help to protect the human immune system. Rooibos contains only few tannins and therefore has balancing properties. The secret lies in its natural ingredient *Quercetin*. It has a relaxing and antispasmodic effects on the human body by supporting the hormone *Serotonin*.[389]

[387] Wirtschaftsvereinigung Kräuter und Früchtetee e.V. 2003, Immer schön flüssig and Frühlingsgefühle: Mehr Wellness trinken
[388] Ibid., Balance aus dem Becher
[389] Wirtschaftsvereinigung Kräuter und Früchtetee e.V. 2004, Wohlbefinden pur

The sense for healthy products is already formed at an early age. Health and nutrition education as well as upbringing by the parents are important factors for the sense of health later on. German children between 6 and 17 years responded to the question "What is healthy nutrition in your opinion?" as following:[390]

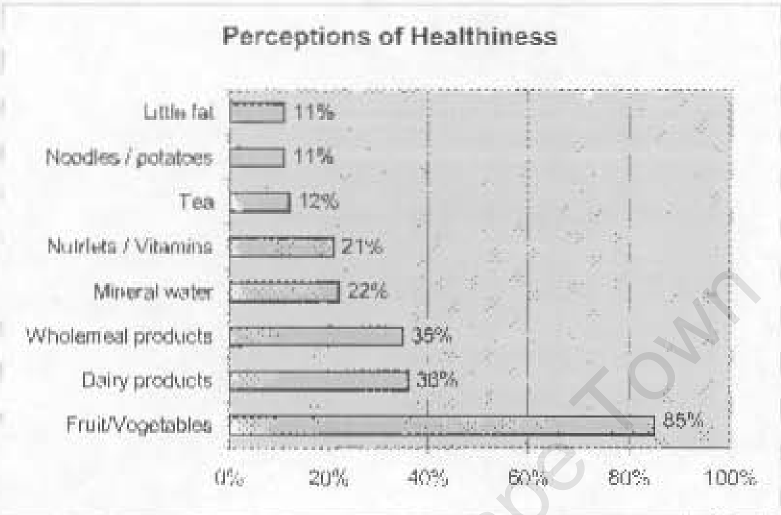

Figure 5 - 32

Children and teenager already associate tea with a healthy nutrition. This is certainly the case due to upbringing and education in school and everyday life. Often children are exposed to radio and TV advertising as well as articles about healthy nutrition and diets in magazines. Not to mention all the banners and displays inside and outside shops that advertise healthy products.

5.7.4.2 Organic

Not too long ago organic food in Germany was still synonymous for misshapen looking vegetables and fruits covered with brown bumpy spots. Fortunately food retailers were able to overcome this negative image of organic products by offering good quality products on attractive displays to the picky consumers.

But what are the reasons for the success of organically produced products on the German market? Without a doubt there is a high level of concerns about environmental issues by the consumers.[391]

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390 Anonymous 2004, 'TRENDS' Research, International Journal of Advertising & Marketing to Children
391 Anonymous 1998, Organic foods boom in Europe, Food Manufacture

German consumers buy organic products because their production does not pollute water by using fertilizers and pesticides. On the other hand, personal health factors play a big role such as the fear of animal diseases like mad cow disease, swine fever and foot-and-mouth disease. Hardly a month passes without bad news for the ultra-sensitive German consumers to digest.[392]
However, most of those reasons do not apply to tea. It might be the case that, apart from the significantly higher prices for organic tea, this is the reason why organic tea is not as successful on the German market as other organic products.

5.8 Interview Findings

Three of the companies interviewed, namely *Kräuter Mix GmbH*, *Martin Bauer Holding* and *Gebr. Wollenhaupt GmbH* fall into the category *trading companies*. The fourth company, *Ostfriesische Teegesellschaft mbH* can be referred to as a *specialized tea company*. This information is important as the different natures of companies lead to different points of view regarding some of the topics.
The people who were interviewed at the companies are listed in *Appendix 11.2 Interviews*.

As some information extracted from the interviews are of a confidential nature, the opinions and statements of the interviewees on these important topics are only given in a summarized form, without specific reference to any particular person.

5.8.1 Industry and Market

- The German tea industry was described as being very competitive.

- Coffee does not compete directly with tea, however in some segments, for instance in the catering industry, coffee has a stronger position than tea due to its more convenient nature. That is why only 4% of the tea sales are generated in this particular market segment. Coffee is also used to attract customers to certain retailers. Wherever coffee is sold cheapest, customers are attracted and hopefully generate additional business.

[392] Jones 2001, Dairy Industries International

- Compared to other countries, herbal and fruit teas are not regarded as luxury goods in Germany. Tea is traded as a commodity, reducing the price when compared to other countries. However, a resulting price-war is affecting the tea industry negatively. Selling higher quality tea instead of high volumes to low prices could result in greater profit.

- Contracts with Rooibos suppliers greatly depend on prices. Due to the current supply situation, prices fluctuate greatly, which is not good for the German market. Even though a product such as Rooibos is already established on the market, customers will substitute it with a cheaper product if Rooibos prices increase. The industry would react to a decreased demand for a product by taking "line-extenders" out of their product range and would then only focus on top-flavours.

- It is difficult to penetrate the German market with tea packaged within another country. On top of this readily established tea-importers and packers have a very strong position on the German market and therefore make it very difficult for new companies to establish a new brand.

  Furthermore, retail co-operatives and independent retailers only support companies with an already complete product range. Even large companies such as *Lipton* struggle with this competition. Finally a new brand needs an extensive advertising campaign, which can only be realized with a corresponding budget.

- Health-products are an important segment of the industry but only with small volumes and high prices. Over-the-counter-medicinal teas generated annual sales of 50-60 million € in 2003, however, this market is declining by double-digits.

- Rooibos is an important product for the German tea industry, as the market is very dynamic and the product is also a good basis for blends and flavoured teas. However, with roughly 30 to 40 other teas on the market, it cannot be considered vital for the industry.

- Product development is done collectively through specialized tea companies and the retail industry, using consumer research and market data. However, retailers have only limited available space in their outlets. If a new product, for instance Rooibos soap, should be marketed, it has to displace another product from the shelf. This is the reason why the market for Honeybush tea has not yet been developed on a large scale. The industry fears that a product so similar to Rooibos would cannibalise Rooibos. In addition to this Honeybush tea is still too expensive to be appealing.

5.8.2 Product Quality and Safety

- Consumers who purchase their tea in loose form, which is displayed and sold at specialized tea shops, are affected much more readily by the quality of Rooibos regarding stick and dust content than customers choosing tea bags. The same is true for the quantity of tea in the teabags - although quantities are printed on the packaged product, consumers do not seem to be aware of these differences.

  The deciding factor for the consumer is the result of the infusion, with the most important elements being the colour and taste of the tea. If the consumer is not satisfied in this regard, he / she will probably switch to another brand or product.

- This leads to relative flexibility for the tea company when deciding on quality and quantity. The leading factor here is the price. Specialized tea companies are able to provide low prices for Rooibos by avoiding highest quality for tea bags. In Germany there is a quality-expectation linked to prices. Consumers assume a cheaper product to be of lesser quality. Although Rooibos consumers tend to prefer cheaper tea, they will not buy expensive products if they believe the quality not to be of the standard equivalent to the price. Fundamentally, the quality depends on what the customer is willing to pay.

- Using private labels, discounters are often able to sell Rooibos cheaper than other retailers. Discounters can also provide a fairly high quality tea for a low price, since they hold a strong position on the market and sell large quantities. Customers are aware of this and will not be misled by the discounter's cheapness and their own quality-expectations.

- The quality of flavoured tea depends on what is used to flavour it. Both nature-identical and natural flavours are available. Advantages of nature-identical flavours are their price and long shelf life. It is reasonable to expect a shelf life of 24-36 months, which is standard for herbal teas, when using natural flavours. In addition to this nature-identical flavours can be produced having a much more characteristic taste than their natural counterparts.

- Consumers are generally unconcerned about product safety, as this is very high in Germany. The *Rückstandshöchstmengenverordung**, which regulates the permitted residue levels in tea, is one of the strictest in the world. Therefore even low quality Rooibos shows outstanding product safety.

5.8.3 Marketing

- In Germany, focusing on the health attributes of Rooibos plays only a minor role in marketing the product, which differs greatly from countries like Japan and the USA, who emphasize these strongly. A reason for this is the strict regulations regarding advertising health attributes in Germany. Any product claiming therapeutic properties first needs to undergo extensive research before being used for marketing. Even if this research has already been conducted outside of Germany, products have to be re-tested before entering the German market. So far very little research has been done regarding this. Despite this, attributes such as the high mineral content and that Rooibos tea is caffeine free are legitimately highlighted for marketing purposes. Non-aggressive suggestions are also used, such as describing Rooibos as a 'better tasting version of green tea'.

* Regulations about pesticide residues in food

If, however, Rooibos were to undergo research proving its therapeutic effects, its status might change to that of a *medicinal tea*. This could have potentially detrimental consequences due to restrictions on where it can be sold, making it difficult to be sold at ordinary supermarkets and discounters – Rooibos' current major points of purchase.

- Another reason why marketing focuses on *well-being* and *enjoyment* rather than health is that highlighting health attributes just is not necessary. Most consumers drink Rooibos because they enjoy the flavour. Some consumers are even unaware of Rooibos' potential health benefits.

- The final reason for maintaining current marketing strategies of Rooibos is that it is an already well established product. It is not a new product, and therefore does not need to be introduced to tea-consumers anymore. Changing the current marketing strategy could even be counterproductive.

- Herbal and fruit-tea marketing, including Rooibos, was subject to change during the last years. Today it is necessary to successfully stand out from competitors' products. It is not enough anymore to focus solely on the attributes of the product. Customers must also be able to identify with the product. This can be done by, for instance, giving the product an expressive rather than a descriptive name. Rooibos in particular is being marketed as an exotic product, which links consumers to Africa and African heritage. The product tells a "story", which is emphasized by its name and packaging. The story does not necessarily have to refer to the product itself, as seen in *Teekanne's* TV advertising for Rooibos, which show pictures of black tea plants and areas of Africa, that, incidentally, have no connection with Rooibos. However, consumers relate to these images, as the more exotic the product is advertised as, the more successful it is. Merely changing a product's name could potentially stimulate sales.

- It is important for the tea companies to supply the market with new innovative product developments. Some companies go as far as saying one cannot be successful, in the long run, without marketing at least one new variety per month. The many varieties of flavours and blends initially made Rooibos a popular product – very little is actually consumed in its pure form. In fact, most consumers are unfamiliar with the conventional Rooibos flavour. Rooibos-vanilla or -caramel, on the other hand, is something consumers can relate to.

- When introducing a new product, an extensive, cost intensive advertising campaign is not necessarily imperative. Generally it is more effective to bring the product to the attention of the consumer, and present it in different areas of life. This could include TV advertising, advertising in magazines, sampling or explanations in specialized tea shops, word of mouth and articles about product research. The latter in particular plays an important role for the German tea market. Consumer magazines such as *Stiftung Warentest* and *Ökotest* are important institutions for conducting product tests. Bad publicity has a direct impact on sales, which can be seen in the case of residues in tea.

- It is generally taken to be true that a dedicated black-tea drinker will not change to Rooibos. Marketing Rooibos has, to an extent, focused on generating new customers who did not drink tea before. Rooibos also took market shares from classical teas, coffee and soft-drinks. The majority of Rooibos consumers, however, come from the fruit tea segment; they have learnt to prefer the mild taste of Rooibos to the slightly sour fruit teas. The latest target group for Rooibos products is children. Here, marketing focuses on the fact that Rooibos does not contain caffeine and can, therefore, be consumed by children at any time of the day, even before going to sleep, in unlimited quantities.

- Despite these points, the German tea market is not yet completely developed. There is still insufficient information available to consumers regarding the product.

- Currently there is very little interest by conventional tea companies and retailers in marketing other Rooibos products. Marketing is expensive and product assortments in retail stores are already numerous. Marketing any niche product is very difficult on the German market. New products will only be added to product assortments if there is a sufficient awareness by the consumers and if specialized or alternative distributors have prepared the market beforehand.

5.8.4 Consumers

- In Germany, tea has revolutionized its image over the past few years. In the past, fruit teas were regarded as being products for children and black tea was only drunk at Christmas time, or by *Ostfriesen**. Today 83% of the German population consumes tea, the quantity however, is still much less than that of coffee.**

- Generally spoken, there are two different consumer types: Firstly, we recognize those who purchase their tea at specialized tea shops. These customers are willing to spend time on visiting a more specialized store, which offers a greater choice of variety and professional consultation. The second type of consumer, which by far represents the largest sector of consumers, is the customer who prefers buying tea in conjunction with other groceries. *Convenience* plays a large role when it comes to purchasing tea. This also accounts for the popularity of tea bags, as opposed to pouring water on tealeaves. Another factor, which is taken into account when purchasing tea, is price. German consumers are becoming more and more *price-sensitive*.

- The knowledge about tea amongst German consumers, who purchase their tea in supermarkets or discounters, is relatively low. They are not as aware of production and manufacturing methods as those consumers who buy their tea at specialized tea stores. In fact, any other factor asides from price and taste, does not seem to interest them at all.

* People of the northern part of Germany, called the *Friesians*. Black tea consumption in this area is above average.

** Publication by the „Gesellschaft für Konsumforschung, Nürnberg (GFK) Haushaltspanel 2003

- German tea consumers are very much influenced by media coverage on tea. Bad news concerning tea products has a direct, negative impact on purchasing behaviour. Conversely, publications also kindle interest in new products and facilitate to increase sales.

5.8.5 Tea and Health

- Amongst German consumers, tea is generally seen as a healthy product. Health attributes are probably the second most important reason why consumers drink tea, behind taste. Consumer magazines such as *Stiftung Warentest* and *Ökotest* contribute to highlight this image by frequently testing the products and publishing results. In this way awareness of health benefits of certain teas, for instance *Maté* or *green tea*, increases.

5.8.6 Tea and Taste

- *Taste* and *enjoyment* of tea are the leading factors for German consumers. Even products that are known for their health benefits, such as green teas, only gained popularity on the mass market when new, better tasting varieties were introduced.

- Most German consumers of herbal and fruit teas prefer mild tasting tea. Fruit teas, which were strongly associated by the consumers with tea they consumed in their childhood, including mallow and rose-hip, are now generally consumed as blends with other teas, to disguise their otherwise sour character.

- In the fruit and herbal tea segment, blends and flavoured teas are generally preferred to mono-teas, as they offer more interesting flavours and a greater variety. This is particularly true for Rooibos, where only a very small quantity of pure Rooibos is purchased.

5.8.7 Consumers and Rooibos

- Over the past years, tea fell short compared to other more popular hot beverages. Recently, wellness-trends have helped the product to gain popularity. Rooibos tea, in particular, has profited from this. Currently, Rooibos has a large contingency of regular consumers.

- German Rooibos marketing does not focus on the health attributes. Consumers like the exotic image of Rooibos, combined with its African heritage, as well as its pleasant taste and its positive effects on the body. Rooibos combines health attributes with a pleasant taste, making it a perfect product for wellness-orientated consumers. This *wellbeing image* is amplified by the fact that Rooibos does not contain caffeine as black tea does, yet is very similar regarding appearance and taste of the infusion, particularly if Rooibos is served with milk and sugar.

- Despite its great popularity, Rooibos is not an indispensable product. Its price plays a vital role for its success. Consumer would quickly substitute Rooibos if it were to become too expensive. Once sales for Rooibos decrease due to a price increase, it will be difficult to sell it cheaply to the mass market again. Consumers would have probably substituted the product, resulting in only a small existing premium market.

5.8.8 Organic Tea

- Organic tea does not play as large a role for German consumers, as tea already has a healthy image and is seen as a safe and natural product, and its market is still relatively small when compared to more conventional teas. Furthermore, the strict decrees regarding food safety in Germany compels conventional products to be very near in quality as organically produced tea, so much so, in fact, that consumers are generally unaware of any differences.

- The market share of organic tea is only approximately 2-3% of the entire German tea market. Reasons for this low percentage include that approximately 80% of the organic teas are only available at specialized tea shops. Organic tea is virtually non-existent in discounters, and is only rarely found in more conventional supermarkets as retailers are not interested in the product yet. The largest contributing factor to the small market share of organic tea, however, is its cost. With prices roughly 50% to 100% higher than conventional products, organic Rooibos is still on the less expensive side compared to locally produced organic herbal teas whose conventional counterparts sometimes only cost one tenth.

- Organic teas will only become a true alternative to conventionally produced teas if prices decrease drastically, so that the price difference to conventional tea becomes smaller or preferably non-existent. However, this will only happen when a critical mass has been reached.

5.8.9 Prices

- The trade environment in Germany differs form other countries. In the 1960s and 1970s, when the concept of self-service supermarkets began to establish itself, prices soon became the most important factor in the grocery business. Nowadays, Germany's price levels for groceries are amongst the lowest in Europe. Consumers pay close attention to price increases and will quickly choose a cheaper retailer if they are unsatisfied. Having said this, the price sensibility for tea is nowhere near as high as for, say, coffee. This can be attributed to the relatively long time between tea purchases. A 5¢ increase in the price for breakfast-rolls will immediately attract the attention of consumers. However, 25 teabags generally last 2 to 3 weeks; a relatively long purchase cycle. Consumers do not come in contact with prices often, and a small price increase will probably go unnoticed.

- What consumers do notice is the difference between the cheaper private label products and branded teas. Brand loyalty in this segment is not very high. Consumers are glad to purchase a try-investment product of, say, 1.79 € for 20 tea bags in an attractive packaging or with a pleasing name until a more attractive offer comes along.

- Despite the ongoing price-war in the supermarkets and discounters, some consumers still prefer to purchase their tea in specialized tea shops, even if it means paying about 2.5 times more. Mark-ups of only a few percent, common in supermarkets and discounters, do not allow for personal consultation of the customers. But this is exactly what customers seek in specialized tea shops. In addition to these consultations, a product assortment of some hundred teas makes it worthwhile for these customers to pay a higher price. However these customers are a minority.

- There are differences between Rooibos and other more conventional teas. Consumers are more prepared to buy 'traditional' mono-teas such as peppermint or camomile from private labels, than Rooibos.

  The purchasing decision of these more 'traditional' teas depends largely on the cost of the product. However, buying more exotic products, such as unusual blends and flavours, including Rooibos, consumers prefer branded products. Yet, compared with other tea components or good quality black tea, Rooibos is still relatively cheap considering its attributes and qualities, regardless if it sold as a branded product, or under a private label.

- It is interesting to know what will happen in stores, since supplier prices for Rooibos are about to increase. As for the price-sensitive German consumers, it is difficult to pass higher prices for raw materials onto them. Discounters, in particular, are unable to increase prices for Rooibos by 40–50% without having to fear a drop in sales. Since Rooibos is not a premium tea such as, for instance, *Darjeling*, a sudden price increase will result in consumers, as well as retailers, to look for alternatives. The German tea market does not depend on Rooibos, so it will be interesting to see what will happen to the product, its suppliers and manufacturers in future.

5.8.10 Future

- Overall the future of the herbal and fruit tea segment looks promising. The industry expects the market to grow by taking market shares from the coffee and cool-drink segments. The classic coffee segment, in particular, will stop growing and shift towards more innovative products, such as flavoured cappuccino and other specialities.

- The main growth of the tea market will take place in the blended and flavoured tea segment; classic mono-teas will not be able to continue their growth, however classic teas, such as peppermint and camomile, will still play a major role in the industry.

- Despite this, growth rates for fruit teas are not as dynamic as they used to be. This will facilitate Rooibos to continue its success. Annual growth rates of roughly 20% are expected over the next 2 years, after which the market might be saturated and sales should establish themselves on a level similar to the development of green tea.

- Discounters, in particularly, will be responsible for higher volumes, by making space for more Rooibos varieties on their shelves. Rooibos will be increasingly used in form of blends with other herbal teas to serve the health-orientated market, and new, even more exotic and complicated flavours will enter the market. There is also a good chance that niche markets will emerge using Rooibos in various other forms, such as in RTD* products, cosmetics, shampoos or pills, similar to green tea products.

- Nevertheless, the success of Rooibos is strongly linked to the development of its price. The demand for the product will certainly decrease if prices increase, which might very well happen due to an undersupply situation in the country of origin.

- Finally, the industry agrees that it is unnecessary to completely reposition Rooibos on the German market, as the product is already well established, and not merely a trend anymore.

* Ready to Drink

5.8.11 Trends

- A popular trend on the current beverage market is alkopops. These blends of lemonade and rum or vodka, with an alcoholic content of about 5.5%, flooded the German market with dozens of varieties within the last years. They are particularly popular amongst young people between 16 and 30. To maintain its success on the market, companies are forced to constantly come up with new flavours; on average, a new flavour is introduced monthly.

- A current trend on the tea market is to weave an interesting story or image around the tea. Marketing a story such as 'Momente der Liebe' (moments of love) or 'Pure Lust' (pure lust) around an interesting blend of teas, helps to attract new consumers, whilst eradicating the old fashioned image of classic tea.

- "Chai" (tea mixed with spices, milk and sugar) is on its way as a trend. The tea used in this beverage is not restricted purely to black tea, but has extended to others such as Rooibos.

- The utmost topic in the tea segment, however, remains as "wellness". This trend has been around for years and is still developing. The wellness concept can also be found in various other segments such as food, cosmetics and toiletries.

- In relation to this segment are the *Ajurveda*, *anti-ageing* and *vitality products*. In the tea sector, one finds blends such as Rooibos with seaweed (sperolina), Rooibos with red wine extracts or nettle-peppermint tea.

- However, it is still to be seen which of the trends can outgrow their market niche and establish themselves on the consumer market.

- Finally Rooibos iced-tea is conquering the retail stores with both classic flavours, such as lemon and peach, as well as combined with fruit juices.

6 Student Survey

6.1 Introduction

To support the findings of the literature research and the interviews, primary research was conducted in the form of questionnaire surveys, completed by students in Germany. The research focused on consumer behaviour, in conjunction with tea in general and Rooibos tea in particular, as well as attitudes towards tea-related topics. The aim of the survey was to generate primary data that would complement the findings of chapter *5.7 The German Consumer*.

The main reason for using students as a target population was that this approach allowed a relatively large number of responses with a very limited budget. As the research took place in Germany it was necessary to find research assistants who were able to approach as many respondents as possible within a homogeneous group. Using institutions of higher education did not only fulfil this condition but also ensured an equal distribution of female and male respondents. In addition to this, institutions of higher education could be found all over the country, allowing easier geographical distribution.

Another advantage to using students was that precise demographic data concerning the target group was available. Even though the whole German population is not completely represented, this approach enabled a fairly accurate sample of the student population to be collected.

To generate a sufficient amount of primary data, the researcher found the student approach to be the most practical. It must therefore be highlighted that this survey is only a pilot study and requires follow up research to verify the results.

A more detailed discussion concerning possible problems relating to this approach can be found in chapter *6.3 Quantitative Report* chapter in section *6.3.1 General Information and Considerations.*

6.1.1 Student Demographics in Germany

To fully understand the significance of this survey it is necessary to know some demographics about Germany and its students:

In 2002 there were 40.344 million men and 42.191 million women living in the Federal Republic of Germany. 12% of these were between the ages of 15 and 25, the largest age group was the 25 – 45 year group. [393]

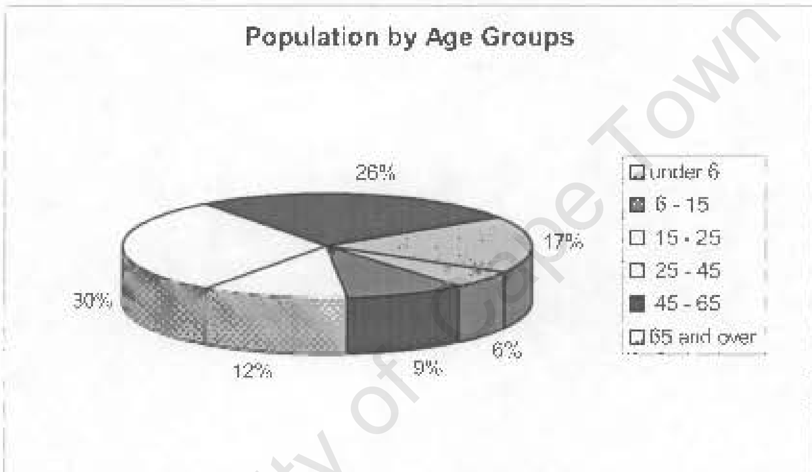

Figure 6 - 1

In 2002, a total of 38.2% of the population group 18 – 21 year olds were eligible to enter university (Higher National Certificate 11.4%, University entrance qualification 26.8%).[394] 74% of all German high school graduates with a university entrance qualification received in 1995 had enrolled at an institute of higher education until the year 2002.[395] The portion of university entrants of the total of the same age group was roughly 40% in 2003.[396]
The average age of German university entrants was 22 years in 2002 and the age of graduates was 29.[397]

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[393] Germany. Federal Statistical Office 2004. Population, by sex and citizenship
[394] Germany. Federal Statistical Office 2003. Hochschulstandort Deutschland, p. 15
[395] ibid.
[396] ibid., Aktuelle Ergebnisse aus der Studentenstatistik für das Wintersemester 2003/2004
[397] ibid., Durschnittsalter der Studienanfänger

The total number of German institutions of higher education was 373 at the end of 2003: 103 Universities, 6 Colleges of Education, 17 Colleges of Theology, 52 Colleges of Art and Music, 164 specialized colleges of Higher Education and 31 colleges of Public Administration.[398]

According to preliminary results of the Federal Statistical Office of Germany (*Statistisches Bundesamt*) the number of students peaked in the winter semester 2003/2004 with over 2.026 million students. This is an increase of 87 000 students or 4.5% compared to the previous year. Currently 47.4% of all students are women, 52.6% men.[399]

In the winter semester 2003/2004 the distribution of students at the different types of institutions of higher education was as follows:[400]

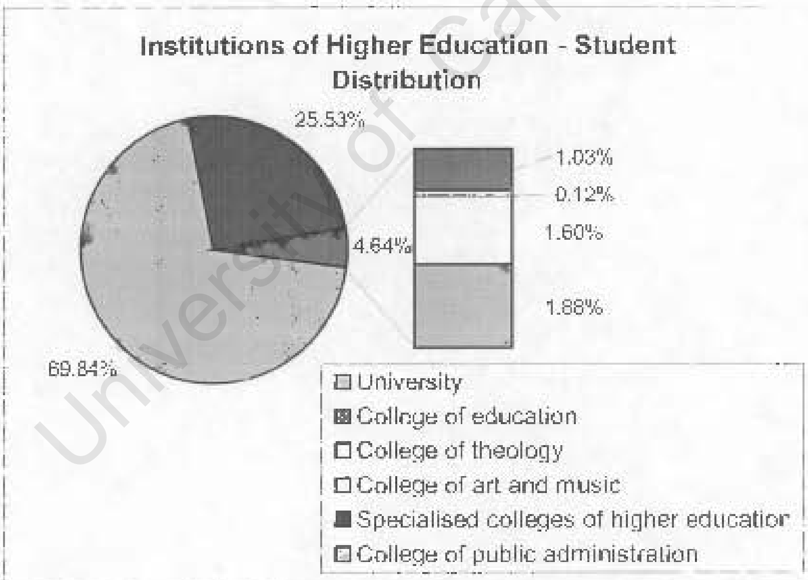

Figure 6 - 2

[398] Germany. Federal Statistical Office 2003, Hochschulstandort Deutschland, p. 13 and Germany. Federal Statistical Office 2004, Education, Science and Culture
[399] ibid., Aktuelle Ergebnisse aus der Studentenstatistik für das Wintersemester 2003/2004
[400] ibid.

6.2 Methodology

6.2.1 General Approach

Due to limitations regarding time, budget and wide distribution of the sample group the following approach was found appropriate and employed:

Firstly a number of assistants were needed to initiate the research in German universities chosen for the survey. E-mails were sent to personal acquaintances and friends of the researcher, inquiring whether or not they would care to assist in the survey. The e-mails contained a brief description of the research, the tasks the research assistant would have to fulfil and the required time involved. They were also asked to suggest further potential assistants, who might be willing to participate.

Via this method 37 people were approached to cover all areas of interest for the survey, of which 22 agreed to assist (see *Appendix 11.6 Results Research Assistants*).

An envelope containing a cover letter, giving a short overview of the survey and briefing the assistants, a self-addressed stamped envelope and a number of copies of the questionnaire were sent to the assistants (see *Appendix 11.7 Cover Letter to Research Assistants (German)* and *Appendix 11.9 Questionnaire German*).

The cover letter described precisely how the survey had to be conducted, who the target group was and how they had to be approached*.

The proposed method of distributing the questionnaires was to hand these to a whole class and to collect them after the students filled them in. This helped to reduce inconvenience on behalf of the assistants. Furthermore, there was a two-week deadline, by which time the questionnaires had to be sent back to the researcher. As an incentive to send back as many questionnaires as possible, the three research assistants returning the most completed questionnaires were offered a small prize.

* The research assistants were asked to hand the questionnaires to any student at their university, regardless of their field and year of studies.

Most questionnaires arrived within the set time limit, with the remaining few returning within 5 weeks, except for one.
In total 785 questionnaires were sent to 22 research assistants, of which 519 were returned by 21 assistants.

Questionnaires returned:

Questionnaire No.	
1 – 27	Mathias Riedle
28 – 51	Peter Fiesel
52 – 69	Inken Stickel
70 – 81	Malte Willert
82 – 156	Annette Stolz
157 – 190	Stephan Rodinger
191 – 244	Gwendolyn Schmitt
245 – 260	Kathrin Tuchbreiter
261 – 278	Sandra Preschel
279 – 312	Bettina Kempf
313 – 324	Tina Schwab
325 – 340	Dominik Schulz
341 – 350	Susanne Kühn
351 – 360	Christine Griebe
361 – 380	Christian Hoffmann
381 – 414	Mareike Lang
415 – 443	Svenja Reiner
442 – 482	Kristina Weissenbach
483 – 519	Marco Stein

Figure 6 - 3

6.2.2 Response Rate

Common problems when conducting mail surveys include low response rates, as well as questionnaires returned too late to be of statistical use.[401] To avoid delays, research assistants were notified prior to sending the questionnaires to them. The cover letter according to *Dillon et al* is, "the most logical and efficient vehicle for persuading individuals to respond". To ensure a speedy return of the questionnaires, a time limit was set and prizes were offered as an incentive to return the questionnaires within this time frame.[402] E-mails were also sent, prompting the assistants to return the completed questionnaires.

[401] Dillon, Madden Firtle 1990, p. 182/183
[402] Yu, Cooper 1983, Journal of Marketing Research in Dillon, Madden Firtle 1990, pp. 208-210

Utilizing those instruments, a response rate of more than 95% was reached. 66% of the questionnaires sent out were completed and returned. This was much higher than the researcher expected.

6.2.3 Sample Design

6.2.3.1 Target population

The target population was identified as all "*students at institutions of higher education in Germany*" including Universities, Colleges of Education, Colleges of Theology, Colleges of Art and Music, specialized colleges of Higher Education and colleges of Public Administration. The term "students" refers to full time students enrolled in any of the aforementioned institutions.

6.2.3.2 Sample size and selection process

The sample size is dependent on a number of issues, which had to be weighed against each other. Determining the sample size depends on type of sample, homogeneity of the population, number of subgroups as well as budget and time constraints.
"A sample does not have to be representative of the general population, but it must be representative of the population of interest"[403].

This survey uses a *stratified quota sample* involving partitioning the entire German student population into subpopulations at selected institutions of higher education, from which a number of elements (students) were separately selected.
The selection method for the institution of higher education was restricted to time and budget constraints.[404] Only institutions where research assistants were found were used. The final decision whether an institution was selected for the research depended on whether the potential research assistant was willing to help or not. All efforts were made to minimize sampling error within these constraints.

[403] Dillon, Madden Firtle 1990, p. 266
[404] ibid., p. 278

The study involved all students at given institutions of higher education. That the survey took place mainly on the campus itself and using a screening question in addition in the beginning of the questionnaire, assured that the group was fairly homogeneous and eliminated most unwanted subgroups. The sample size would not have been as large if the study had not restricted itself to students.

It was decided that, according to sampling rules of thumb, each major subgroup needed to have an approximate size of 150 respondents; less important subgroups were to have a minimum of 20-45 respondents.[405] Major subgroups were defined as *female respondents who consume tea, male respondents who consume tea* and *respondents who consume Rooibos.*

To ensure the required sample size was achieved, the number of elements sampled from each stratum should be between 20 and 45. This was also the number of questionnaires sent to each of the research assistants. The number of elements at each institution of higher education was additionally limited to this particular amount to avoid inconvenience on behalf of the research assistants.

The selection of elements within each stratum was to be conducted on a non-probability sample, using a *convenience sampling method* where the respondents' participation was voluntary leaving the selection of approached students to the research assistant.

The applied methodology of sampling, as well as the sample size, can be justified by the nature of the research. Due to the sample selection methods and the limited sample size, the 'projectability' of the results to the whole German student population may not be given. Therefore, the results tend to have more of a qualitative character than a precise statistical value. This will be strongly considered in the final conclusions of the survey.

[405] Churchill 1995, p. 644

6.2.4 Costs

The approximate costs for the student survey were distributed as follows:

Printing questionnaires and cover letters	R 400
Mailing costs	R 600
Incentives	R 400
Research assistants (capturing and statistical analysis)	R 1000

Figure 6 - 4

6.2.5 Questionnaire

6.2.5.1 Types of questions

Different types of questions were used for the questionnaire. The questionnaire began with a screening question[406], asking the respondent for his/ her current occupation, in order to verify if he or she belongs to the target group. Only questionnaires filled out by full time students at a German university were used for the analysis.
One of the most widely used scaling techniques in commercial marketing research, non-comparative or monadic scaling[407], was used in questions such as question *4.2-h*, in which the respondent was asked to evaluate his/ her knowledge of tea.
Dichotomous questions[408] - questions that could be answered by choosing one of two possible answers - were used several times (Question *2.1, 3.1, 5.1*). These are easy to administer and tabulate and usually evoke a rapid response.

Questions *1, 2.2, 3.2, 3.3* and *5.2* use the multiple-choice format. As those questions did not cover all possible alternatives, open-ended answers were added in some cases to capture true responses.[409] So-called probes[410] were used in questions *1, 2.2, 3.1, 3.3* and *5.2.*

[406] McDaniel, Gate 2004, p. 273
[407] Dillon, Madden Firtle 1990, p. 340
[408] McDaniel, Gate 2004, p. 245
[409] ibid., p. 246
[410] Aaker, Kumar, Day, George 2004, p. 320

Scaled response questions were used in questions *2.3, 2.4, 4.1* and *4.2*. In these the number of categories played an important role. The reason for using a relatively small number of categories (5) for these questions, is that the respondents might not have been capable of making firm decisions if there were more choices, which would produce ambiguous data.[411]

The uneven number of scale items allow the respondent to be neutral regarding the objective under scrutiny[412]. The Likert-Scale scaling technique is used to judge statements of beliefs or intentions of a large number of items. Each item reflects a favourable or unfavourable attitude toward the objective in question. Respondents were asked to rate their attitude using the five point category-labelled scale[413].

6.2.5.2 Questionnaire design

The questionnaire design plays a vital role in the success of the survey[414]. The general layout was adopted from a questionnaire used by HIS (*Hochschul-Informations- System)* as this particular layout has been successfully used before. The 12 questions were distributed on one sheet. Wording of the questions was kept short and simple, as the number of words in any question should not exceed 20 in accordance with *Aaker et al.*.[415]

To avoid uncertainties and discrepancies when filling out the questionnaire, brief instructions preceding the question were given on how to mark particular answers and what to do at skip patterns given. When more specific instructions were necessary, a different font style was used to highlight the directions.

In some cases answer categories were accompanied with explanations of expressions or specific examples to ensure the respondents were able to classify their answers to the appropriate category.

To increase layout clarity, including reducing an overcrowded overview and relating scales and boxes to the correct answer, numbers of simultaneous questions that used the same set of response categories were formatted using either a matrix or grid.

411 Cox II 1980, Journal of Marketing Research and Givon, Shapire 1984, Journal of Marketing Research in Dillon, Madden Firtle 1990, p. 356
412 Dillon, Madden Firtle 1990, p. 357/358
413 Schiffman, Kanuk 2004, p. 39
414 Dillon, Madden Firtle 1990, p. 377
415 Aaker, Kumar, Day, George 2004, p. 322

The general order of questions was stratified from the most general, i.e. all kinds of teas, to the specific topic of interest, Rooibos tea. This was hoped to avoid refusal in case the respondent does not know Rooibos tea. Questions belonging to the same topic were listed together.

The first question was significant to the survey, yet uncomplicated and non-threatening to the respondent, which helped the respondent begin. Demographic questions were asked at the end of the questionnaire.[416]

Skip patterns, as used in question *2.1* and *3.1*, were uncomplicated and as close to the answer as possible.

When designing the questionnaire and wording the questions, it was taken into consideration that the target group was German speaking young people. Therefore the respondents were addressed as "Du" (familiar form) rather than "Sie" (polite form), to create a more personal atmosphere.

All questions, as well as the categories of answers, were numbered to provide an identifiable system for the respondent and to assist data capturing afterwards. How the data would be processed and analysed afterwards was taken into consideration.

Pre-testing took place in form of 7 questionnaires[417] given to German students. After debriefing them with special regards to layout, question sequence, word meaning, difficulty of questions, skip patterns and time, minor adjustments were made to the questionnaire, when problems arose. Coding and capturing data was also tested by using the 7 questionnaires, which were then prepared into an MS-Excel spreadsheet.

6.2.5.3 Fielding the questionnaire

Providing inadequate and poor instructions concerning control of the data-gathering process for the research assistants could lead to invalid information and conclusions.[418] Briefing the research assistants took place in the cover letter.

[416] Dillon, Madden Firtle 1990, p. 390 and McDaniel, Gate 2004, pp. 251-254
[417] Hunt, Sparkman Jr., Wilcox 1982, Journal of Marketing Research in Dillon, Madden Firtle 1990, pp. 399-404
[418] Dillon, Madden Firtle 1990, p. 427

It referred to the respondents who qualified (students at German universities), when and where the sample should be selected (in a break between two lectures at the university, within the set time limit of 2 weeks), the motivation of the respondents and a short introduction, explaining to the respondents what the survey is about and how long they ought to spend answering the questions.

6.2.5.4 Processing the data

Data processing began with a quality check. Questionnaires were counted and checked to ensure proper completion. Three of the 519 questionnaires were thereafter declared invalid and removed from further analysis. Due to the relatively small number of questionnaires per research assistant, the check could forego an additional validation process, where respondents could be re-contacted if necessary.
The quantity of relevant questionnaires was high enough, requiring no further questionnaires to be sent to the research assistants.

Data from the questionnaires were transcripted to an MS-Excel spreadsheet in the order of the questions. Some questionnaires had to be edited to fit into the given format. From the MS-Excel spreadsheet some of the data were transferred to a STATISTICA database for further analysis.

Decisions about how certain data had to be captured were made according to the following criteria:

General
When verifying given answers, discrepancies and uncertainties were found relating to the actual indication of the answer. When a respondent chose an ambiguous answer on a scale, the answer closest to the indication was chosen. If this particular mark appeared in the middle of two answers, half of these answers were classified as belonging to either side of the answer, keeping potential bias to the minimum.

Question 2.2

As respondents often used the open-ended answer to state the frequency of their tea consumption, these answers had to be sorted into the given categories. A new category was introduced: "Less than once a month". If the written answer was 4 times or more a week, category 4 (daily) was chosen. If the respondent stated that he or she consumed tea less than 3 times a week, his/ her answer was designated as category 3 (once a week). If the answer was "not regularly" or "only when ill", category 0 (less than once a month) was chosen. Finally 22 respondents drink tea regularly in winter but rarely in summer: this answer was considered as category 2 (once every two weeks).

Question 2.3

Some respondents marked multiple answers, despite instructions asking them not to. To avoid a loss in potentially important information, these answers were kept. In some cases respondents filled out all columns without stating that they drink that specific tea at all. These data were excluded from the analysis.

Question 3.2

This question was also changed to a multi-response format as most of the respondents ignored the instructions and marked more than one category.

Question 4.1* and *4.2

Whilst capturing the data, a few relevant questions were not answered. To be able to test hypotheses completely, *median substitution* was used so as not to loose valuable information. The substitutions do not affect the results of the data analysis.

Question 5.2

In this question, the respondent was asked to choose a category of study or to add one in the open-ended category. Initially, attempts were made to sort answers into categories. In comparing answers between students filling in the questionnaire during the same class, it became clear that students were classifying their field of studies incorrectly. It was subsequently decided to eliminate this question when analysing the questionnaires.

6.2.5.5 Sequence of questions

The questionnaire was structured in five parts. The first question was for classification of the respondents and to find out if they belonged to the target group.

1. Was ist deine momentane Beschäftigung? Name und Ort der Hochschule (What is your current occupation? Name and place of the University)

Only questionnaires filled out by students studying at a German university were used. The second part was about tea in general.

Question 2.1 was a filter question.

2.1 Trinkst du Tee? (Do you drink tea?)

If answered negatively, none of the additional questions applied to the respondent, and they were asked to complete only the last section, concerned with demographics. Question 2.2 was a follow-up question to specify the respondent's tea drinking habits.

2.2 Wie oft trinkst du Tee? (How often do you drink tea?)

This question was formatted as multiple-choice with a further option of elaboration if none of the four categories applied. Question 2.3 was in the form of a matrix as the 7 * 5 questions used the same categories as answers.

2.3 Welche Art Tee trinkst du und was ist dir dabei wichtig? (What kinds of tea do you drink and what is important for you?)

The respondent was asked to skip questions concerning kinds of tea he or she never consumes, as answering these would cause bias to the complete data.

The first column required the respondent to indicate the frequency of tea consumed. This was a dichotomous question allowing the respondent to choose between only two answers: *selten* (*rarely*) and *regelmässig* (*frequently*). If this question was not answered, additional related answers were dismissed.

Columns 3, 4 and 5, *Genuss, Gesundheit, Preis (Enjoyment, Health, Price)* required the respondent's attitude towards the importance of these attributes.

The questions were scaled-response questions using a Likert-scale to indicate the applicable answer.

The last column *Kaufe ich meistens im... (I usually buy (tea) at...)* offered five different possible sources of which the respondent was asked to chose only one.

The last question in this section was meant to find out about the importance of *Qualität, Hersteller (Marke), Verpackung* (*Quality, Producer (Brand), Packaging*) when purchasing tea.

2.4 In welchem Maße achtest du beim Teekauf auf... (To which extent do you pay attention to the following when buying tea?)

To answer this question, the five point Likert-scale was used again.

The three questions of the third section as well as the first question of the fourth section dealt specifically with Rooibos tea.

Question 3.1 was a filter question, which lead the respondent directly to question 4.2 if he / she responded that he / she does not consume Rooibos tea. In this case the reason for this was also asked.

3.1 Trinkst du Rooibuschtee? (Rotbusch, Rooibos, Rooitea) (Do you drink Rooibos tea?)

If the respondent indicated he / she does drink Rooibos tea, the following was asked:

3.2 In welcher Form trinkst du Rooibuschtee am häufigsten? (In what form do you typically drink Rooibos?)

The possible answers consisted of two parts: the flavour and the method of preparation. The respondent was asked to choose only one of the 6 possible combinations. Question 3.3 dealt with the respondent's purchasing behaviour regarding Rooibos tea.

3.3 Woher kommt der Rooibusch Tee den du trinkst? (Where is the Rooibos, that you drink, purchased?)

Formulating the question in this way eliminated confusion as to whether or not the respondent ought to answer this question in case he / she does not actually purchase the product himself / herself. More than one category given was possible to mark as relevant to the respondent. The option to include additional sources other than those already stated were encouraged to be written down.

Section four required the respondent to state to which extent he / she agrees to 13 different statements, using a Likert-scale. This was divided into two questions, the first one using statements referring specifically to Rooibos tea and the second question dealing with tea in general.

4.1, 4.2 In welchem Maße stimmst du diesen Aussagen zu: (To which extent do you agree with the following statements?)

The last part of the questionnaire was intended to conduct demographic information. The sex and field of studies was required from the respondent.

5.1 Geschlecht (sex)

5.2 In welchen Bereich lässt sich dein Studienfach einordnen? (In which category do your studies belong?)

Question 5.2 also gave the respondent the opportunity to specify his / her answer if none of the given categories applied.

6.2.6 Working Hypotheses used for Questionnaire

- H^1: Most German students drink tea.
- H^2: Students who do drink tea do so on a regular basis.
- H^3: The tea drinking habits of students are not limited to one type of tea.
- H^4: German students prefer to drink fruit and herbal teas.
- H^5: When buying tea, quality plays the most important role regarding decisions concerning purchasing.
- H^6: Most of the tea drinkers consume Rooibos.
- H^7: More female respondents drink Rooibos tea than male respondents.
- H^8: The main reason respondents do not drink Rooibos is because they do not know of it.
- H^9: The most popular form of Rooibos is flavoured tea bags.
- H^{10}: Rooibos is predominately purchased in supermarkets.
- H^{11}: Tea-specialists are rarely approached when purchasing Rooibos.
- H^{12}: Health food shops are rarely approached when purchasing Rooibos.
- H^{13}: The main reason why people consume Rooibos is its taste.
- H^{14}: Rooibos is not consumed because it is a cheap beverage.
- H^{15}: The health attributes of Rooibos play only a minor role for consumers.
- H^{16}: The main health attributes of Rooibos are that it is healthier than black tea and does not contain caffeine.

- H^{17}: Most teas are consumed for enjoyment. Health plays a minor role.
- H^{18}: Prices play an important role when it comes to purchasing tea.
- H^{19}: Most tea is purchased in supermarkets or discounters.
- H^{20}: Health food shops play only a minor role in selling tea.
- H^{21}: The price of Rooibos is less important for consumers than the price of other teas.
- H^{22}: Health aspects of Rooibos are less important to consumers than those of other teas.
- H^{23}: Tea in general is seen as a healthy product.
- H^{24}: Tea is mostly used as a beverage.
- H^{25}: Organic tea is considered to be healthier than conventional tea.
- H^{26}: Organic tea is too expensive.
- H^{27}: Female students believe they know more about tea than male students.

6.2.7 Data Analysis

6.2.7.1 Basic statistical techniques

Once the data from the questionnaires was captured into MS-Excel and STATISTICA, 80 variables were available for statistical analysis. Basic statistical techniques, such as frequency counts and median- and mean-calculations, were initially performed on all data collected in order to obtain a general sense of the data captured.

Frequency distributions reported the number of responses that each question received, and cross tabulations displayed the associations between nominally scaled variables, for example the sex and the propensity to consume tea.

6.2.7.2 Hypothesis testing

Sign Test

The *Sign test* is a nonparametric test for dependent samples. The test is applicable to situations when there are two measures for each subject and the different nature of those has to be established. Applying the Sign Test, each variable in the first list will be compared to each variable in the second list. The only assumption that is required is that the underlying distribution of the variable of interest is continuous.
The test merely computes the number of times (across subjects) that the value of the first variable is larger than that of the second variable. Based on the binomial distribution, a z value for the observed number of cases where $A > B$ can be computed, as well as the associated tail probability for that z value.

Friedman ANOVA

*Friedman ANOVA** is also a nonparametric test. The test assumes that the variables (levels) under consideration were measured on at least an ordinal (rank order) scale. The null hypothesis for the procedure is that the different columns of data / variables contain samples drawn from the same population, or specifically, populations with identical medians.

Mann-Whitney-Test

The *Mann-Whitney-test* is a nonparametric test, comparing two independent samples (groups). The test assumes that the variable under consideration was measured on at least an ordinal (rank order) scale. The Mann-Whitney-test is computed based on rank sums. It is the most powerful (or sensitive) nonparametric test for independent samples. The test is equivalent to the *Wilcoxon Rank Sum-test*.

Furthermore, chi-squared tests for significant associations in cross tabulations and t-tests for significant differences in mean scores were used to test the relationship between samples and populations for two variables.
The significance level for all hypothesis tests was set to a confidence level of 5%, or a p-value of 0,05.

* ANOVA = Analysis of Variance

6.3 Quantitative Report

The main purpose of the questionnaire was to determine the attitudes and behaviour of German students regarding tea-consumption and –purchasing, with particular focus on Rooibos tea.

The quantitative report discusses the results of the quantitative research and statistical analysis. The relevant hypotheses for each section will be presented at the beginning of this discussion, followed by the findings of the quantitative research. Conclusions will be drawn based on analysis in the context of the findings of the qualitative report.

The report begins with an examination of the sample demographics, providing a background to the research results, as well as any underlying biases.

6.3.1 General Information and Considerations

Of the 519 questionnaires 516 were used for further analysis. 433 of the respondents stated that they consume tea and therefore fall into the group of people who had answered questions concerning tea in general. 234 of these also consume Rooibos tea and therefore completed the whole questionnaire.

As the sample was restricted to students only, discrepancies might occur when projecting the results to the whole population.

Firstly it can be assumed that most of the respondents are between the age of 22 and 29, as this is the average age of students in Germany. Therefore only a small age bracket is examined. Secondly, students do not represent the largest portion of this age bracket in German demographics. Furthermore, applying sampling methods to assume that the whole German student population is represented might also induce problems, as different areas of study might be over- or under-represented in this survey.

Students *per se* are a very specific group and do not necessarily represent the German consumer. Shopping habits might vary in several ways. Firstly, most students represent a single-household, purchasing only for their needs. This influences quantity and frequency of shopping.

Products which last for longer periods of time, such as tea bags, would probably not be purchased frequently. This could affect the price-sensibility. Product cost, in particular, plays a more important role in low-budget student households than for other consumers, resulting in purchases made at discounters or supermarkets, thus avoiding more expensive specialized tea shops or health food stores. This would cause a bias in these categories.

Education is also a potential factor for discrepancies. Due to their higher level of education, students might be more open-minded or concerned about health issues than other people. Alternatively, the relatively young age of students might be a reason for lack of interest in health attributes of food products.

Awareness of health trends and new products might be higher amongst students. Therefore the number of consumers of Rooibos might be biased.

Lastly, it must be considered that some respondents might not have taken the survey seriously, marking false attributes, which do not reflect their true attitudes accurately.

All of the above will be considered when drawing conclusions based on the statistical analysis.

6.3.2 Results of the Investigation

6.3.2.1 Demographic profile of the respondents

Students from 30 different institutions of higher education participated in the survey. The geographical distribution over the country was as follows:

Figure 6 - 5

A list of the names, types and locations of all institutions, as well as the student distribution, can be found in *Appendix 11.10 Distribution of Institutions of Higher Education.*

Of the 516 respondents 257 were students at Technicons, 191 from Universities, 38 from Universities of Cooperative Education and 30 from Colleges of Education. The distribution of sex was almost even, with 255 female and 261 male respondents.

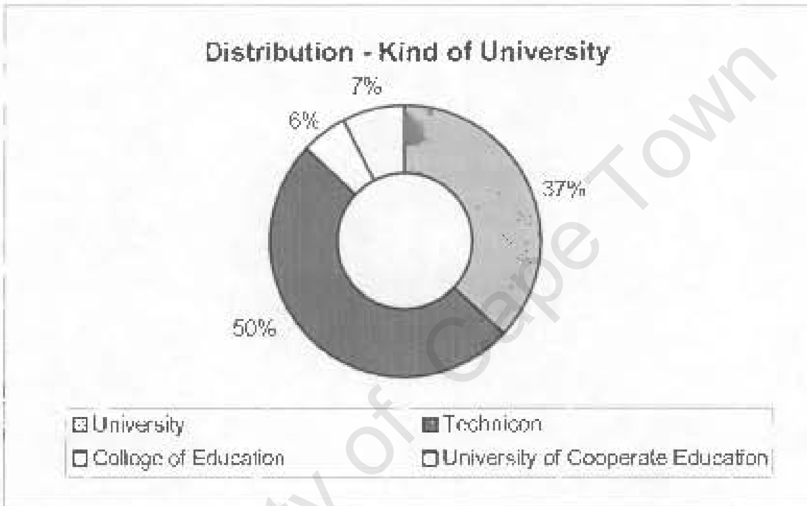

Figure 6 - 6

6.3.2.2 Tea consumption

Relevant Hypotheses:

H^1: Most German students drink tea.

H^2: Students who do drink tea do so on a regular basis.

H^3: The tea drinking habits of students are not limited to one type of tea.

H^4: German students prefer to drink fruit and herbal teas.

H^{17}: Most teas are consumed for enjoyment. Health plays a minor role.

H^{18}: Prices play an important role when it comes to purchasing tea.

H^{23}: Tea in general is seen as a healthy product.

H^{24}: Tea is mostly used as a beverage.

H^{27}: Female students believe they know more about tea than male students.

Findings:

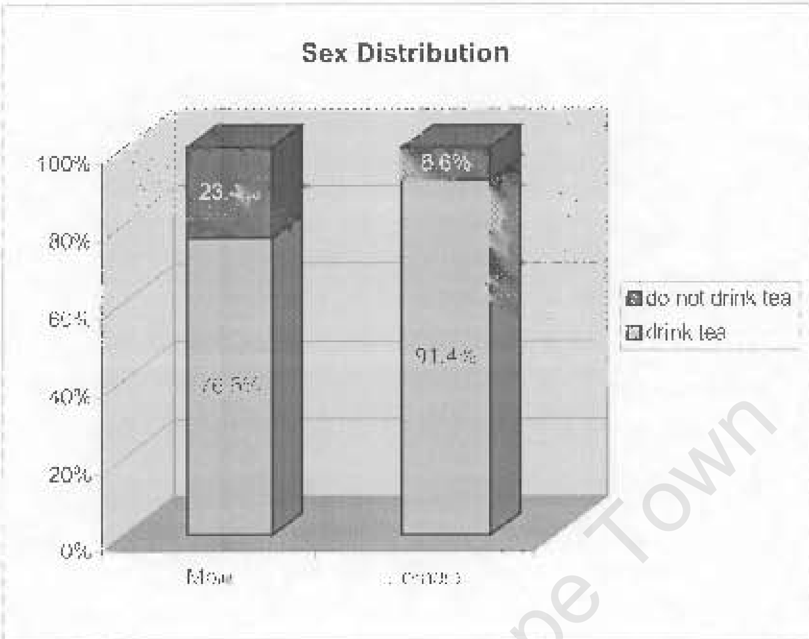

Figure 6 - 7

The distribution between the sexes of the respondents was almost even with 49.6% women and 51.6% men. Respondents who drink tea were particularly important for the research. Most female respondents drink tea (91.4%), however the percentage of male tea-drinkers is also very high (76.6%). Therefore H^1 will be accepted.

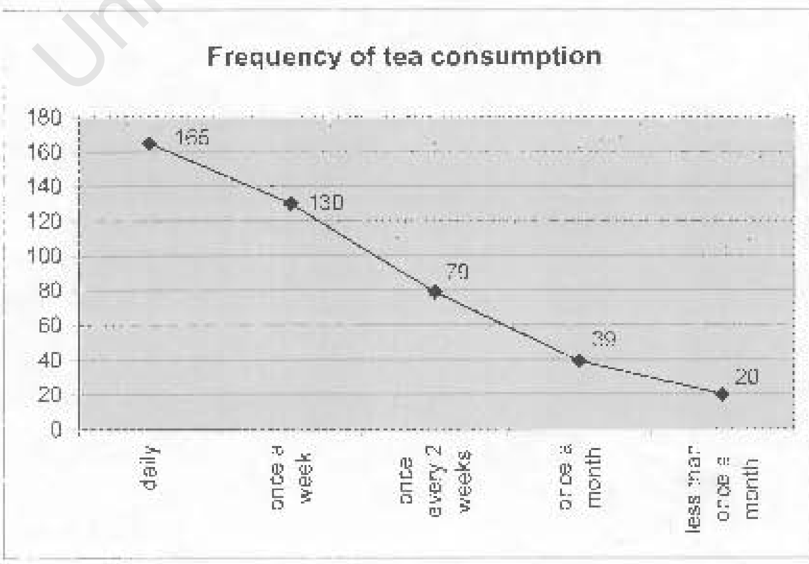

Figure 6 - 8

Most of the respondents who consume tea do so on a daily basis (38.1%), followed by those who drink tea once a week (30.0%) and once every two weeks (18.3%). Students who drink tea less frequently were also less abundant, with 9% consuming tea only once a month, and a mere 4.6% drinking tea less than that. Based on these results H^2 can be accepted.

The following table breaks the distribution of the different teas and the frequencies of consumption down.

The number of respondents who drink medicinal teas is understandably low (3.7%). Less than one third of all respondents stated they never consume tea, with the exception of teas falling into the "other tea" and "tea blend" categories.

	regularly	rarely	never
BT	32.0%	43.5%	24.2%
GT	21.9%	49.5%	28.3%
FT	40.8%	36.9%	22.1%
HT	47.5%	34.3%	18.0%
TB	25.6%	33.9%	40.3%
MT	3.7%	45.6%	50.5%
OT	4.4%	33.6%	61.8%

Figure 6 - 9

(BT = Black Tea, GT = Green Tea, FT = Fruit Tea, HT = Herbal Tea, TB = Tea Blends, MT = Medicinal Tea, OT = Other Tea)

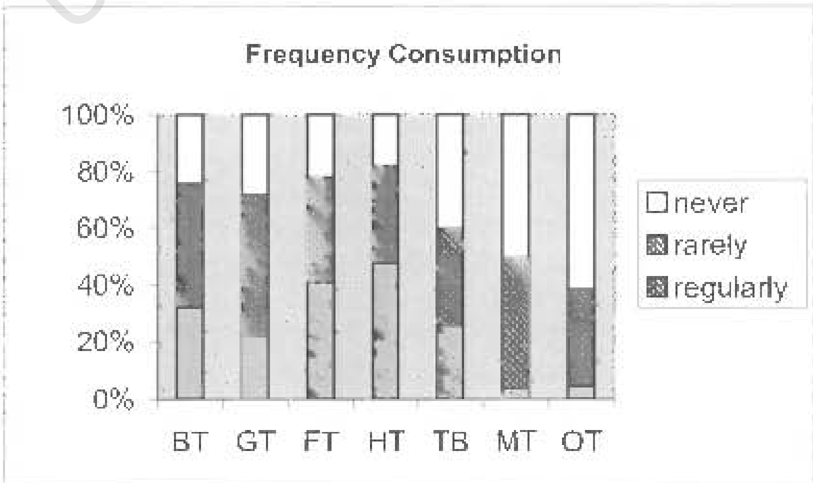

Figure 6 - 10

Only 6.9% of respondents limit their tea consumption to only one type of tea. 93.1% drink two or more types of tea.

The most *regularly* consumed teas are *fruit teas* and *herbal teas*, with 40.8% and 47.5% respectively. These teas also have the smallest percentage of tea-drinking respondents who never consume them (FT 22.1% and HT 18.0%). Therefore **H**[4] will be accepted.

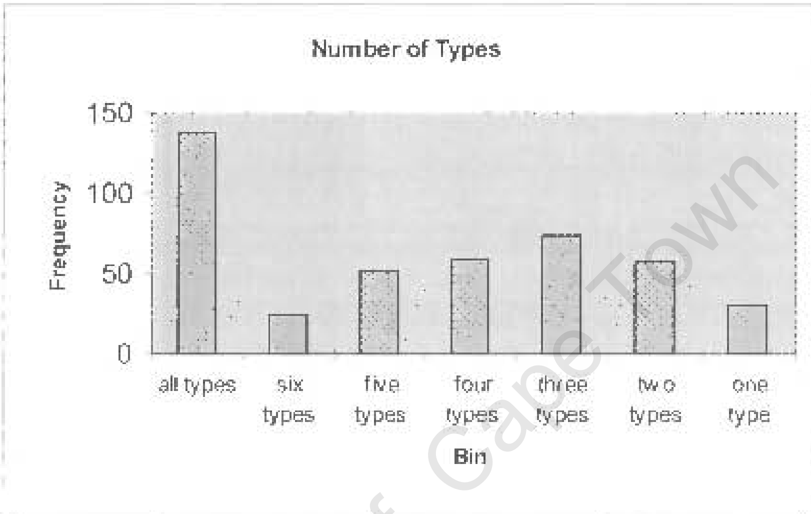

Figure 6 - 11

When comparing the results for the consumption habits regarding the different teas one can clearly see that most respondents consume all types of teas. Therefore **H**[3] can be accepted.

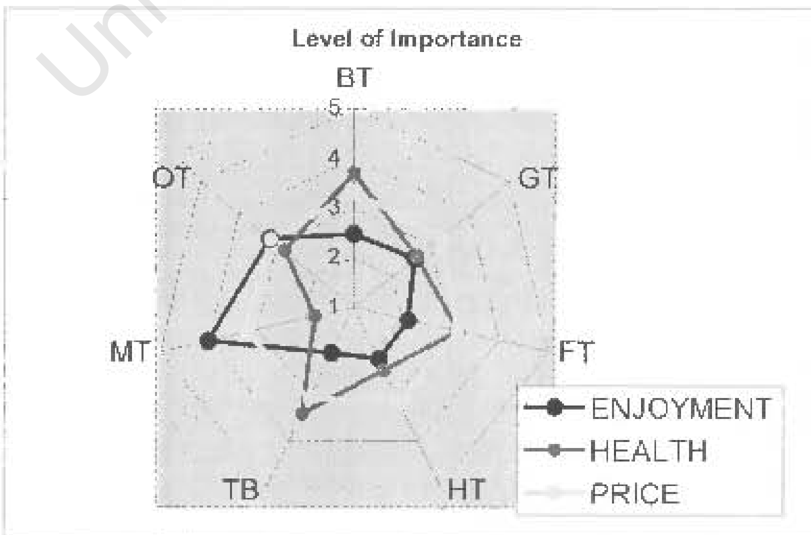

Figure 6 - 12

(BT = Black Tea, GT = Green Tea, FT = Fruit Tea, HT = Herbal Tea, TB = Tea Blends, MT = Medicinal Tea, OT* = Other Tea)

The diagram shows the levels of importance of *enjoyment*, *health*, and *price* for the different types of tea. The price seems to have the same degree of importance for all teas. All means are between 3.0 and 3.3, showing a slight tendency towards being less important. For black tea, with a mean of 3.29, the price seems to play the least important role, followed by medicinal teas with a mean of 3.22. Looking at the importance of *health*, one can clearly see that *medicinal teas* are consumed for their health attributes (mean = 1.8) followed by *herbal teas* (mean = 2.4) and *green teas* (mean = 2.6). The health factor plays the least important role for *black teas* (mean = 3.7) and *tea blends* (mean = 3.4).
The importance of *enjoyment* differs largely between the different types of tea. For *medicinal teas*, enjoyment does not seem to play a role at all. All other teas show a mean between 2.0 and 2.6, indicating the importance of *enjoyment*. *Tea blends, fruit teas* and *herbal teas* are specifically drunk for their enjoyment, with means of 2.0, 2.1 and 2.2 respectively. The mean for *black teas* is 2.4. The importance of *enjoyment* for *green tea* is surprisingly high with a mean of 2.6.

With tea in general, the means of the levels of importance are as follows:

All teas:

	Mean
Enjoyment	2.524563
Health	2.883878
Price	3.181765

Figure 6 - 13

Applying the *Friedman-Test* with H_0:*(perceptions of) enjoyment = health = price* and H_1: *At least one differs*, the following results are generated:

ANOVA χ^2 (N = 1661, df = 2) = 249.2867 p <0.000000

* Ayurveda / Wellness-tea used as examples in questionnaire

Therefore H_0 will be rejected and the *Sign-Test* applied for all teas:

	Z	p-level
Enjoyment > Health	9.407053	0.0000000000
Enjoyment > Price	14.87158	0.0000000000
Health < Price	6.290516	0.0000000002

Figure 6 - 14

The results show that, in general, *enjoyment* is significantly more important than both *health* and *price*. Comparing *health* and *price*, results show that the importance of *health* is significantly higher than the importance of *price*.

Using these results, **H[17]** will be partially accepted as *enjoyment* does play an important role for most teas, but so does *health*.

Considering the results of the importance of price for the different teas only, does not lead to a clear decision whether prices play an important role or not. However, looking at the results of where tea is generally purchased (see infra), where a significantly higher amount of tea is purchased at supermarkets and discounters than the more expensive specialized tea shops and health food stores, it can be assumed that price does play an important role when purchasing tea. In addition to this, respondents agreed to the statement that organic tea is too expensive (see infra). Therefore **H[18]** will be accepted.

The following graph shows the distribution of levels of agreement to question 4.2, where **1** stands for a *strong agreement* and **5** for *not agreeing at all*.

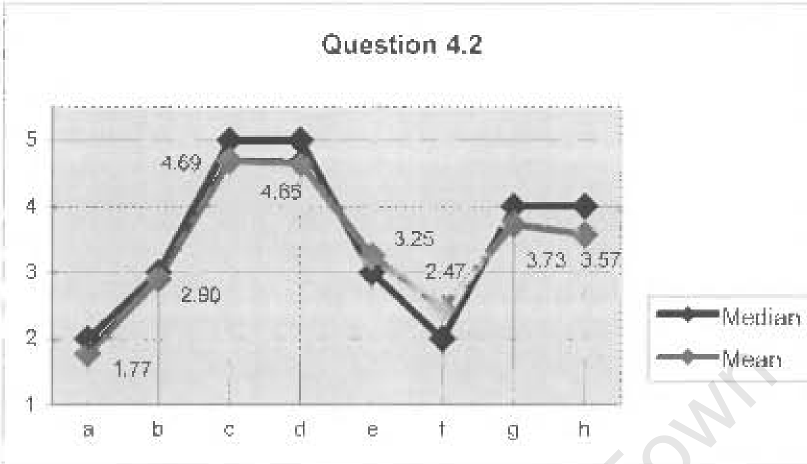

Figure 6 - 15

Tea in general:

a - is a healthy product

b - is free from harmful substances / residues

c - is only for the elderly and ill people

d - I don't only drink but use it in different forms such as in cosmetics

e - Conventional tea is as good as organically produced tea

f - Organic tea is too expensive for me

g - I only drink tea that does not contain any additives (flavours)

h - I know a lot about tea

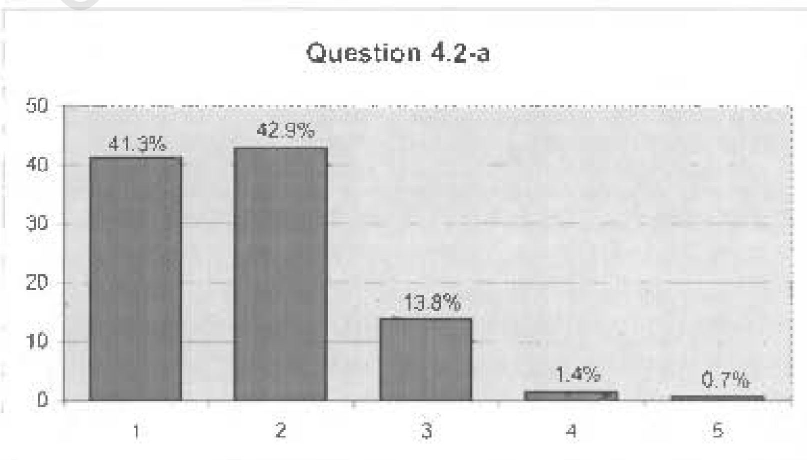

Figure 6 - 16

The levels of importance of health for the different teas were displayed previously in the diagram. The calculated mean for all teas was 2.84, showing that respondents generally find the health attributes of tea important.

In question 4.2-a respondents were required to state their level of agreement to the statement that tea in general is a healthy product. A median of 2 and a mean of 1.77 show a strong agreement. Only 0.7% of all respondents do not agree with this statement at all.

Using both results H^{23} will be accepted.

The histogram shows the distribution of levels of agreement to question 4.2-d

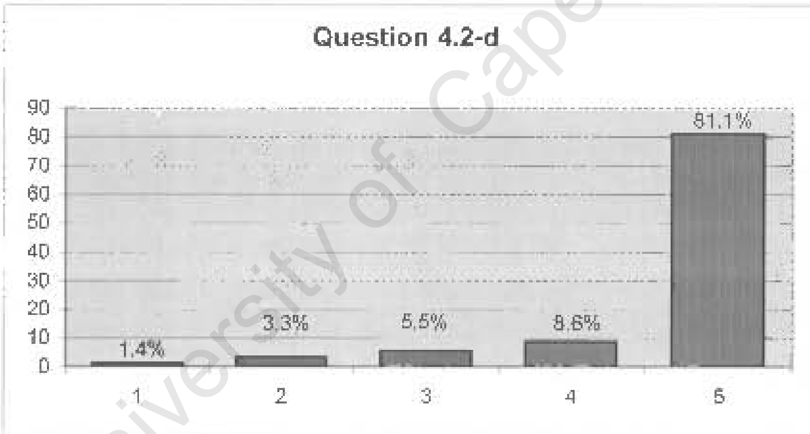

Figure 6 - 17

The distribution of levels of agreement that respondents also use tea in other forms other than as a beverage clearly shows that this is not the case. With a median of 5 and a mean of 4.64 respondents state that they do not agree with this statement. Therefore H^{24} will be accepted.

Both replies from female and male respondents show that the level of knowledge about tea is not very high. Mean responses to question 4.2-h were distributed as follows:

Male	Mean = 3.670051	Median = 4
Female	Mean = 3.491304	Median = 3

Figure 6 - 18

Applying the *Mann-Whitney Test* shows the following results:

$z = 1.999226$ p-level = 0.022792

This results in the rejection of H_0 at a 5% level and concurs with women claiming to know more about tea than men. Therefore **H^{27}** will be accepted.

6.3.2.3 Tea purchasing

Relevant Hypotheses:

H^5: When buying tea, quality plays the most important role regarding decisions concerning purchasing.

H^{19}: Most tea is purchased in supermarkets or discounters.

H^{20}: Health food shops play only a minor role in selling tea.

Findings:

Following are the median / mean perceptions of the three categories: *Quality*, *Brand* and *Packaging*, on a scale from 1 (*very important*) to 5 (*not important*)

Quality, Brand, Packaging

Figure 6 - 19

After applying the *Friedman Test* to find out whether there are significant differences between the perception of Q,B and P, the *Sign Test* was applied, individually testing the differences between perceptions of Q vs. B, Q vs. P and B vs. P. All *p-levels* were less than 0.005, showing highly significant differences between the perception of Q vs. B and Q vs. P and significant differences between B vs. P. Therefore one can conclude that *Quality* is perceived as more important than both the *Brand* and the *Packaging*. This leads to the acceptance of $\mathbf{H^5}$.

Figure 6 - 20

Looking at all types of tea, *supermarkets* play the most important role when purchasing tea. More than one third of all respondents (38.4%) purchase tea at supermarkets. 23.7% respondents purchase tea at *discounters*. *Tea-specialists* played the largest role when purchasing Rooibos, but in conjunction with general tea receiving only 19%. *Health food shops* play a relatively equal role as for Rooibos (6.0%). Interestingly 12.8% of respondents also purchase tea at other sources. As *other sources* trade shows, friends, coffee shops, mail order and pharmacies were mentioned.

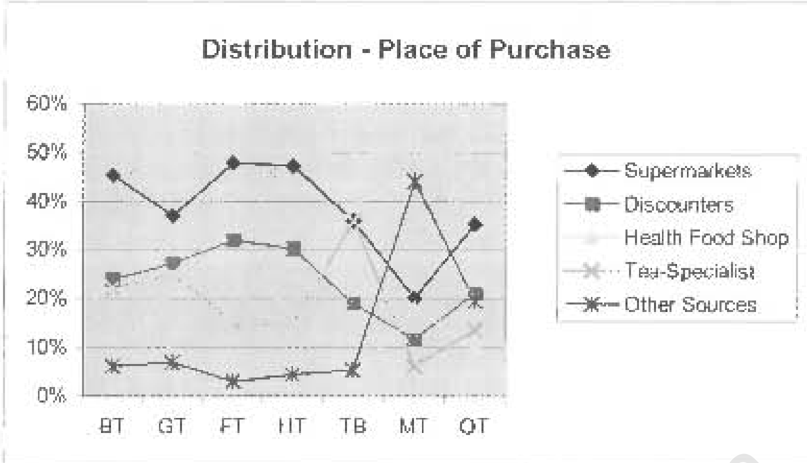

Figure 6 - 21

This graph shows the distribution of answers of where respondents purchase their tea, broken down to the different kinds of teas. *Supermarkets* clearly dominate most of the teas as place of purchase. The exceptions are *tea blends*, which are purchased just as often at *Tea-specialists* as at *Supermarkets* and *medicinal teas*, which are more often purchased at *other sources*, most probably *pharmacies*. Additionally, *supermarkets* seem to play a lesser role when shopping for *green teas* and *other teas*.

Health food shops only play a role when purchasing *medicinal teas* and *other teas*. *Green teas* and *tea blends* are most often purchased at *tea-specialists*.

Using these results, H^{19} and H^{20} will be accepted.

6.3.2.4 Rooibos consumption

Relevant Hypotheses:

- **H6**: Most of the tea drinkers consume Rooibos.
- **H7**: More female respondents drink Rooibos tea than male respondents.
- **H18**: The main reason why respondents do not drink Rooibos is because they do not know of it.
- **H13**: The main reason why people consume Rooibos is its taste.
- **H14**: Rooibos is not consumed because it is a cheap beverage.
- **H15**: The health attributes of Rooibos play only a minor role for consumers.
- **H16**: The main health attributes of Rooibos are that it is healthier than black tea and does not contain caffeine.
- **H22**: Health aspects of Rooibos are less important to consumers than those of other teas.

Findings:

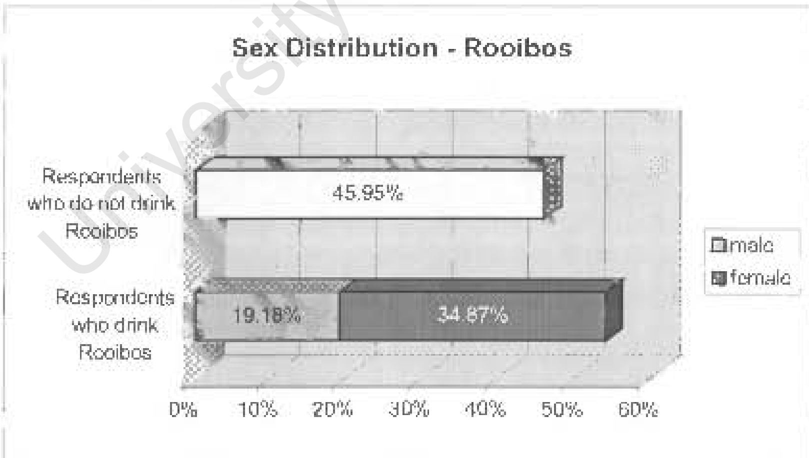

Figure 6 - 22

This graph shows the distributions of male and female respondents who consume Rooibos.

More than half of the respondents drink Rooibos tea (54.05%). Therefore H^6 can be accepted. More women (34.87%) drink Rooibos than men (19.18%). Using the *2 Sample Proportions Test*, the result of the test of women who drink Rooibos minus the men who drink Rooibos equals 0, is negative; therefore, with a p-value of 0.0000, the share of women who drink Rooibos is significantly higher than the share of men, thus proving H^7 to be correct.

The following results were found when respondents were asked why they do not drink Rooibos:

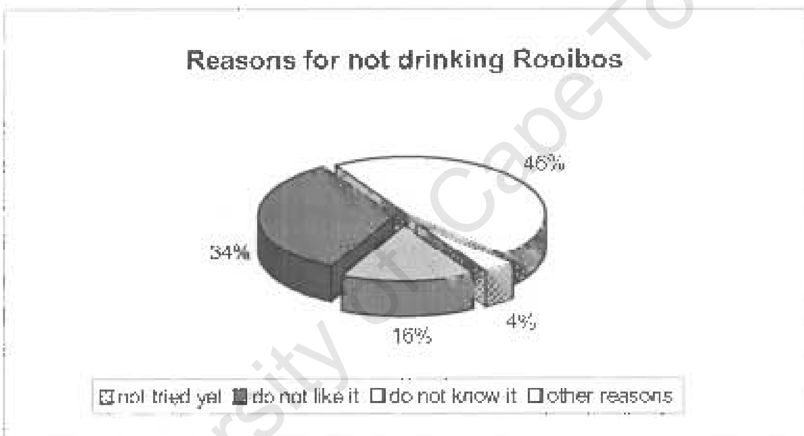

Figure 6 - 23

The predominant reason for respondents not drinking Rooibos is their not knowing of it. More than one third of the respondents state that they do not consume Rooibos because they do not like the taste. Other reasons stated were that respondents prefer drinks that contain caffeine, Rooibos is too bitter, one respondent is afraid that it is carcinogenic and one blames the product to be responsible for causing diarrhoea after consumption.

Looking at the data, H^8 can be accepted.

The medians and means of the level of agreement to the statements in question 4.1 are outlined in the following graph.

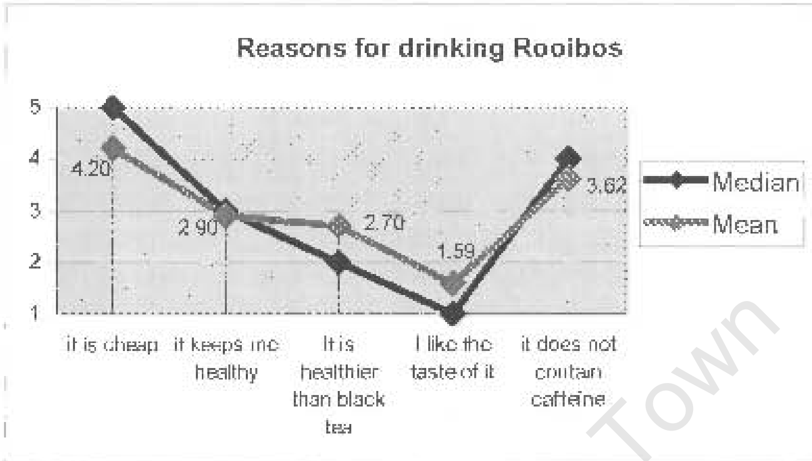

Figure 6 - 24

A median of 5 and a mean of 4.2 show a strong disagreement with the statement that Rooibos tea is only consumed because it is a cheap beverage. Only 3.17% of respondents agreed to a great extent to this, as the histogram for the given answers shows (*Figure 6-25*).

A tendency towards agreeing that Rooibos is consumed because it is healthy is not clearly shown, despite a mean of 2.9. The same is true for the third statement: *I drink Rooibos because it is healthier than black tea*. Here the mean of the level of agreement lies at 2.7.

Respondents clearly agree that they drink Rooibos for its taste. 56.36% agreed strongly with the statement that they drink Rooibos for its enjoyable taste.

The lack of caffeine seems not to be a reason why respondents consume Rooibos, as is shown by a median of 4 (mean=3.62).

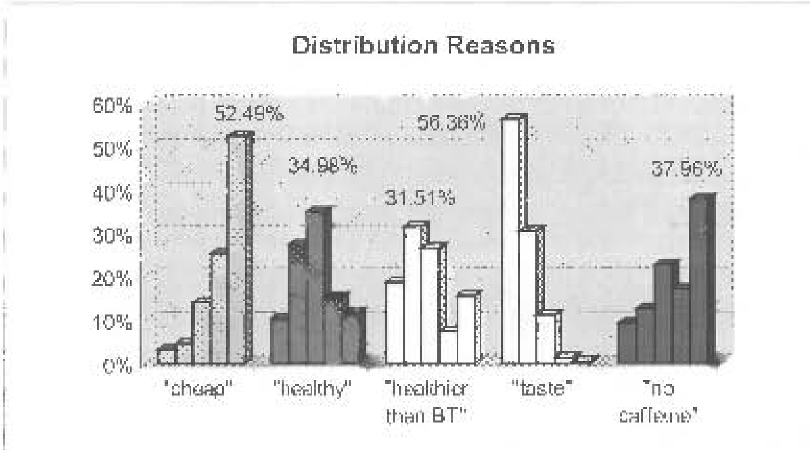

Figure 6 - 25

Distribution answers. From left to right: 1 (I agree to a great extent) – 2 – 3 – 4 – 5 (I strongly disagree).

	"cheap"	"healthy"	"healthier than BT"	"taste"	"no caffeine"
1	3.17%	10.31%	18.72%	**56.36%**	9.26%
2	4.52%	27.35%	**31.51%**	30.51%	12.50%
3	14.03%	**34.98%**	26.48%	11.02%	22.69%
4	25.34%	15.25%	7.31%	1.27%	17.13%
5	**52.49%**	11.66%	15.53%	0.42%	**37.96%**

Figure 6 - 26

Using the *Sign Test*, comparing the levels of agreement of "cheap" and "taste" results in a p-level of 0.0000. Respondents agree significantly more to the statement that they consume Rooibos because they like its taste rather than as a cheap beverage.

The same is true for health vs. taste. Here the result of the *Sign-test* shows that the "taste" is significantly more important than the "health-factor" when consuming Rooibos.

Looking at the results of the statistics, **H**^{14} and **H**^{13} can be accepted. **H**^{15} must be rejected as respondents tended to agree to statements that they consume Rooibos for its healthiness and because it is healthier than black tea.

H^{16} can be partially accepted, since respondents tend to agree that Rooibos, as a healthier alternative to black tea, plays a role. However, the fact that it does not contain caffeine does not seem to be a deciding factor.

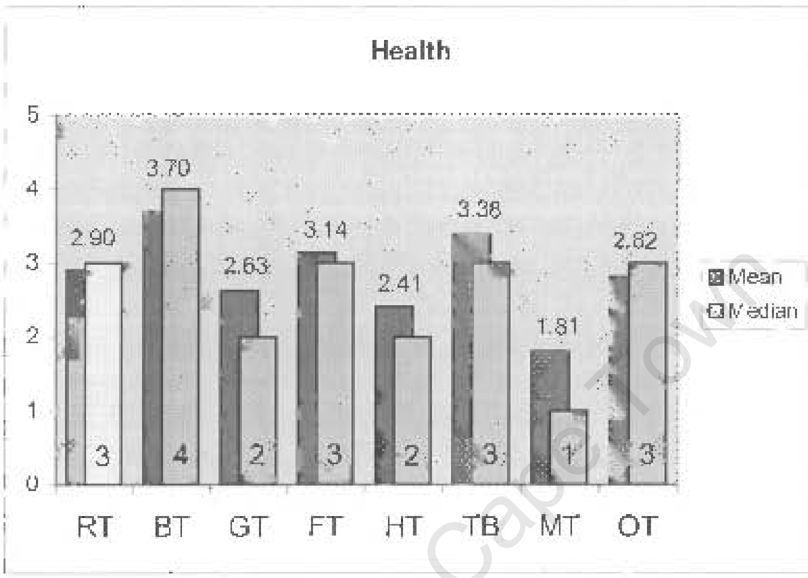

Figure 6 - 27

Inspection of descriptive statistics shows that the mean of Rooibos is lower than that of *black teas, fruit teas* and *tea blends*, indicating a lower importance of *health* for these teas. On the other hand, the health factor seems to be more important for *green teas, herbal teas, medicinal teas* and *other teas*.

Applying the *Sign-Test* to the different teas results in the following *p-levels*:

	z	p-level (one-tailed)
RT vs. BT	6.790181	0.000000000006
RT vs. GT	3.249668	0.000577698413
RT vs. FT	1.651186	0.049350306884
RT vs. HT	5.852508	0.000000002421
RT vs. TB	3.774147	0.000080278056
RT vs. MT	8.002631	0.000000000000
RT vs. OT	1.887760	0.029529115580

Figure 6 - 28

Significantly lower levels of importance are only found between *Rooibos* and *green tea*, *Rooibos* and *herbal tea*, and *Rooibos* and *medicinal tea*. The importance of *health* for *Rooibos* is only moderately lower than for *other teas*. On the other hand, *health* is only moderately less important for *fruit teas* than for *Rooibos*.

Health aspects of *Rooibos* are only significantly more important than health aspects for *black tea* and *tea blends*. Therefore H^{22} can be accepted with a confidence level of 95%.

6.3.2.5 Rooibos purchasing

Relevant Hypotheses:

H^{9}: The most popular form of Rooibos is flavoured tea bags.

H^{10}: Rooibos is predominately purchased in supermarkets.

H^{11}: Tea-specialists are rarely approached when purchasing Rooibos.

H^{12}: Health food shops are rarely approached when purchasing Rooibos.

H^{21}: The price of Rooibos is less important for consumers than the price for other teas.

Findings:

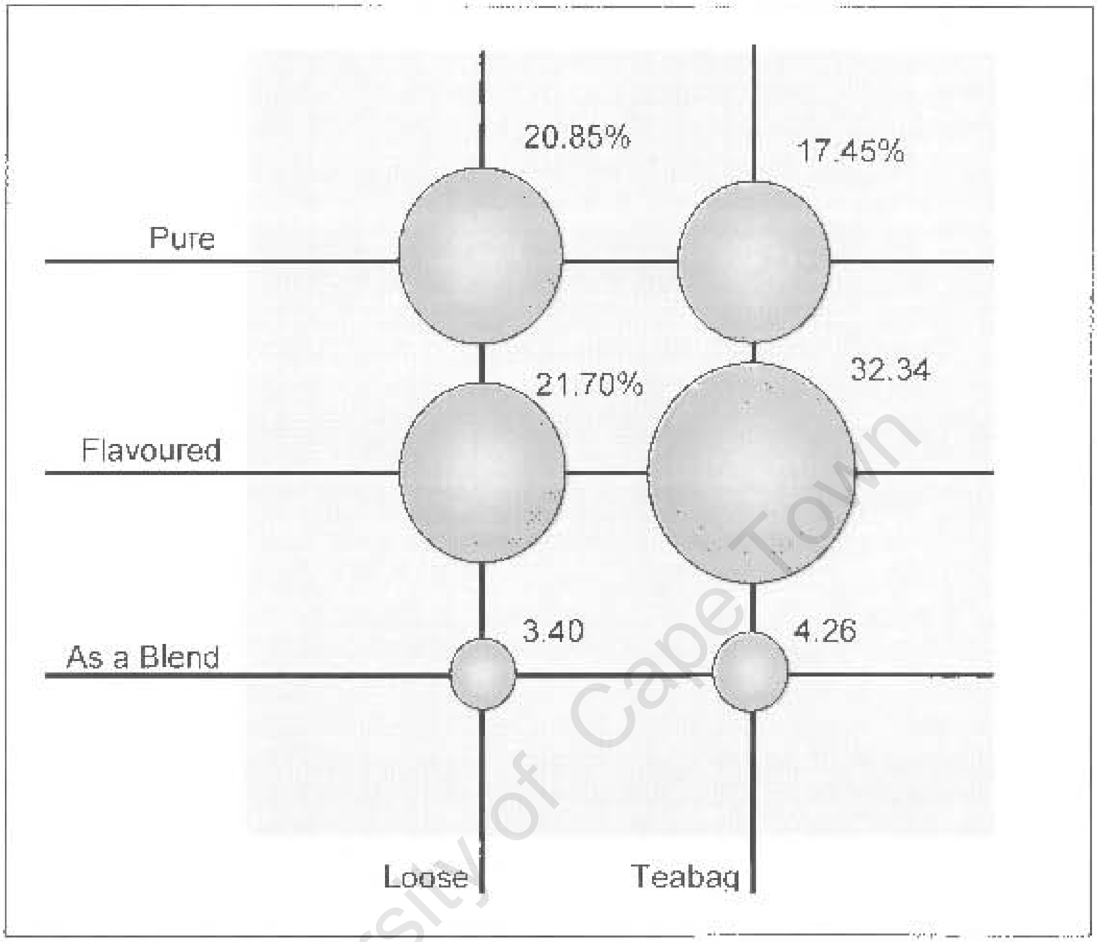

Figure 6 - 29

The number of respondents who prefer Rooibos in teabags and of those who prefer loose tea is almost the same (51% to 49%). Different kinds of Rooibos are as follows: Pure (38.30%), Flavoured (54.04%) and as a Blend (7.66%).
Close to one third of all respondents (32.34%), and therefore the largest part, prefer to consume their Rooibos in flavoured form, using teabags. Therefore **H**[9] will be accepted.

Health food shops (5.48%) seem to play only a minor role in purchasing Rooibos. Discounters also only have a relatively small percentage.
Most respondents purchase their Rooibos at supermarkets (37.74%) or Tea-specialists (38.06%). However, given that these are results from a multi-reply question, statistics show that more people shop for Rooibos at supermarkets and also purchase the tea at a tea-specialist and / or other places.

It would therefore be necessary to conduct further research. Despite the slightly lower percentage of respondents shopping at supermarkets, H[10] as well as H[15] will be accepted. H[11] must be rejected as tea-specialists do play a major role in purchasing Rooibos.

Figure 6 - 30

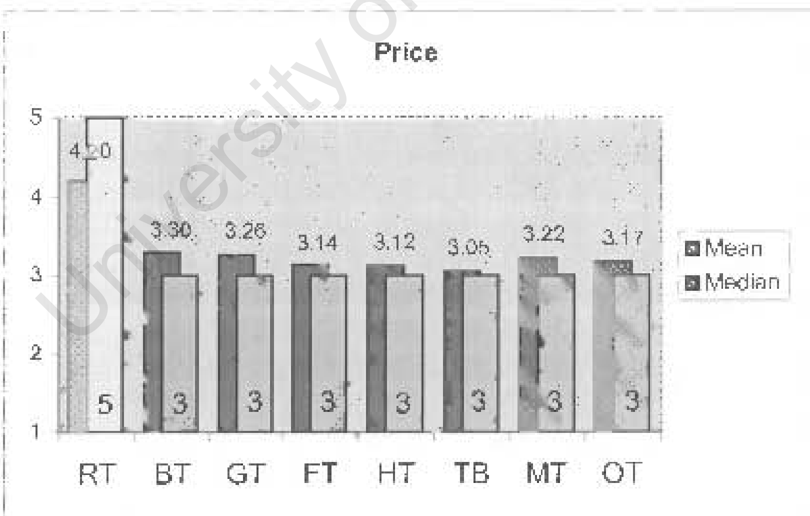

Figure 6 - 31

On inspection, it looks as though the price of Rooibos tea is less important than the price of all the other types of tea. Comparing the answers of the different teas, using the *Sign*-Test shows *p-levels* are very low (>0.000001). Therefore the *price* plays a significantly lower role for Rooibos than for all other teas.

In addition to this, the share of discounters when purchasing Rooibos is significantly smaller than the shares of the more expensive *supermarkets* and *tea-specialists*. Therefore H^{21} will be accepted.

6.3.2.6 Organic tea

Relevant Hypotheses:

H^{25}: Organic tea is considered to be healthier than conventional tea.

H^{26}: Organic tea is too expensive.

Findings:

The histogram shows the distribution of levels of agreement to question 4.2-e

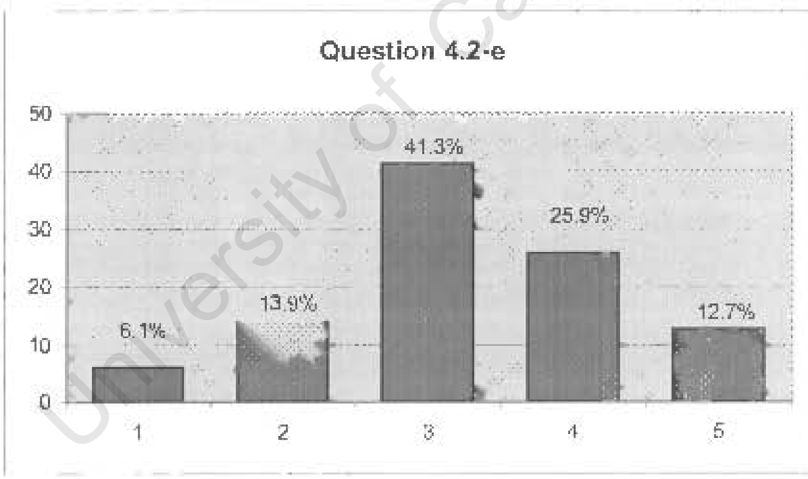

Figure 6 - 32

The histogram shows the distribution of levels of agreement to question 4.2-f

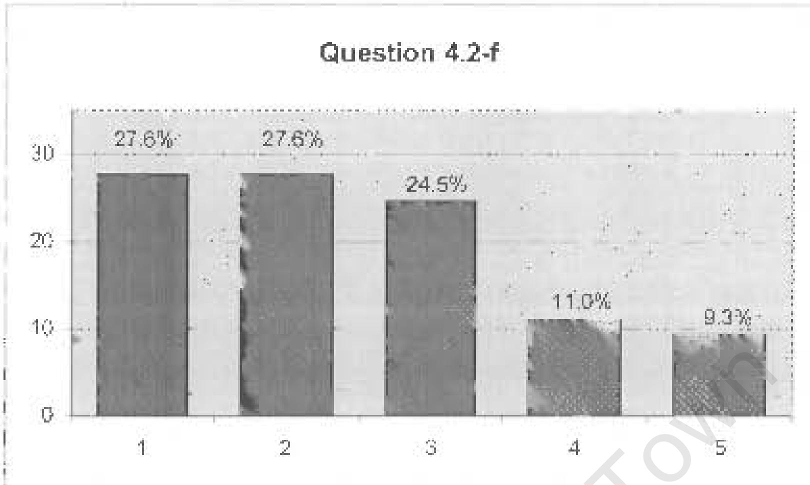

Figure 6 - 33

A median of 3 and a mean of 3.25 show that respondents seem to disagree with the statement that conventional tea is as good as organically produced tea.

Respondents agreed with the statement that organic tea is too expensive, resulting in a median response of 3 and a mean of 2.46. Therefore both, H^{25} and H^{26} will be accepted.

6.4 Conclusions

☑ Hypotheses accepted:	
H1	Most German students drink tea.
H2	Students who do drink tea do so on a regular basis.
H3	The drinking habits of students are not limited to one type of tea.
H4	German students prefer to drink fruit and herbal teas.
H5	When buying tea, quality plays the most important role regarding decisions concerning purchasing.
H6	Most of the tea drinkers consume Rooibos.
H7	More female respondents drink Rooibos tea than male respondents.
H8	The main reason why respondents do not drink Rooibos is because they do not know of it.
H9	The most popular form of Rooibos is flavoured tea bags.
H10	Rooibos is predominately purchased in supermarkets.
H12	Health food shops are rarely approached when purchasing Rooibos.
H13	The main reason why people consume Rooibos is its taste.
H14	Rooibos is not consumed because it is a cheap beverage.
H19	Most tea is purchased in supermarkets or discounters.
H20	Health food shops play only a minor role in selling tea.
H21	The price of Rooibos is less important for consumers than the price for other teas.
H22	Health aspects of Rooibos are less important to consumers than those of other teas.
H23	Tea in general is seen as a healthy product.
H18	Prices play an important role when it comes to purchasing tea.
H24	Tea is mostly used as a beverage.
H25	Organic tea is considered to be healthier than conventional tea.
H26	Organic tea is too expensive.
H27	Female students believe they know more about tea than male students.
☒ Hypotheses partially accepted:	
H16	The main health attributes of Rooibos are that it is healthier than black tea and does not contain caffeine.
H17	Most teas are consumed for enjoyment. Health plays a minor role.
⊘ Hypotheses rejected:	
H11	Tea specialists are rarely approached when purchasing Rooibos.
H15	The health attributes of Rooibos play only a minor role for consumers.

Figure 6 - 34

Using the results of the analysis of the questionnaire, one can conclude the following:

The majority of German students consume tea. They do so frequently and with a great variety of products. Only few students consume only one kind of tea. However, there is a tendency towards students consuming more fruit and herbal teas than others.

The majority of students who consume other teas also consume Rooibos tea. The main reason for not consuming Rooibos is a lack of awareness. More female students consume Rooibos than male students. The most popular form to consume it is in form of flavoured tea in teabags.

Tea in general is seen as a healthy product and consumed for that reason, however the taste also plays an important role in the decision to consume tea. For Rooibos in particular, health reasons play a lesser role than for other teas, though these are still important. The fact that Rooibos does not contain caffeine does not play an important role. However, Rooibos is preferred to black tea because of its health attributes. Organically produced tea is generally seen as healthier than its conventional counterpart, however, its high price keeps consumers from purchasing it.

When buying tea, quality plays the most important role when deciding on a purchase. However, the price of the tea, and to a lesser extend for Rooibos, is very important, too. The fact that most tea, including Rooibos, is purchased in supermarkets and discounters, where prices are considerably lower than elsewhere, reflect this. However, tea specialists also play an important role for the distribution of Rooibos. Health food shops do not play an important role for the distribution of both tea in general and Rooibos in particular.

Tea is mostly used as a beverage: only very few people purchase it in other products, such as toiletries and cosmetics.

Finally, knowledge about tea is generally not high despite female consumers rating their knowledge as higher than male consumers.

7 Conclusions to Research

This chapter concludes the primary and secondary marketing research of the project. It will define and analyse the possible segments of the German market for tea and in particular Rooibos, as well as summarize the possibilities for an effective differentiation of the products against competitors. Therefore the different segments of the German tea industry, the products themselves, as well as the different consumer types will be outlined. Additionally both important attributes for the industry and market as well as those important for the consumers will be highlighted.

7.1 Analysis of Possible Market Segments

7.1.1 The German Tea Industry

7.1.1.1 Wholesale

The German market for wholesale tea consists of two major categories of companies namely *trading companies* and *specialized tea companies.*

The import market that consists of trading companies, which buy their tea directly from the producer and add value to the product by ennobling the tea by blending, flavouring and packing it, is dominated by 10-15 trading companies. Their customers are mainly wholesalers with own brands, other tea traders, packers or specialized tea shop chains that either buy the ready blended or flavoured products or the ingredients to do this themselves. Due to the relatively low price for tea in Germany, a significantly high share of the tea is exported again.

Only two large companies dominate 60% of the market for tea brands. One quarter of all tea is sold as private label products.

7.1.1.2 Retail

Tea can be purchased at virtually every food retailer in Germany, which are readily available all over the country. With roughly 88 million inhabitants there are approximately 79 000 stores retailing food in Germany. The largest share of sales is generated in retail outlets of a size between 400 and 1 000m².

Department stores are the single largest retail organizations in size. These sell a wide variety of merchandise, including piece goods, home furniture, hardware and groceries. As their name suggests they are organized into departments. Department stores are typically located in downtown shopping districts and generally target female customers.

Secondly there are speciality stores that are represented by small to medium-sized establishments or boutiques handling limited lines of soft or hard goods. One would find grocery stores that specialize in selling a broad selection of a restricted class of goods, such as ethnic or organic food, in this category.

Chain store systems include two or more units having a central ownership or control. A characteristic of chain store systems is that the included stores are commonly very similar to each other regarding size, interior layout and location.

Probably the most important outlets for grocery retailing are supermarkets. These are defined as large, departmentalized retail establishments that offer a relatively broad and complete stock of food products, supplemented by a variety of non-food products. Supermarkets are operated on a self-service basis.

Planned shopping centers are still an exception on the German market. They offer complete shopping facilities with adequate parking space. The stores in a shopping center are coordinated by one management and leased to various retailers.

Lastly there are discounters. These retail establishments put emphasis on rapid turnover of merchandise and represent roughly 38% of the total German consumer market. They stock a broad assortment of merchandise in relatively inexpensive buildings, equipment and fixtures, and offer limited customer service. Therefore they are able to offer goods at considerably lower prices than other forms of retailers.

A customized product assortment of roughly 5 500 products on average, with high focus on quality and naturalness makes health food shops competent retail outlets for wellness-orientated, active consumers.

Specialized tea shops are small outlets that offer a great variety of teas. They are known for competent customer consultation and their active marketing and sales promotions. There are several chains and franchise businesses in Germany such as "Der Teeladen", with more than one hundred outlets, but most of the tea shops are independently owned.

Lastly there are some forms of alternative trade such as mail order or *Fair Trade*. However, so far these forms of retailing produce only a small amount of tea business.

With the top five food retailers accounting for more than 75% of the total grocery market, Germany ranks only eighth of European countries in terms of market concentration.
The level of integration of the market is also not very high. Many of the stores are still owned and run independently. The profitability in the German food retail sector is generally low and consistent with the low levels of own label penetration and the slow pace of supply chain integration. Too much floor space and low consumer prices result in retail margins often less than 1%.
There is no general differentiation strategy German retailers follow. Differentiations takes place in form of individual retailer performance such as private label sales but also through increasing cost efficiency and therefore being able to offer lower prices to consumers.

The German retail market is one of the most competitive and diverse markets in Europe, with low levels of consolidation and many different classes of retailer clamouring for market share.
No major company on the German retail market for food dominates it. Prices are the most important factor for attracting consumers and therefore gaining market share. That is why competition in the retail sector triggered a price-war on the German market.

Particularly smaller suppliers are hit hard by the predetermined prices offered by large discounter chains such as *Aldi* and *Lidl*. However, trade laws support the opportunity to fight for business using other approaches than lowering prices and therefore give smaller companies a chance to compete.

7.1.2 The Products

The whole German market for soft-drinks is expected to continue its growth over the next years. The largest segment of the market in terms of volume is bottled water. Bottled water is also by far the fastest growing segment. However, in terms of sales value, the largest segment of soft-drinks is carbonated beverages. Large companies dominate the market for carbonates; bottled water and juices are lead by regional manufacturers.

The high level of maturity of the market is the reason for the relatively high level of penetration of energy and sports drinks.

The market for hot drinks is expected to decline. Here, coffee has the largest share, with close to 75%. Tea represents the smallest segment. However, with an annual import volume of 22 000 tons of tea, Germany is by far the most important market for tea in Europe.

All together 308.3 million packages of tea have been sold in Germany in 2003. That is an increase of 9.8% compared to the previous year.

Tea is sold either under a brand or as a private label product.

The penetration of retailer controlled brands (both private label and exclusive brands) in Germany, accounts for approximately one third of all grocery expenditure. Discounters have the highest share of private label products: *Aldi*, for instance, sells more than 90% of its product assortment using private labels.

The segment 'hot beverages' into which tea falls has a private label share of more than one third and is still growing by 2.9% a year.

There are differences in consumer attitudes between purchasing Rooibos and other more conventional teas when it comes to private label. Consumers do not mind purchasing "old fashioned" mono-teas such as peppermint or chamomile from private labels.

For these teas the price plays the main role in the purchasing decision. However, when buying more exotic products such as fancy blends and flavours, consumers prefer brand products. Compared to other tea components or good quality black tea, Rooibos is relatively cheap considering its attributes and qualities, both as a brand and sold under private labels.

With a share of roughly 50%, the German tea market is clearly dominated by herbal teas. Of this, Rooibos' share was 9.4%. The second largest segment is fruit teas. Their share was 27% in 2003, a growth of more than 20% compared to the previous year. Black and green teas share the rest of the market.

There is one exception: *Ostfriesland*, a region in northern Germany, where black tea is the tea consumed the most. This region must be treated completely separately from the rest of the market.

Black tea lost market shares and green tea could not continue its growth but seems to have settled on a relatively high level.

Only roughly 40% of all black and green teas are sold in teabags. The share of teabags in the herbal and fruit tea segments is much higher.

Herbal and fruit teas seem to be "in". Their market shares notched up within the last years and this positive trend is predicted to continue.

Non-flavoured blends of herbal and fruit teas showed, compared to 2002, a positive tendency and grew by 1% to 3 840 tons in 2003.

The so called mono-teas, such as chamomile, mint and Rooibos, still form the largest segment of the total market with 23 349 tons and a growth rate of 7.2% in 2003. Particularly Rooibos tea enjoys great popularity on the German market. Compared to other mono-teas, Rooibos is, again, in the lead and sales increased by 60%, which is an improvement of 1 200 tons.

There are several other products available on the German market that contain tea, mainly in the toiletry and cosmetics sector but also in form of pills and drugs. So far Rooibos is not used other than for drinking on the German market, however the iced-tea segment has started to show interest in it and meanwhile some producers offer iced Rooibos tea drinks.

Flavoured Rooibos in loose form starts from 2.50€ to 5.00€, and in form of teabags customers pay 1.50€ to 6.40€. Organically grown Rooibos costs between 2.10€ and 4.20€*.

Only a small share of Rooibos is sold in the more expensive specialized tea shops or health food shops. Discounters, alternatively, are able to sell private label products very cheaply.

It is important for the tea companies to supply the market with new innovative product developments. Some companies go as far as saying one cannot be successful in the long run if one is not marketing at least one new variety per month. It was the different flavours and blends that made Rooibos popular; pure Rooibos is seldom bought.

7.1.3 Types of Consumers

It is very difficult to describe the 'typical' tea or Rooibos consumer. People are motivated by different reasons to purchase tea. However, these reasons in turn can be used to describe different types of consumers.

It can be said that when purchasing tea, consumers are motivated by certain factors. The most important factors that motivate consumers in purchasing tea or Rooibos can be categorized by using the attributes of the product itself and the attributes of the retailers where the product was purchased.

7.1.3.1 Motivation to consume tea / Rooibos

The reasons that motivate consumers to purchase and consume tea / Rooibos vary from person to person. However the reasons can be categorized into *functional reasons*, *experiential reasons* and *symbolic reasons*. This does not mean that consumers exclusively purchase tea for reasons from only one of the categories – mostly it will be a combination of different reasons, however this categorisation helps to gain an overview of possible motivations that are related to the consumers' purchasing behaviour.

* all prices per 100g

Functional reasons:

Functional reasons to purchase and consume tea / Rooibos include ***basic attributes*** such as the fact that the product quenches one's thirst, or that it warms one up on a cold winter's day. Those reasons can be applied to most consumers as motivation to consume the product. Another example of a general functional reason would be the product's ***availability***. Tea, including Rooibos, is available at almost every place where other groceries can be purchased. It is an easy to purchase product and therefore very convenient.
In addition to the availability, ***convenience*** plays an important role in terms of preparation. Consumers that attach importance to the convenient nature of a product will most probably rather buy tea that is packaged in teabags instead of purchasing loose tea.
Another important functional reason to purchase tea / Rooibos is its ***price***. Compared to other European countries, prices for tea in Germany are relatively low. Also compared to other drinks, most teas, including Rooibos, are still a cheap alternative to quench one's thirst. Therefore the low price is a functional reason for some consumers.
The product's ***quality*** is also strongly connected to the price. Consumers are aware of the fact that they get a product with a generally high quality for a low price.

Experiential reasons:

Experiential reasons stand for motivators that come from experiences that are made when purchasing and consuming the product.

The most obvious attribute of tea that can be experienced is its ***taste***. A large segment of consumers are motivated to drink tea because they like its taste. Those consumers can then be classified according to the different tastes they prefer, such as consumers of black teas, herbal teas, fruit teas, their blends and flavoured teas. Within these categories there are consumers who prefer a certain kind or blend of black tea, herbal tea, etc. There are also consumers who particularly like a specific flavour, no matter what kind of tea is used as its basis.

Another very important functional reason is the ***health benefits*** of tea. Generally, tea is seen as a healthy product. Consumer magazines such as *Stiftung Warentest* and *Ökotest* contribute to highlight this image by frequently testing the products and publishing results. In that way awareness of health benefits of certain teas for instance Maté or green tea are highlighted. People who are motivated by the health benefits of a product can be classified as health conscious consumers. Within this group, there are subgroups of consumers that are motivated by specific attributes that motivate the tea consumption. Some consumers drink certain kinds of teas, including Rooibos, because it does not contain caffeine and therefore, in their opinion, is healthier than, for instance, coffee. Others attach great importance to specific therapeutic characteristics of certain teas.

A similar category of consumers is those who consume tea for its ***wellness*** attributes. Herbal and fruit teas are deemed to contribute positively not only to one's physical fitness, but to one's mental fitness as well. If cells are sufficiently supplied the metabolism is able to excrete harmful substances better, the skin looks fresh and energy levels increase. Wellness-teas, compared to any other new product, have been exceptionally well established over the last two years. Normally wellness-teas are blends from herbal and / or fruit teas especially developed to make one feel good. Rooibos fits particularly well into the wellness-scheme. Relaxing and stimulating properties are claimed attributes of Rooibos tea. Additionally tea does not contain sugar. Rooibos contains mineral nutrients and trace elements as well as vitamin C that help to protect the human immune system. It contains only a few tannins and therefore has balancing properties. People who consume tea for those reasons fall into the category of wellness-orientated consumers.

Also connected to health and wellness is the group of consumers who purchase ***organically produced*** teas. Albeit relatively small, this is an important consumer segment as the market for organic tea is growing.

The ***appearance*** of a product can be important for consumers in two different ways. Some consumers attach importance to the design of a product. People who purchase a product because of its packaging and appearance fall into this category. The design of the product plays an important role when launching new products that are very similar to existing ones.

In this case the packaging must be attractive to be able to stand out and catch the attention of new consumers.
On the other hand the appearance of the product itself is very important: certain teas are very similar in appearance, which is why some people consume Rooibos instead of black tea.

Symbolic reasons:

Characteristics of the product such as its *brand* fall into this category. Consumers who show a high degree of brand loyalty will purchase new products of a certain brand just because they expect similar attributes, such as a high quality or good taste. On the other hand, certain consumers deliberately do not purchase branded products, as they automatically connect higher prices with these products.
Another symbolic reason that takes effect is the appearance of *trends*. People who go with every trend just to be 'trendy' will purchase a product just because it is 'in' and other people use it as well. Other symbolic reasons to motivate consumers to drink tea include *status*, which is particularly true for some high-quality black teas, and *support* of the underprivileged by purchasing Fair Trade products that support small rural farmers.

7.1.3.2 Motivation to purchase tea / Rooibos at a certain kind of retailer

On average in 2001, German consumers purchased groceries 158 times a year. Thereof they went to a consumer market 51 times; they shopped at discounters 63 times; 29 times at supermarkets and 17 times at a chemist.
Hereinafter types of consumers are classified according to the kind of retailer they use to shop for tea / Rooibos. Just like the motivations to consume tea, the decision to shop at a certain kind of retailer is made by the consumer depending on a combination of different reasons. In addition to that, most consumers shop at more than one kind of retailer. Therefore, the 'typical' customer is difficult to describe, and the following section is merely an overview of possible motivations.

Supermarket and Department Store

Research found that more women belong to the customers of department stores than men. However there are certain reasons that motivate consumers to shop at supermarkets or department stores.

Firstly, in contrast to discounters, most products are offered in brand form. People who show a large degree of ***brand loyalty***, for instance because they equate a brand with good quality, are more likely to shop at those retailers.

Secondly, there are customers who want to be able to purchase tea at the same place they shop for other groceries. ***Convenience*** plays a large role when it comes to shopping. Convenience can also be attributed to the decision to rather visit a closely situated retailer, even though a discounter would be cheaper. For the group of people who purchase their tea at a supermarket, the ***price*** is not as important as for those who shop at discounters. However some might choose the supermarket for its bigger assortment of different tea brands and ***varieties***.

To a certain extent, consumers of supermarkets and department stores wish ***consultation*** when shopping, although not as much as customers of specialty shops.

Important reason for some customers is the purchasing experience. Supermarkets as well as department stores offer shopping in a pleasant ***atmosphere***. Products are attractively displayed and signs help to orientate or inform about specials.

Discounter

The number one reason to shop at a discounter is low ***prices***. People who purchase their goods at discounters forfeit a pleasant shopping atmosphere for low prices, and are mostly not in need of any consultation connected to the products. The product ***variety*** at discounters is limited and most goods are sold under private label or unbranded. People who shop at these retailers can only purchase the most common varieties of tea and will not find exotic products often.

Generally, ***quality*** does not play such a big role when purchasing at discounters, however *Aldi* for example is known for its high quality standards, even of its private label products.

For some of the customers ***convenience*** is important in terms of being able to park their vehicle directly in front of the outlet, as often products are purchased in bigger quantities or bulk. Therefore they are even willing to drive a longer distance, as most discounters are not situated in the centre of the city or town.

Specialty tea shop

The most obvious reason to purchase tea at a specialty shop is that one cannot find such a large assortment of different teas, both loose or in teabags, anywhere else. Some retailers offer a ***variety*** of some hundred flavours and blends. People who shop at such places are either looking for a very specific kind of tea; others are interested in trying new products or want to learn about the latest fashion and trends. Standard products such as peppermint tea in teabags are more likely to be purchased at other kinds of retailer such as supermarkets or discounters.

Most specialty tea shops also offer tea-related products such as china or cookies and prepare gift baskets or other small presents.

Professional ***consultation*** is a large motivator for customers to visit a specialized tea shop. Customers at these outlets generally know a lot about tea, or wish to learn more.

For these services, as well as for the pleasant and personal ***shopping experience***, customers are not only willing to travel longer distances to the outlets but even more important, accept considerably higher ***prices***. On average products cost 2.5 times more than at other retailers. Although the correlation between the price and quality of products is generally only limited, German consumers directly link the price of frequently purchased food products to their quality, which is why customers of specialized tea shops accept paying a premium.

Alternative retailing

Alternative retailing refers to Fair Trade products that are most commonly found at 'Third World Shops'. Generally, most of the German consumers are price sensitive. However there are people who are willing to spend more money for the same product to ***support*** small rural farmers.

The most common product that is sold using Fair Trade practices is coffee. However, some teas, including Rooibos, are already available as Fair Trade products and certain consumers support this alternative retailing.

Organic markets / supermarkets, whole food shops, etc.

Without a doubt there is a high level of concern about ***environmental*** issues by consumers. German consumers buy organic products because their production does not pollute water by using fertilisers and pesticides. On the other hand, personal ***health*** factors play a big role such as the fear of animal diseases like mad cow disease, swine fever and foot-and-mouth disease. Hardly a month passes without bad news for the ultra-sensitive German consumers to digest.
Although most of these reasons do not apply to tea, which is why organic teas are not as successful as other bio-products, there are consumers who prefer organically produced teas, including Rooibos, and are willing to spend up to 10 times more for it. These customers are seeking a higher level of food safety and expect the products to have a better ***quality*** than their conventionally produced counterparts.

7.2 Differentiation Against Competitive Products

This chapter summarizes and highlights the quantitative and qualitative data findings of the primary and secondary research, with special reference to the attributes of Rooibos, which can be used for an effective differentiation against competitive products. Both sides - important for the German tea industry and market, as well as for the consumer – will be discussed.

7.2.1 Attributes Important for the Industry and Market

7.2.1.1 Price

Given its versatile properties, especially when compared to other teas, Rooibos is a relatively cheap product, not only in retail trade, but also in conjunction with supply.

In addition to this, import prices for Rooibos are much lower than in other countries worldwide, since Germany is the largest importer of Rooibos worldwide, and large volumes bring down prices. This enables Germany to re-export the product to other countries that have a higher price-level. This is particularly beneficial, as future prices for Rooibos are expected to increase due to its limited supply as a raw material, as well as the growing global demand as Rooibos gains popularity in countries like the USA.

Furthermore, prices for locally cultivated raw materials for herbal and fruit teas are volatile, due to the product's dependence on climatic conditions. However, in most cases there are alternative sources that could be utilized in case of a shortage. This is not the case for Rooibos, as the only place it can be cultivated in is South Africa.

German consumers are extremely price sensitive compared to those in other countries. However, consumers do not come in contact with Rooibos prices all that often, compared with, for example, prices for bread and milk, as Rooibos, with an average purchasing frequency of about two weeks, does not belong to the Fast Moving Consumer Goods (FMG), resulting in little awareness of small price fluctuations and therefore consumers being less price sensitive. Furthermore brand-loyalty is less distinct allowing consumers to try new products without sticking to the same brand.

Retail prices for Rooibos vary considerably from business to business. The cheapest sources for Rooibos are the discounters. Specialized tea-shops and health or whole-food retailers charge up to 400% more for their Rooibos. One can clearly see that Rooibos can successfully be sold at different prices within different market segments. However, the largest share is sold cheaply through supermarkets and discounters, although research shows that the affordability of Rooibos takes a back seat to the main reason it is bought, namely its taste.

Nevertheless, there is no direct competition to Rooibos, due to its unique features, so that consumers either have to pay the price Rooibos is being offered for or look out for alternative hot beverages.

7.2.1.2 Convenience

Rooibos, in its raw form, has some attractive features to offer the industry. It is easily packaged and blending and flavouring it with other raw materials is unproblematic, as well as seemingly inexhaustible. Rooibos tea is also easily stored. No special packaging is necessary and it does not need any expensive, special environment to be stored in (e.g. cooling). In addition to that, tea has a long shelf life and can be stored for a minimum of 12 months without degenerating in quality. Most Rooibos in Germany is consumed in the form of teabags, which allows convenient packaging for the retail trade.

Awareness of Rooibos amongst consumers is high and the product is already well established on the German market. This is a big advantage, as the industry does not have to fear a sudden end to consumer trend. Even if prices increase slightly, Rooibos could hold its market position. This is supported by the fact that locally produced raw material might also increase in price due to bad crops and therefore the whole herbal and fruit tea sector would be effected, not only one product.

Another advantage of the high awareness amongst consumers is that no additional education about the product itself is necessary to convince consumers to purchase it. Therefore, advertising can rather focus on new product developments, such as more varieties of blends and flavours. Private label products, which make up one third of the whole market, and their retailers (mostly discounters), in particular, profit from this.

The distribution coordination for Rooibos is also well established. Classic food retailers are the most important points-of-sale for Rooibos and tea in general in Germany. However, in the higher price segments, such as for loose or green Rooibos, specialized tea-shops play an important role. Currently, alternative trade such as mail order is not utilized extensively to market Rooibos, however the infrastructure is available and Rooibos would be relatively easy to sell in terms of packaging and transport.

Importers can chose from a wide range of different qualities of Rooibos from the producers. This has a direct impact on the price.– Nonetheless, the quality sold on the German retail market is mostly high; in many cases even higher than in the country of origin itself.

Standards in regard to quality control are also largely– high–, mostly directly applicable to standards used in the German food industry, ensuring a high level of food safety.

Rooibos is available packaged in teabags directly from the South African producers. Presently, however, due to the great influence of large tea companies on the industry only few selected, small importers make use of this, avoiding the use of expensive packaging machines and labour on their own.

7.2.1.3 Marketing opportunities

There are ample opportunities for marketing Rooibos on the German consumer market.
First of all, Rooibos is advantageously not a trend anymore. Over the years, Rooibos has established itself very well and future market figures look promising.
Rooibos, as well as other teas, plays only a minor role in the German catering industry. Only a handful of restaurants, canteens or coffee shops offer Rooibos. Considering the relatively large size of this sector, it could generate considerable sales for Rooibos, if it were to enter.
Rooibos' incredible diversity allows for copious marketing opportunities. Designing new blends and flavours enables the industry to push sales by marketing new products, such as seasonal flavours, as needed.
Given that the German market for hot beverages has a relatively high level of maturity , new variations of Rooibos, such as Chai or instant Rooibos, offer great opportunities. Other potentially successful alternatives include iced-teas, as well as carbonised energy and sports drinks. Another, yet neglected, field of Rooibos marketing is the health segment. Rooibos not only tastes good but also offers a number of health benefits. However, only a few companies highlight these. Advertising the health benefits is difficult on the German market, as these would have to been proven by extensive research. Additionally, once a product has undergone said research, it can only be sold at special retailers such as drug stores and pharmacies, reducing its availability to the consumer. It must therefore be carefully weighed up, whether it would make sense to market Rooibos as a medicinal tea or not.

The appearance and taste of Rooibos tea is very similar to that of black tea. Currently, black tea leads the German tea market by roughly 82%, compared to other teas that originate from the *camilla sinensis* plant.

Rooibos has already taken a share of that market from black tea, indicating its success. Highlighting the similarity of Rooibos and black tea and focusing on the fact that Rooibos does not contain caffeine, could result in persuading health conscious consumers of black tea to switch to the healthier option Rooibos.

There are several other forms Rooibos is available in, however the market for those seems to be neglected. Firstly, there is a large market for Fair Trade coffee in Germany. Rooibos is also available as a Fair Trade product, however only few selected specialized retailers with no real market power sell it.

A much more obvious, and potentially effective, approach would be to market Rooibos as a *mono-tea*. Mono-teas still make up the largest segment on the market. Research shows that, although consumers are aware of Rooibos, the awareness is, to a large extent, limited to Rooibos blends and flavoured Rooibos. Marketing Rooibos as a mono-tea, especially considering its success in other countries, could approach a completely different segment of consumers, and therefore generate more sales.

Rooibos has an exotic image. German consumers like to drink Rooibos because of its South African origins. This image, therefore, provides ample opportunities for marketing. Some large companies have already started marketing Rooibos that "tells a story", rather than focusing on the products' attributes.

Research shows that spritzers and energy drinks are booming on the German market. The trend is moving towards "red-spritzers" made form red-coloured juices, and "wellness-" as well as "sport-spritzers". Rooibos, with its pleasant taste and wellness-supporting attributes could be used as a basis for those drinks. This would appeal especially to health-orientated consumers.

Children, too, form a large segment of the German consumer market. Focusing on the fact that Rooibos is caffeine-free and therefore suitable for children of any age, could convince parents to purchase Rooibos. Additionally, children themselves would prefer the much milder taste of Rooibos, compared to most other red fruit teas. In short, Rooibos has advertising appeal and offers many marketing opportunities.

7.2.1.4 Room for development

In total, the German market for hot beverages is declining, with the exception of the herbal and fruit tea segment, which is still growing. The figures for the German Rooibos market look very promising for the next years. The market is expected to continue its growth, albeit not as fast as in the past, with an expected annual growth rate of 20%. So far, Rooibos is the fifth most popular tea in Germany, with a market share of 9.4% of the total German tea market. Green tea seems to have settled with a market share of 18%. Looking at the similarity of the development of the two products, Rooibos could settle at a similar level within the next couple of years.

Despite this, Rooibos is still underrepresented, particularly in the segment of private label tea, which generates 25% of all tea sales in Germany. Branded teas, of which 60% of the market is dominated by only two specialized tea companies, also offers room for development.

Nowadays Rooibos is consumed by most tea drinkers. For a higher market share, either existing tea consumers must be convinced to switch to Rooibos or advertising or other marketing instruments must increase awareness amongst new consumers.

Due to its unique features Rooibos is a specialty tea, however it is not treated as such in Germany. Given all its combined attractive features, Rooibos prices can be considered very low. However, to increase the price of Rooibos would effect price sensitive consumers negatively, and the demand for Rooibos would decrease. A large potential for growth would be in the market for organic food. Germany has the largest market for 'bio'-products in Europe and the future looks promising. However, tea does not play a large role in this segment yet. Rooibos, as well as other herbal teas, is available in organic quality, though prices are still too high for the mass market. This would account for the lack of interest of large importers in developing this segment. Once prices are lowered to those of conventional Rooibos, consumers would be expected to opt for the healthier alternative.

Another segment ripe for development is the use of Rooibos in cosmetics and toiletries. Compared to green tea, which is already available on the German market in various products, such as shampoo, soaps and creams, Rooibos still has a long way to go. However, once a market is established, international producers would be prepared to penetrate the market with their products, which are readily available in other countries.

7.2.2 Attributes Important to Consumers

7.2.2.1 Health

Tea can generally be said to be a healthy product. Rooibos in particular has some unique features that make it very good for the body.
Rooibos' therapeutic properties are extensively researched in countries such as South Africa and Japan, although not in Germany, as of yet. Green (unfermented) tea is probably the closest to Rooibos regarding health attributes. Scientific studies report that Rooibos contains high levels of *polyphenols*, primarily *flavonoids* and *phenolic acids* that are potent *antioxidants*, which fight free radicals that attack the body's natural defences and contribute to the onset of many diseases and ailments, including digestive, nervous system and skin disorders. Unlike green tea, however, Rooibos is naturally free of caffeine. Therefore it is an ideal drink for children and can be consumed at any time of the day, in any quantity. Rooibos is also said to bring relief to infants in the case of colic and allergies.
Rooibos contains only few tannins and therefore has balancing properties. This derives from its natural ingredient *Quercetin*. It has a relaxing and antispasmodic effect on the human body by supporting the hormone *Serotonin*.
Rooibos also contains various mineral nutrients and trace elements, as well as vitamin C, which help to protect the human immune system.
Combining all these distinctive features, Rooibos is recommended for hydration during sports, playing and working.

7.2.2.2 Availability

Despite its exotic image, Rooibos is available almost anywhere to be purchased. Whether as a branded product at classic retailers, such as supermarkets and department stores, as cheap private labels at discounters or through direct order on the Internet. Rooibos is an everyday product and can be purchased easily. Specialized tea-shops play an important role for loose Rooibos and offer a larger variety, even enabling consumers to create their own blends. Health food- and whole food-shops, as well as pharmacies also offer green- or organically produced Rooibos, as well as various other products, such as cosmetics and toiletries containing Rooibos.

7.2.2.3 Diversity

Rooibos is an everyday product, as well as being simultaneously a speciality. Its versatility seems to be inexhaustible.

Beginning with Rooibos in its pure form, blends with dozens of different other herbs and fruit-teas are available. The same is true for the incredible portfolio of different flavours added to Rooibos providing the right flavour for each occasion and every taste. Rooibos is also available in loose form, as well as in convenient teabags.

There are various ways to enjoy Rooibos. Traditionally, Rooibos is consumed as a hot beverage with a little honey. Preparing it with sugar and milk makes its appear and taste similar to black tea. Rooibos can also be consumed as Chai, adding spices and hot milk.

For health conscious people there is the alternative of buying organically produced Rooibos and, if preferred, is also available as unfermented green Rooibos, providing all the positive health benefits of green tea.

Alternatively, Rooibos makes a wonderful iced-tea and can also be used in various recipes for cocktails, with or without alcohol.

Rooibos is also extensively used in various cosmetic and toiletry products, such as shampoo, creams, soaps or bath-bags.

Rooibos is used in many recipes ranging from bread to sweets and desserts, to meat, for which it can be used as a natural tenderiser. Rooibos can replace milk in various recipes, allowing people with a lacto protein-allergy to enjoy those as well.

Its various health benefits also add to its diversity. Lastly Rooibos can be certified as both kosher and halaal and is therefore also suitable for religious diets.

7.2.2.4 Good taste / enjoyment

Enjoying a hot cup of Rooibos lets one feel good and relaxes one.
Consumers of black tea may find Rooibos a good alternative, as its dark, reddish-brown colour is reminiscent of the 'original' tea. Although Rooibos' taste is sometimes described as 'mildly earthy', consumed with milk and sugar it resembles black tea.
However, unlike black tea, which looses a lot of its flavour when decaffeinated, Rooibos is naturally caffeine free. Health conscious consumers, who drink green tea for its high content of antioxidants, will find Rooibos a much better tasting alternative, due to its minimal tannin level. On top of this, Rooibos contains an even higher amount of antioxidants than green tea. Unlike other teas, Rooibos will not taste bitter if reheated or if left standing for some time. In fact, the intensity of colour and taste will increase. In short one could say that Rooibos is the better tasting green tea.
Many people associate tea with a sour taste of some fruit teas. Rooibos has a round, mild taste that even children like, particularly if sweetened with a little sugar or honey.
Rooibos' diversity and ability to be blended with other flavours allows for specific consumer needs to be met. During Spring, Rooibos fruit punch is popular, whilst during Christmas, festive flavours, such as cinnamon-orange or Rooibos-gingerbread can be found.

7.2.2.5 Value

Tea is a very natural food product. Whether organically grown or produced conventionally, tea belongs to the purest and cleanest food on earth. This is further ensured by extensive quality- and control systems.
The awareness of Rooibos amongst German consumers is higher than in most other European countries.
Compared to some other teas, Rooibos is still a relatively cheap product. It offers good value for money, which is an important feature for the price sensitive German consumer.

Despite its low price, the quality of Rooibos often exceeds the quality in its country of origin. Although not widely practiced, Rooibos can be reused to prepare an infusion and therefore offers even more value for money. Besides this, there is no cheaper place in Europe to purchase Rooibos than in Germany.

The food safety standards for Rooibos are on the highest level, so that the consumers do not have to worry about the products they purchase.

Originating in South Africa, Rooibos offers the consumers the feeling of drinking a piece of Africa. This exotic image is a further reason for the consumption of Rooibos.

Rooibos combines two things: enjoyment and health. Consuming Rooibos not only gives consumers the pleasure of a very versatile, good tasting, hot or cold beverage, but also attributes to their well-being and health.

8 Empirical Marketing Analysis

The object of this section is the articulation of a proposed positioning of Rooibos on the German market, both in the industry as well as for the end-consumer market. This will allow members of the industry to draw up a marketing action plan.
By using the results of the secondary and primary research that was conducted, supported by the background information of the South African Rooibos Industry, the most appropriate target market segments to serve, as well as the product's characteristics that should be emphasized to the consumers, will be selected and highlighted.

8.1 Selection of Target Market Segments to Serve

Within the limitations of the research, guided by its findings, the researcher believes the following market segments of the German market for Rooibos to be important, and should be highlighted to the industry as well as the end-consumer, so as to successfully position the product on the market.

8.1.1 Important segments to remain successful

- **Private label Rooibos**

  As the market develops discounters gain more and more importance on the retail market. Discounters are also responsible for the largest part of private label sales. To remain successful on the German mass market, it is important for Rooibos to stay on the shelves of discounters and even expand the product assortment with new flavours and blends. This is only possible through private label products. On the other hand it is very important that Rooibos is available at a low price, as the price is an essential characteristic for the differentiation against other products.

- **Branded Rooibos**

  Branded Rooibos is also an important segment on the German market. Rooibos is part of a complete assortment of classic as well as trendy teas, which secures loyal consumers to a particular brand to return. As a single product, Rooibos would have difficulties in being included in the product assortment of some large retail associations that supply supermarkets and other retailers, as they give preference to complete product ranges.

- **Specialty tea shops**

  Specialty tea shops are also important, although for different reasons. Although prices for Rooibos are considerably higher than at other retail outlets, and quantity turnover is by far less than those from supermarkets and discounters, specialty tea shops serve a very important consumer segment. Those who purchase their tea at such retailers generally know more about tea or wish to learn about it. They are looking for specialties, a greater variety of products, such as loose tea, that they cannot purchase anywhere else. These people are open to try new varieties or products that customers of other retailers will not be able to find. Personal consultation, the active marketing and the fact that the 'right' people come in the shop, make specialized tea shops an important marketing instrument to launch new products, as well as a good source to gain information about consumers. New trends develop here, before either becoming successful products on the mass market or dying.

- **The wellness market**

  Another important segment for Rooibos is the wellness market. Wellness is an ongoing trend that stretches across all kinds of product segments and started many years ago. Wellness-teas in particular gained importance over the last years. Rooibos with its relaxing, balancing and anti-ageing properties fits perfectly into this category of products. Blended with other herbs or fruit teas or enriched with vitamins and trace elements, Rooibos is already a favourite amongst the people who follow this wellness trend. It is definitely worth developing Rooibos as a wellness-tea as the market offers good growth rates and trade margins here are considerably higher than in other sectors of the tea market.

8.1.2 Important Segments to Develop for the Market

- **Exports**

  No other country in the world imports as large quantities of Rooibos than Germany does. Consumer prices are very low compared to other countries and therefore profit margins are rather low. Exporting Rooibos to countries where prices are higher due to smaller quantities could be more profitable than selling Rooibos cheaply to the end-consumer. This could apply for both loose, bulk Rooibos and for readily blended and flavoured products.

- **Organic Rooibos**

  So far, organically grown and produced teas play a minor role on the German consumer market. The reason for this is mainly the price premium consumers have to pay for it. However, if prices for organic teas would be closer to those of conventional products, more consumers might decide to go for the healthier option. So far organic teas are only available in assorted 'bio-markets', health food shops, pharmacies and specialized tea shops. Again the high price is responsible for this. If available at conventional retailers, organic teas would reach the mass market and therefore could be offered more cheaply to the consumer. This offers a great opportunity particularly for organic Rooibos, as most of the Rooibos production is already very close to organic methods and prices for conventional and organic tea do not differ as much as those of other teas produced in Europe. Therefore the organic market offers a great growth avenue for Rooibos. In addition to pure organic Rooibos, producers might consider offering organic Rooibos blends or flavoured teas, as this helps to sell the product not only to health conscious consumers but also to others.

  It is very important to know that German consumers are extremely cautious regarding food safety. Bad news immediately affects sales of the concerned product. On the other hand, detrimental news such as the recent findings of pesticide residues in tea could stimulate the market for organically produced tea. It would be a good idea to be prepared to be able to react immediately to such a scenario.

- **Other Rooibos drinks**

  The market for other Rooibos products other than traditional tea is still largely undeveloped. Although some companies, including a few notably large ones, started marketing iced Rooibos tea and other cool-drinks containing Rooibos, this market segment still offers many opportunities for development. Rooibos, with its pleasant taste, could be used in combination with fruit-juices or in form of spritzers. The high level of maturity of the German market for soft-drinks also allows the success of carbonised drinks such as sports and energy drinks, either functional, enriched with vitamins, or purely for pleasure. Additionally Rooibos could be marketed as instant tea.

- **Other Rooibos products**

  As the market for Rooibos reached a certain level of maturity and awareness amongst consumers is at a sufficient level, the market is ready for other Rooibos products. Having similar characteristics as green tea, Rooibos or Rooibos extracts could also successfully be used in toiletry products, such as shampoo or soaps. Looking at the local South African market gives an overview of how Rooibos can be utilized in other product segments other than drinks. Rooibos offers a great variety of applications, particularly for cosmetics and proprietary medicine.

- **The medicinal segment**

  So far, Rooibos is mainly marketed as a pleasure product for its taste. However, Rooibos also offers a great variety of therapeutic benefits. Some of them are already scientifically proven, others have yet to be researched in Germany. Selling Rooibos or its extracts for its health benefits in forms of pills or other medicine, could be a successful extension of the line of products in the health segment. The market for natural medicine in Germany exists; so does the distribution system in form of pharmacies, health food shops and mail order. On the other hand, in Germany it is a relatively difficult and time-consuming process to register a plant or its active substance as a drug. One also needs to be careful when doing so as legislation might impose restrictions as to where such products can be sold.

- **Black tea segment**

  Over the last years, fruit and herbal teas took market share from black teas. Particularly Rooibos, with its very similar taste and appearance to black tea, could profit from this. Being naturally free of caffeine and the fact that it goes well with milk and sugar, has made Rooibos a good alternative to black tea. However, in this segment there is still plenty of room for development. Particularly the children and elderly market could be approached. In addition to this there is a huge market of traditional consumers of black tea in Northern Germany in *Ostfriesland*. Gaining only a little more market share in this area would be a great success for the German Rooibos Industry. However one has to be cautious, as cannibalisation effects could appear that are counterproductive to the industry.

8.2 Selection of Characteristics to Put Emphasis On

Within the limitations of the research, guided by its findings, the researcher chose the following characteristics of Rooibos to be important, and ought to be highlighted to consumers to better the position of the product on the market.

8.2.1 Supply Side

- Awareness amongst German consumers in different segments is relatively high, making marketing for Rooibos easier.
- Rooibos also offers a great potential for growth as new products can be developed, opening up new market segments.
- Rooibos, as other teas, is relatively modest in terms of storage. No special packaging is necessary and it does not need a special environment to be stored in (e.g. cooling), which would make storage expensive. Additionally, Rooibos has a long shelf life and can be stored for a minimum of 12 months without suffering a loss in quality.
- Quality control in the country of origin is largely of high standards, mostly directly applicable to standards used in the German food industry, ensuring a high level of food safety.

- The distribution system for Rooibos in Germany is well established; so is the procurement of raw materials. Business relations have already been formed and the marketing chain is similar to other teas.
- Given its unique characteristics, and the fact that the market is already well established, Rooibos is, so far, difficult to replace and faces only little direct competition.

8.2.2 Demand Side

- So far, Rooibos' most important characteristics are its pleasant taste and appearance. Consumers of both herbal and black teas like Rooibos, as it goes well with milk and sugar. As Rooibos has a very small tannin content, it does not become bitter if brewed for a long time and therefore is perfectly suitable for cold drinks or iced-tea.
- In addition to its taste, Rooibos also has other pleasant characteristics, which make it a perfect product for wellness and health orientated consumers. Rooibos contains only a little amount of tannins and therefore has balancing properties. Its natural ingredient *Quercetin* has relaxing and antispasmodic effects on the human body by supporting the hormone *Serotonin*. Rooibos also contains various mineral nutrients and trace elements as well as vitamin C that help to protect the human immune system. Combining all these distinctive features, Rooibos is recommended for balancing increased needs for liquids caused by doing sports, playing or working.
- In addition to this, Rooibos, as green tea, has a high content of antioxidants, without containing caffeine and the typical bitter taste of green tea, and is therefore perfectly suitable for children of any age. In contrast to green tea, most Rooibos is conveniently packaged in teabags, allowing the consumer to prepare it easily.
- Although not in Germany, Rooibos' therapeutic properties are extensively researched in countries such as South Africa and Japan. Closest to Rooibos regarding health attributes is probably green (unfermented) tea.

Scientific studies report that Rooibos contains high levels of *polyphenols*, primarily *flavonoids* and *phenolic acids* that are potent antioxidants, which fight free radicals that attack the body's natural defenses and contribute to the onset of many diseases and ailments, including digestive, nervous system and skin disorders. Rooibos tea is said to bring relief in case of colic and allergies, particularly in infants. Rooibos can replace milk in various recipes, allowing people with lactoprotein-allergies to enjoy those as well.

- Rooibos is very versatile. It is available pure as well as in a variety of different blends with other herbs and fruit teas as well as flavoured or as green, unfermented Rooibos. In addition to that Rooibos can be purchased and consumed as cool-drinks or prepared as iced-tea. There are even recipes for food and cocktails containing Rooibos.
- Given its versatile properties, compared to other teas, Rooibos is still a relatively cheap product. And yet the quality of Rooibos on the German market is on average very high.
- Lastly, Rooibos can be certified both as kosher and halaal and is therefore also suitable for religious diets.

8.3 Recommended Positioning of Rooibos

Using the preceding selection of target market segments and important characteristics, a possible positioning of Rooibos on the German market can be articulated:

8.3.1 Main Market Position

- Rooibos should keep its present position on the mass market as an affordable, pleasant tasting tea. Therefore prices should not fluctuate too far from its present position.

- The product ought to be easily accessible. Supermarkets and discounters are the main retailers through which to reach the mass market.

- The success of Rooibos is largely based on its blends and flavours, as opposed to mono-Rooibos. It is therefore vital to continually develop and market new varieties to ensure the interest of consumers. Already successfully established flavours such as Rooibos-vanilla and Rooibos-caramel should be continued.

- The mass market is ready for other Rooibos products. Rooibos must be positioned as a base product for different drinks such as carbonised iced-teas, spritzers, sports- and energy drinks, as well as an alternative to black tea.

- Rooibos extracts should also be used for toiletries, similar to the development of green tea. Once sufficient awareness has been created in this segment, Rooibos can enter the market as a component in cosmetic products.

- Rooibos must be marketed as a 'two-in-one-product', combining enjoyment with health.

8.3.2 Other Market Segments

- Rooibos must remain available as loose leaves with a high quality for those consumers preferring a premium product. Specialized tea shops are particularly good at reaching those consumers.

- The market for sports- and health drinks is an important segment in which Rooibos should be positioned as a supplementary product. Without any side effects, it is effective in supplying the body with minerals and trace elements.

- Rooibos must be further developed in the ever growing 'wellness' segment. Rooibos could make considerably higher profit margins as a wellness-tea or in form of other products than in the conventional tea segment.

- Rooibos should be integrated in diets for infants and children, both in form of a classic tea as well as a component of other food.

- Rooibos must be positioned on the organic market. Rooibos can position itself by being considerably cheaper than other organic teas. Once the volumes are large enough - therefore reaching a closer price to its conventional counterparts - it is expected to slowly penetrate the mass market with organic products. It is therefore important to market Rooibos blends and flavoured Rooibos as organic quality.

- Rooibos should be made available on the growing market for ethnic products. This would include Rooibos being halaal or kosher, suitable for religious diets.

- Rooibos should also be positioned within the medicinal segment, highlighting its various therapeutic properties, although only a relatively small market can be expected from this.

- Re-exporting loose, bulk, and readily blended and flavoured Rooibos to countries where it is traded at a higher price should be an additional way to generate turnover.

From an empirical point of view it has been identified and reinforced by the market research, that there is no need for a complete position change of Rooibos on the German consumer market. However, Rooibos is a well-established product and now would be a good time to adjust and develop the product's position to ensure its continual success.

The recommendations therefore partly reflect Rooibos' present position on the German market. However, so far only sparse attempts have been made by the industry to explore alternatives to Rooibos merely being a traditional hot beverage.

Nevertheless the main hypothesis (H_0):

It is necessary to reposition Rooibos on the German market, so that it remains successful.

has to be rejected.

With the reservation of the intensity of focus on the segments different from tea as a traditional hot drink and a few segments in which Rooibos has not yet been positioned at all, the present positioning of Rooibos on the German market is also believed to be successful in future, at least until the market becomes saturated.

9 Areas of Research

A number of areas for future research have been identified by this investigation:

- Due to time and resource constraints, this study focused exclusively on the German market for Rooibos. However, the research suggests the German export market be developed in order to generate more sales. To specify this it is necessary to research the markets, market prices and distribution system of different countries that import Rooibos.
- This thesis investigated the German consumer market as a homogenous market. However, it was found that the consumption habits in different geographic areas of Germany could vary, such as the eastern and western states of Germany. There might also be differences in consumption habits within different age groups or other demographic groups. If properly researched, individual marketing strategies for the single sub-cultures could be developed, thus increasing sales.
- The research has touched on an important issue regarding Honeybush tea. Honeybush, which is also indigenous to South Africa, has very similar characteristics to those of Rooibos. South African producers have recently started exporting *Honeybush*. However, although good chances of success on the German market can be expected, the industry treats Honeybush very coolly. There is a justified fear of cannibalising Rooibos by marketing such a similar product. The same is true for other product 'couples' such as iced-tea made from Rooibos and iced-tea made from black tea. It is necessary to research to which extent cannibalisation effects would appear and what can be done to minimize them in order to successfully market both products.
- One reason why organic tea is not as successful as conventionally produced tea is the fact that tea in general is seen as a clean, healthy product with a high standard of food safety. Reports on pesticide residues found in certain herbal and fruit teas had direct effects on their sales. It would be interesting to know what the effects of bad news about conventional teas regarding their organically produced counterparts would be.

- Given the strong competition on the German food market, it would be interesting to know whether foreign Rooibos products such as South African brands could be successful penetrating the German market and if so, which strategy would be most effective.
- There are various names for the plant *Aspalathus linearis* commonly referred to as *Rooibos*. In Germany Rooibos is sold under different names such as *Rooibush, Rooibusch, Rotbusch, Redbush, Rotbuschsie, Redbos, Koopman's Tea, Massai* – and *Buschmann-Tee*. The American company *Burke International*, however, owns the exclusive rights to use the word "*Rooibos*" and to import the increasingly popular tea into the U.S.A. Local South African Rooibos growers say Rooibos (meaning "red bush" in Afrikaans) is a generic name for the indigenous plant, unique to South Africa's Western Cape region. They argue that the name is a national asset, which could by law not be registered by an individual or a company. Therefore one of the largest Rooibos producers in South Africa, *Rooibos Limited*, supported by the South African government, is fighting for the free use of the word Rooibos. If unsuccessful, Rooibos will not be called Rooibos anymore without the permission of *Burke International* who have already sued close to 50 companies for violating trademark laws. Effects on the German market were probably small, if at all existent, as so many different names for Rooibos exist. However, it would be interesting to know what effects a change of name of the product on the market and industry of other countries would have, particularly in South Africa.

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11 Appendices

11.1 South African Rooibos Industry – Addresses

Rooibos Ltd

PO Box 64
Clanwilliam
8135
South Africa

www.rooibosltd.co.za
+27 27 4822155
info@rooibosltd.co.za

Coetzee & Coetzee (Pty) Ltd.

PO Box 554
Kuilsriver
7579
South Africa

www.coetzeeltd.co.za
+27 21 9051709
info@coetzeeltd.co.za

KhoiSan Import Export (Pty) Ltd.

Victoria Junction Gate 4 & 5
Prestwich Street, Green Point
8001
South Africa

www.khoisantea.co.za
+27 21 4213111
info@khoisantea.com

King's Products

PO Box 14
8120
Graafwater
South Africa

www.kingsproducts.co.za
+27 27 4221726
kings@lando.co.za

Cape Natural Tea Products

PO. Box 509
Brackenfell
7561
South Africa

www.rooibostea.co.za
+ 27 21 9825030
Dawie@rooibostea.co.za

The Big Five Rooibos Company (Pty) Ltd.

PO Box 370
Clanwilliam
8135
South Africa

www.africandawn.com
+27 27 4822640
bigfive@new.co.za

ASNAPP (Fairtrade)

Stellenbosch University
PO Box 2331, Dennesig
7601
South Africa

www.asnapp.org
+27 21 8082915
ejefthas@maties.sun.ac.za

SA Rooibos Tea Suppliers cc

Erica Way
Somerset West Business Park, N2
South Africa

+27 21 8528245
sarooibos@telkomsa.net

MASKAM Rooibos

www.rooibos.co.za
+27 012 8083350
info@maskam.com

11.2 Interviews

Name	Position	Place of Interview	Date of Interview
Berit Elmau	*International Sales Marketing, Khoisan Tea*	Telephone interview	04.03.2004
Dawie de Villiers	*MD, Cape Natural Tea Products (Pty) Ltd.*	Brackenfell, South Africa	17.10.2003
Dr. Beutgen	*Chairwoman, WKF*	Telephone interview	06.02.2004
Elton Jefthas	*ASNAPP*	Stellenbosch, South Africa	05/2003
Fermina Platon	*Partner, Ombili Rooibos Teas*	Various telephone and e-mail contacts	2003 / 2004
Jacques Bester	*General Manager, SA Rooibos Tea Suppliers*	Somerset West, South Africa	07.10.2003
Leon Ras	*Leading Assessor, PPECB*	Cape Town, South Africa	16.10.2003
Madeleine Heins	*Responsible for Rooibos and canned food Directorate Plant Health and Quality*	Telephone interview	18.11.2003
Marco Braun + Fiona Lenz	*Sales/Marketing + Purchasing Department Kräuter Mix GmbH*	Abstwind, Germany	28.01.2004
Marco Sinram + Jürgen Voigt	*Purchasing Manager Tea, Herbs, Fruits + Tea Department, Gebr. Wollenhaupt*	Reinbeck, Germany	23.01.2004
Martin Bergh	*MD, Rooibos Ltd.*	Telephone interview	04.03.2004

Niell Coetzee	*MD, Coetzee & Coetzee (Pty) Ltd.*	Kuilsriver, South Africa	08.10.2003
Reinhard von Ludwiger	*formally General Manager, Khoisan Import Export CC*	Cape Town, various telephone and e-mail contacts	2003 / 2004
Oubaas Engelbrecht	*Farmer, Big 5 Rooibos Company*	Clanwilliam, South Africa	26.03.2004
Paul Hayes	*Author: Enhancing the competitiveness of the Rooibos Industry*	Stellenbosch, South Africa	20.11.2003
Peter Schülke	*Chairman, Khoisan Tea*	Cape Town, South Africa	15.10.2003
Rolf Klein	*Marketing Manager, Ostfriesische Tee Gesellschaft mbH*	Seevetal, Germany	23.01.2004
Sebastian Sieben + André Khavvam	*Director Product Management + Food Technology Engineer / R&D, Martin Bauer GmbH & Co. KG*	Vestenbergsgreuth, Germany	28.01.2004
Willem Engelbrecht	*Managing Director, The Big Five Rooibos Company*	Clanwilliam, South Africa + various telephone contacts	04.11.2003 + 26.03.2004

11.3 Article

Red Tea – Sold Out !
2004 Harvest - Interim Report
by Tobias Gress

Worldwide Red Tea, or *Aspalathus linearis*, which is indigenous to South Africa, is gaining great popularity. The continuously growing demand could give rise to a worldwide demand of some 10,000 tons. Only Germany's share was more than 4,500 tons last year*, most of it pure and in bulk. Last year there was already a shortage in Red Tea, but most companies could compensate with the stock in their warehouses.

Red Tea needs the winter rains to grow, but in 2003, these were not as abundant as hoped for. In fact, there is even a rumour of a seven year drought in South Africa. Interviews with Red Tea producers and manufacturers showed that due to the shortage of rainfall in the main cultivation area, the Cederberg region (100 miles north of Cape Town), this year's harvest is notably smaller than in the previous year. Farmers have expanded their plantations according to the increasing demand. At this stage the industry estimates approximately 30-40% of this year's harvest was destroyed by the drought. This means there will be approximately 20% or 2,000 tons less new Red Tea on the market than last year because of the additional areas under cultivation. The plants predominantly affected by the drought were the older bushes – those in their last year of harvest - the younger plants suffered less damage. This means next year's oldest bushes will also be affected, but not as much as the 2004 harvest. It all depends on this years climatic conditions.

It is, however interesting to note, that according to some farmers the quality of the tea will not be affected by the drought. Some even believe that the same rule for wine applies for Red Tea: The harsher the conditions for the plant, the better the quality of the product.

But the other side of the coin is that there is only a limited amount of tea available, and demand regulates the price. So this year the producers are in a strong position against the manufacturers. Prices for the raw material have increased, depending on the size of the contracts, by 30-50% compared to last year's price. Another reason why importers have to face higher prices are the fluctuations of the South African Rand. Compared to the US$ and Euro, the Rand strengthened significantly during the last year. This year South African manufacturers have to adjust contracts to level out losses caused by currency fluctuations. Germany, the biggest importer with 70% of all South African Red Tea exports in 2003*, will be particularly hit by the increased prices, as profit margins in their tea market are low, and consumers are very price sensitive. As an effect of the under-supply, prices might either increase further during the year if the demand continues, or Red Tea could become completely unavailable by the end of the year. My Recommendation: Secure your share of this year's Red Tea as early as possible – before you encounter: Red Tea – Sold out!

* as reported by the Perishable Products Export Control Board (PPECB) of South Africa

11.4 Letter to German Companies

Sehr geehrte/r XXX,

ich bin Student an der *University of Cape Town (UCT)* in Südafrika. Teil meiner Masters Dissertation ist es den deutschen Markt für Rooibusch Tee zu erforschen. Im speziellen die Vertriebskanäle, Trends im Handel und bei den Konsumenten. Ziel der Marktforschung ist es herauszufinden ob eine neue Produktpositionierung erfolgreich wäre.

Bisher hat sich meine Arbeit auf die südafrikanische Rooibos Industrie konzentriert. Hierzu habe ich Interviews mit Produzenten und Exporteuren geführt und mich mit der Industrie vertraut gemacht. Da XXX (company name) des öfteren als Abnehmer in Deutschland genannt wurde und mir sowohl XXX (names of contacts in South Africa) Sie als Ansprechpartner empfohlen haben, wende ich mich nun direkt an Sie.

Ende Januar nächsten Jahres habe ich einen Besuch in Deutschland geplant um Informationen über den Markt direkt vor Ort zu sammeln. Ich würde mich sehr freuen, wenn Sie mir die Gelegenheit geben würden Ihnen persönlich einige Fragen bezüglich des deutschen Teehandels zu stellen. Selbstverständlich bin ich auch bereit meine Marktforschungsergebnisse nach der Fertigstellung meiner Arbeit zu teilen, wenn Sie daran interessiert sind.

(Meine Forschung betreibe ich unabhängig ohne sie später kommerziell nutzen zu wollen. Vertrauliche Informationen werden nicht an Dritte weitergegeben. Anbei finden Sie einen Brief meiner Professorin)

Ich würde mich sehr über eine positive Antwort freuen.

Mit freundlichem Gruß aus Kapstadt

11	Malte Willert Uni-Rostock	Malte Willert Möllner-Strasse 12 / h2 / z44a D-18109 Rostock mail@familie-willert.de	25	12	
12	Annette Stotz Fh-Reutlingen	Annette Stotz Nelkenweg 3 D-72406 Bisingen Annette-stotz@t-online.de	80	40	
13	Stephan Wittek Fh-Nürtingen	Stephan Wittek Nelkenweg 3 D-72406 Bisingen Stephan.Wittek@gmx.de		35	
14	Sandra Preschl Uni-Berlin	Sandra Preschl Grunewaldstr.89, D-10823 Berlin Sun.dra@gmx.de	30	18	
15	Tina Schwab Fh-Furtwangen	Tina Schwab Rondorferstr 124c D-50354 Köln.-Hürth Tina.schwab@gmx.de	25	12	
16	Kathrin Tuchbreiter Uni-Regensburg	Kathrin Tuchbreiter Dr. Gessler - Str. 15a Zi. 2206 D-93051 Regensburg tuchi@gmx.de	40	16	
17	Gwendolyn Schmitt Uni-Heidelberg	Gwendolyn Schmitt Vangerowstrasse 105 D-69115 Heidelberg gwennie79@web.de	40	54	
18	Mathias Riedle Fh-Esslingen	Mathias Riedle Berlinerstr. 29 D3 D-73728 Esslingen mathias.riedle@web.de	35	27	
19	Inken Sticke Fh-Pforzheim	Inken Stickel Liegnitzer Str. 5 D-75181 Pforzheim Inken.Stickel@t-online.de	35	18	
20	Peter Fiesel Uni-Furtwangen	Peter Fiesel Am Großhausberg 02-09-08 D-78120 Furtwangen zico@gmx.net	40	24	
21	Mareike Lang Uni-Sigmaringen	Mareike Lang Würthwe 5 Wohnung 34 D-72488 Sigmaringen Mareike-Lang@t-online.de	35	34	Late
22	Bettina Kempf BA-Ravensburg	Bettina Kempf Rappenhalde 42 D-88447 Warthausen Bettina.Kempf@mlu-online.com	40	34	
	Total		785	519	

24	Beate Marquart Fh-Karlsruhe	BeateMarquart@web.de	No response
25	Florian Fh-Weingarten	Alleswirdgut@firemail.de	Asked other people
26	Viola Thiel Ph-Weingarten	violathiel@gmx.de	No response
27	Petra Ph-Weingarten	Petra-1979@web.de	Has no time
28	Isa Gourmet Ph-Weingarten	isagourmet@yahoo.de	No response
29	Heiko Schwab FH Pforzheim	Heiko.schwab@gmx.de	Has no time
30	Melanine Mohelsky PH Heidelberg	MelanieMohelsky@gmx.de	Not a student anymore
31	Bernhard Goodwin Uni-München	bogooc@web.de	Has no time
32	Sebastian Hargens Fh-Heide	hagenstedt@t-online.de	No response
33	Tanja Seidenberger Uni-Tübingen	tanja.seidenberger@gmx.de	Has no time
34	Daniel Lenkeit Uni-Konstanz	Daniel.lenkeit@uni-konstanz.de	No response
35	Andreas Schmid Fh-Augsburg	schmandi@gmx.net	No response
36	Verena Fischer	vefira@web.de	No response
37	Philipp Vidic Uni München	Rebecca.puszti@gmx.de	No response

11.7 Cover Letter to Research Assistants (German)

Hallo lieber Research Assistent!

Nochmals vielen Dank, dass du dich dazu bereit erklärt hast, mich bei meiner Arbeit zu unterstützen.

Kurz zu meiner Arbeit:

Ich bin Masters Student (*MBusSc., Marketing*) an der University of Cape Town (UCT) in Südafrika und untersuche den deutschen Endverbrauchermarkt für *Rooibusch* Tee. Rooibusch- oder auch Rotbuschtee wächst ausschließlich in Südafrika. Seit ca. 15 Jahren ist er auf dem deutschen Markt erhältlich. Anfänglich nur im Reformhaus, findet man Rooibuschtee mittlerweile in fast jedem deutschem Supermarkt. Mehr als 70 Prozent des von Südafrika exportierten Tees werden in Deutschland verkauft. Somit ist dies der wichtigste Markt für die südafrikanische Teeindustrie.
Die Aufgabe meiner Arbeit ist es herauszufinden, ob es notwendig ist, das Produkt in Deutschland neu zu positionieren oder ob Rooibuschtee mit der gleichen Marketingstrategie auch in den nächsten Jahren erfolgreich verkauft werden kann.
Wenn du dich für die Details meines Projekts oder die Auswertung dieser Umfrage interessierst, kannst du mir dies mitteilen. Ich werde dir die Ergebnisse gerne bekannt geben.

Anbei findest du die Fragebögen und einen frankierten Rückumschlag. Bitte sende diese bis zum **10. Mai 2004** wieder zurück. Sollten die Fragebögen nicht ausreichen, darfst du gerne Kopien machen. (Für eventuelle Kosten komme ich natürlich auf.)

Übrigens - die drei Research Assistenten dir mir die meisten Fragebögen ausgefüllt zurückschicken, erhalten eine kleine Überraschung.

Nun zu deiner Aufgabe:

Die Umfrage richtet sich an Studenten an deutschen Hochschulen. Es spielt keine Rolle, in welchem Semester und Studiengang sich die Befragten befinden. Die Fragebögen können an jedem beliebigen Ort und zu jeder Zeit ausgefüllt werden (mein Vorschlag wäre in einer Pause zwischen zwei Vorlesungen). Wichtig ist nur, dass das Rücksendedatum nicht überschritten wird.

Die 12 Fragen auf dem Bogen lassen sich in ca. 4-7 Minuten beantworten. Nachdem von dir einleitend einige Worte zur Umfrage gesagt wurden (siehe unten), sollen die Bögen an die ganze Gruppe ausgeteilt werden. Die Fragen sollen sofort, ohne fremde Hilfe beantwortet und die Bögen gleich danach wieder eingesammelt werden. Dadurch wird lästiges „Hinterherlaufen" vermieden.

Einleitende Worte:

- Fragebogen kommt von befreundetem / bekannten Studenten, der zur Zeit in Südafrika seine Masters Thesis im Bereich Marketing schreibt.
- Im Fragebogen geht es um Tee
- Beantwortung der 12 Fragen dauert nur ca. 5 Minuten
- *Motivation*: Wäre toll, wenn ihr einen Kommilitonen unterstützen würdet.
- Bitte füllt den Fragebogen gleich aus – ich sammle ihn in 5 Minuten wieder ein.

Solltest du noch Fragen haben, kannst du mich jederzeit per Mail erreichen.
(*info@mytea.de*)

Viel Erfolg bei der Arbeit

Mit freundlichem Gruß aus Südafrika

11.8 Questionnaire English

Tea-Consumption in Germany

Student Survey at German Universities

Questionnaire Advice
Please answer every question if possible. If you are supposed to skip a particular question you will be led to the next question by an arrow. E.g.: → **continue with question 4.2**
The following symbols will help you to answer the questions:
For scales please mark applicable number with a cross, e.g.: 1 – X – 3 – 4 – 5
Please mark boxes with a cross. ☒

1 What is your current occupation?

Student at — Name and place of the University

- University ☐1
- Technicon ☐2 ______________________________
- College of Education ☐3
- University of Cooperative Education ☐4

Other, ☐ → (what) ______________________________

2.1 Do you drink tea?

- Yes ☐1
- No ☐2 → **continue with question 5.1**

2.2 How often do you drink tea?

- Once a month ☐1
- Once every 2 weeks ☐2
- Once a week ☐3
- Every day ☐4
- Other, ☐ → how often ______________________________

2.3 What kind of tea do you drink and what is important for you? (Please skip tea you never drink)

	I drink		Enjoyment	Health	Price	I buy mostly at (Please only one answer per line.)				
	rarely	regularly	Very important ▼ … Not at all ▼	Very important ▼ … Not at all ▼	Very important ▼ … Not at all ▼	Supermarket	Discounter (Aldi, Lidl)	Health Food Shop	Tea-Specialist	Other Source
Black Tea	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Green Tea	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Fruit Tea *(e.g. rose hip)*	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Herbal Tea *(e.g. mint, Roolbos)*	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Tea Blends *(e.g. Wintertea, Chai)*	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Medicinal Tea *(from the chemist)*	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Other Tea *(Ayurveda / Wellness-Tea)*	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5

2.4 To which extent do you pay attention to the following when buying tea?

	To a great extent ▼	Not at all ▼
Quality	1 – 2 – 3 – 4 – 5	
Producer (Brand)	1 – 2 – 3 – 4 – 5	
Packaging	1 – 2 – 3 – 4 – 5	

3.1 Do you drink Rooibos tea? (Rotbusch, Rooibusch, Rooitea)

Yes ☐
No, ☐ → continue with question 4.2
→ why not? ____________________

3.2 In what form do you drink Rooibos mostly? (Please only one answer.)

	in teabags	loose
Pure	☐	☐
Flavoured (e.g. Rooibos Vanilla, Caramel)	☐	☐
As a blend (Rooibos Kalahari, Rooibos Strawberry-Cream)	☐	☐

3.3 Where was the Rooibos purchased that you drink? (Multiple answers possible)

Supermarket ☐ Health Food Shop ☐
Discounter (Aldi, Lidl) ☐ Tea-Specialist ☐
Other Source: ____________________

4.1 To which extent do you agree with the following statements:

I drink Rooibos tea, because -

	To a great extent ▼	Not at all ▼
It is cheap	1 – 2 – 3 – 4 – 5	
it keeps me healthy	1 – 2 – 3 – 4 – 5	
it is healthier than black tea	1 – 2 – 3 – 4 – 5	
I like the taste of it	1 – 2 – 3 – 4 – 5	
it does not contain caffeine	1 – 2 – 3 – 4 – 5	

4.2 To which extent do you agree with the following statements:

Tea in general -

	To a great extent ▼	Not at all ▼
is a healthy product	1 – 2 – 3 – 4 – 5	
is free from harmful substances / residues	1 – 2 – 3 – 4 – 5	
is only for the elderly and ill people	1 – 2 – 3 – 4 – 5	
I don't only drink but use it in different forms such as in cosmetics	1 – 2 – 3 – 4 – 5	
Conventional tea is as good as organically produced tea	1 – 2 – 3 – 4 – 5	
Organic tea is too expensive for me	1 – 2 – 3 – 4 – 5	
I only drink tea that does not contain any additives (flavours)	1 – 2 – 3 – 4 – 5	
I know a lot about tea	1 – 2 – 3 – 4 – 5	

5.1 Gender

Female ☐ Male ☐

5.2 Into which segment do your studies fall?

Engineering ☐ Humanities ☐
Science ☐ Medicine ☐
Economics ☐ Others ____________________

Thank you very much for your help!

(Questions regarding the survey can be posted to info@mytea.de)

11.9 Questionnaire German

Teekonsum in Deutschland

Befragung von Studenten an deutschen Hochschulen

Hinweise zum Ausfüllen des Fragebogens
Bitte beantworte nach Möglichkeit jede Frage. Falls du eine bestimmte Frage überspringen sollst, wirst du durch Pfeile zur **nächsten** Frage geleitet, z.B.: **→ weiter mit Frage 4.2**
Die Folgenden Symbole sollen dir bei der Beantwortung behilflich sein:
Bei Skalen bitte die zutreffende Ziffer ankreuzen, z.B.: **1 – 2 – 3 ~~–~~ 4 – 5**
Rechteckige Felder bitte ankreuzen ☒!

1 Was ist deine momentane Beschäftigung?

Student an — Name und Ort der Hochschule

- Universität ☐1
- Fachhochschule ☐2 ______________________
- Pädagogische Hochschule ☐3
- Berufsakademie ☐4

Sonstiges ☐ → und zwar: ______________________

2.1 Trinkst du Tee?

- Ja ☐1
- Nein ☐2 → weiter mit Frage 5.1

2.2 Wie oft trinkst du Tee?

- 1 mal im Monat ☐1
- 1 mal alle 2 Wochen ☐2
- 1 mal in der Woche ☐3
- Täglich ☐4
- Sonstiges ☐ → und zwar: ______________________

2.3 Welche Art Tee trinkst du und was ist dir dabei wichtig? (Tee den du nie trinkst bitte auslassen)

	Trinke ich		Genuss	Gesundheit	Preis	Kaufe ich meistens im (Bitte jeweils nur eine Antwort)				
	selten	regelmäßig	in hohem Maße ▼ … gar nicht ▼	in hohem Maße ▼ … gar nicht ▼	in hohem Maße ▼ … gar nicht ▼	Supermarkt	Discounter (Aldi, Lidl)	Reformhaus	Tee-fachgeschäft	Andere Quelle
Schwarztee	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Grüner Tee	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Früchtetee (*z.B. Hagebutte*)	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Kräutertee (*z.B.Pfefferminz, Rooibusch*)	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Teemischungen (*z.B. Wintertee, Chai*)	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Arzneitee (*aus der Apotheke*)	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5
Anderer Tee (*Ayurveda / Wellness-Tee*)	☐1	☐2	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	1 – 2 – 3 – 4 – 5	☐1	☐2	☐3	☐4	☐5

2.4 In welchem Maße achtest du beim Teekauf auf

	in hohem Maße ▼				gar nicht ▼
Qualität	1	2	3	4	5
Hersteller (Marke)	1	2	3	4	5
Verpackung	1	2	3	4	5

3.1 Trinkst du Rooibuschtee? (Rotbusch, Rooibos, Rooitea)

Ja ☐1

Nein ☐2

→ warum nicht → **weiter mit Frage 4.2**

3.2 In welcher Form trinkst du Rooibuschtee am häufigsten? (Bitte nur eine Antwort)

	im Teebeutel	lose
Pur	☐1	☐2
Aromatisiert (z.B. Rooibusch Vanille, Karamell)	☐3	☐4
Als Mischung (Rooibusch Kalahari, Rooibusch Erdbeer-Sahne)	☐5	☐6

3.3 Woher kommt der Rooibusch Tee den du trinkst? (Mehrfachnennung möglich)

Supermarkt ☐1 Reformhaus ☐3

Discounter (Aldi, Lidl) ☐2 Teefachgeschäft (Teeladen) ☐4

Sonstige Quelle: ____________

4.1 In welchem Maße stimmst du diesen Aussagen zu:

Rooibusch Tee -

	in hohem Maße ▼				gar nicht ▼
a trinke ich, weil er billig ist	1	2	3	4	5
b ist gut für meine Gesundheit	1	2	3	4	5
c ist gesünder als Schwarztee	1	2	3	4	5
d schmeckt mir	1	2	3	4	5
e trinke ich weil, er kein Teein (Koffein) enthält	1	2	3	4	5

4.2 In welchem Maße stimmst du diesen Aussagen zu:

Tee im allgemeinen -

	in hohem Maße ▼				gar nicht ▼
a ist ein gesundes Produkt	1	2	3	4	5
b enthält keine schädlichen Stoffe / Substanzen	1	2	3	4	5
c ist nur für alte und kranke Leute	1	2	3	4	5
d trinke ich nicht nur, sondern benutze ich auch in anderer Form (z.B. Kosmetik)	1	2	3	4	5
e Konventionell angebauter Tee ist ebenso gut wie Bio-Tee (biologisch angebaut)	1	2	3	4	5
f Bio-Tee ist mir zu teuer	1	2	3	4	5
g Ich achte darauf, dass mein Tee keine Zusatzstoffe enthält (Aromen)	1	2	3	4	5
h Ich kenne mich gut mit Tee aus	1	2	3	4	5

5.1 Geschlecht

weiblich ☐1 männlich ☐2

5.2 In welchen Bereich lässt sich dein Studienfach einordnen?

Ingenieurswissenschaften ☐1 Geisteswissenschaften ☐4

Naturwissenschaften ☐2 Medizin ☐5

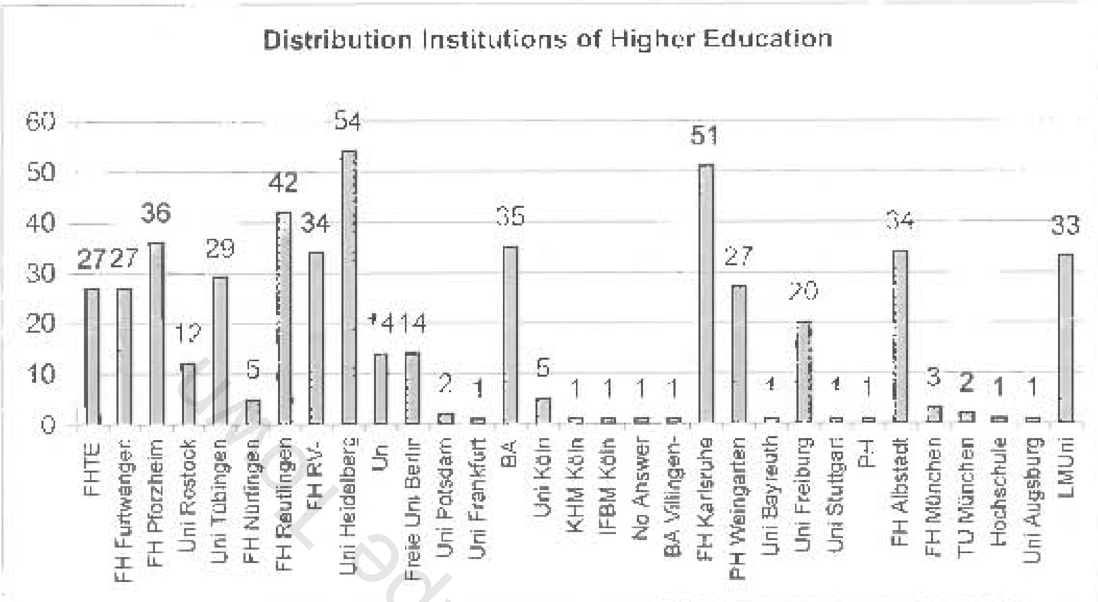
Wirtschaftswissenschaften ☐3 Sonstiges ____________

Herzlichen Dank für deine Mühe!

[Fragen bezüglich der Umfrage bitte per Mail an info@mytea.de]

11.10 Institutions of Higher Education

No. of Questionnaires	%	Name of Institute
27	5.23	1 FHTE Esslingen
27	5.23	2 FH Furtwangen
36	6.98	3 FH Pforzheim
12	2.33	27 Uni Rostock
29	5.62	22 Uni Tübingen
5	0.97	13 FH Nürtingen
42	8.14	11 FH Reutlingen
34	6.59	14 FH RV-Weingarten
54	10.47	30 Uni Heidelberg
14	2.71	21 Uni Regensburg
14	2.71	28 Freie Uni Berlin
2	0.39	29 Uni Potsdam
1	0.19	23 Uni Frankfurt
35	6.78	10 BA Ravensburg
5	0.97	24 Uni Köln
1	0.19	25 KHM Köln
1	0.19	26 IFBM Köln BMA
1	0.19	No Answer
1	0.19	15 BA Villingen-Schwenningen
51	9.88	5 FH Karlsruhe
27	5.23	9 PH Weingarten
1	0.19	19 Uni Bayreuth
20	3.88	4 Uni Freiburg
1	0.19	12 Uni Stuttgart
1	0.19	20 PH Ludwigsburg
34	6.59	16 FH Albstadt Sigmaringen
3	0.58	6 FH München
2	0.39	7 TU München
1	0.19	8 Hochschule der Künste München
1	0.19	18 Uni Augsburg
33	6.40	17 LMUni München
516	**100%**	**TOTAL**


Distribution Institutions of Higher Education
60
50
40
30
20
10
0
27 FHTE
27 FH Furtwangen
36 FH Pforzheim
12 Uni Rostock
29 Uni Tübingen
5 FH Nürtingen
42 FH Reutlingen
34 FH RV-
54 Uni Heidelberg
14 Un
14 Freie Uni Berlin
2 Uni Potsdam
1 Uni Frankfurt
35 BA
5 Uni Köln
1 KHM Köln
1 IFBM Köln
1 No Answer
1 BA Villingen-
51 FH Karlsruhe
27 PH Weingarten
1 Uni Bayreuth
20 Uni Freiburg
1 Uni Stuttgart
1 PH
34 FH Albstadt
3 FH München
2 TU München
1 Hochschule
1 Uni Augsburg
33 LMUni

11.11 Letter to Interviewees

Dear Mr. XXX,

Following please find the objectives of the research I am conducting for my Masters Thesis with the title:

South African Rooibos Industry.
Opportunities And Constraints With Special Reference To The German Consumer Market.

In summary the thesis attempts to analyse the Rooibos Industry with special reference to the German import market. This will be necessary to be able to develop a new market positioning strategy for Rooibos and Rooibos products for the German consumer market, which can then be used to develop a marketing action plan.
Therefore the most appropriate target market-segments to serve have to be defined and the benefits which should be emphasised to the German consumers must be detected.

The research will be guided and structured by a model adapted from David Walter which is split up in three segments, namely

- Analysis of the German beverage market
- Analysis of the South African Rooibos Industry
- Competitive analysis of the Product

The time allocated to this project will be 18 months beginning in August 2003.

My sincerest gratitude in your helping me in my project.
Thank you very much,

Sincerely

Tobias Gress