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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	SUSTAINABILITY IN GREEN RETAILING: ACHIEVEMENTS, CHALLENGES, AND A VISION FOR THE FUTURE <i>DR. GIRISH.K.NAIR, HARISH K NAIR & SWATI PRASAD</i>	1
2.	CAUSES AND EFFECTS OF RURAL-URBAN MIGRATION IN OYO STATE: A CASE STUDY OF IBADAN METROPOLIS <i>OSHATI TITILOLA, ESAN, ADESIJI DAVID & DR. ADU, EMMANUEL OLUSOLA</i>	6
3.	ORGANIZATIONAL TEACHING AS STRATEGIC PLAN <i>DR. NASSER FEGH-HI FARAHMAND</i>	10
4.	CORPORATE GOVERNANCE PRACTICES IN FIS OF BANGLADESH <i>MOZAFFAR ALAM CHOWDHURY</i>	17
5.	MAJOR PROBLEMS AND ISSUES IN SRI LANKAN UNIVERSITY SYSTEM – STUDY FOCUS ON THE STUDENT PERSPECTIVE <i>W.M.R.B.WEERASOORIYA</i>	22
6.	A DIVERSIFIED APPROACH OF FACE DETECTION AND RECOGNITION <i>KALIYAPERUMAL KARTHIKEYAN, DR. MUNGAMURU NIRMALA & SREEDHAR APPALABATLA</i>	27
7.	IMPROVING THE SOCIAL DISABILITIES OF PRIMARY SCHOOL STUDENTS <i>MATEBE TAFERE</i>	32
8.	RELATIONAL SOCIAL CAPITAL AND CUSTOMER LOYALTY IN RETAIL BANKING IN KENYA: THE CASE OF NAKURU COUNTY <i>DR. DANIEL ONWONGA AUKA & JOSEPH BOSIRE</i>	36
9.	JOB INVOLVEMENT AS A MEDIATOR OF THE RELATIONSHIP BETWEEN ORGANIZATIONAL COMMITMENT AND JOB PERFORMANCE IN THE SYSTEMICALLY IMPORTANT BANKS IN SRI LANKA <i>U.W.M.R. SAMPATH KAPPAGODA</i>	44
10.	A STUDY ON EXISTING CAR CUSTOMERS (ALL BRANDS) ON THEIR REPLACEMENT PLANS <i>S. SHRILATHA & DR. A. ARULAPPAN</i>	49
11.	EVALUATION OF RESOURCE MOBILIZED THROUGH MUTUAL FUNDS IN INDIA <i>DR. RAM SINGH, PALLAVI MANIK & ANUBHUTI MODGIL</i>	54
12.	EMOTIONAL LITERACY – TEACHERS AND STUDENTS IN SELF-FINANCING ENGINEERING COLLEGES WITH SPECIAL REFERENCE TO TIRUCHIRAPALLI DISTRICT <i>K. ARUN PRASAD & DR. S.V. DEVANATHAN</i>	59
13.	AN OVERVIEW MODEL ON THE BUSINESS ENVIRONMENT AND GROWTH CHALLENGES OF SMEs IN INDIA <i>VENKATARAMAN.KK</i>	65
14.	MEASUREMENT OF FINANCIAL PERFORMANCE OF KURUKSHETRA CENTRAL CO-OPERATIVE BANK THROUGH RATIO ANALYSIS <i>DR. SUDESH & ARCHANA MAKKAR</i>	68
15.	PERFORMANCE OF DISTRICT CENTRAL CO-OPERATIVE BANKS (DCCBs) IN INDIA - AN EVALUATION <i>S. USHA & C. SIVARAMI REDDY</i>	73
16.	A STUDY ON ECONOMIC RETURNS IN POULTRY FARMING WITH SPECIAL REFERENCE TO SUGUNA BROILER CONTRACT FARMS IN COIMBATORE DISTRICT <i>A. SRIDHARAN & DR. R. SARAVANAN</i>	76
17.	DEVELOPMENT OF KNOWLEDGE BASED FRAMEWORK FOR AGRICULTURE SECTOR: A STEP TOWARDS SUSTAINABLE e-GOVERNANCE IN RURAL INDIA <i>ALPANA UPADHYAY & DR. C. K. KUMBHARANA</i>	80
18.	HEALTH INSURANCE STRUCTURE IN INDIA – CURRENT PRACTICES AND CHALLENGES <i>DR. SHIBU JOHN</i>	86
19.	A STUDY ON THE CUSTOMERS SUCCESS ON THEIR INVESTMENTS IN A RESIDENTIAL FLAT AND THEIR GUARANTEE <i>DR. P. RAMAN</i>	89
20.	THEORETICAL COMPARISON CRITERIA FOR SOFTWARE RELIABILITY MODELS <i>SANJEEV KUMAR & DR. AMIT GUPTA</i>	92
21.	INVESTIGATING SERVICE QUALITY DIMENSIONS THROUGH EXPLORATORY FACTOR ANALYSIS IN A HEALTHCARE SETTING <i>DR. MUSHTAQ AHMAD BHAT & DR. MOHD. YASEEN MALIK</i>	95
22.	WORKING CAPITAL MANAGEMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN MANIPUR- AN EMPIRICAL STUDY <i>MOIRANGTHEM BIREN SINGH & DR. TEJMANI SINGH</i>	104
23.	PERFORMANCE ANALYSIS OF AODV PROTOCOL UNDER BLACK HOLE ATTACK <i>MONIKA SINGH & RAKESH KUMAR SINGH</i>	109
24.	21ST CENTURY ADS- ADDS MORE <i>ASHISH RAMI & PRIYANKA SRIVASTAVA</i>	116
25.	CORPORATE RESTRUCTURING THROUGH MERGERS AND ACQUISITIONS-A CASE STUDY ON TATA STEEL AND CORUS <i>NARGIS BEGUM & EVELINA MOHAPATRA</i>	121
26.	CLOUD COMPUTING: SMARTER COMPUTING FOR A SMARTER WORLD <i>DR. IKVINDERPAL SINGH</i>	128
27.	SATISFACTION OF SMALL CAR OWNERS IN SELECT AREAS OF AUNDH, BANER AND PASHAN IN PUNE CITY <i>DR. G. SYAMALA</i>	133
28.	CRM: SERVICE QUALITY & CUSTOMER LOYALTY - A STUDY OF MOBILE TELECOM INDUSTRY AT JAIPUR CITY <i>DR. ANJU PANWAR, SHUCHI MATHUR & NEHA CHAHAL</i>	138
29.	TOUGH TIME FOR INDIAN TEA INDUSTRY <i>KAKALI HAZARIKA</i>	141
30.	IMPACT OF OPEC ON SUPPLY AND PRICE OF PETROLEUM PRODUCTS <i>GAURAV MANOJ JHA</i>	146
	REQUEST FOR FEEDBACK	155

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TOUGH TIME FOR INDIAN TEA INDUSTRY

KAKALI HAZARIKA
RESEARCH SCHOLAR
DEPARTMENT OF HUMANITIES & SOCIAL SCIENCES
NATIONAL INSTITUTE OF TECHNOLOGY
SILCHAR

ABSTRACT

In India, millions of people are dependent on tea industry; directly and indirectly. Tea is a labour intensive industry and provides jobs in remote rural areas. Assam is the highest tea producer in India, producing 52 per cent of total production. However, due to weak international and auction (national) prices over last few years, a worldwide tea sector crisis have been observed, which is felt at its worst in Assam also. Low prices affect the sustainability of tea sector along with the livelihoods of plantation workers and small growers in tea producing regions of India. Contrary to this, tea trading and distribution is dominated by few companies that are highly benefited from stable retail prices. In this paper, an attempt is made to highlight the problems faced by Indian tea industry in marketing field. The results of this study reveal that only effective marketing policy will help Indian tea industry to overcome the present crisis.

KEYWORD

tea industry.

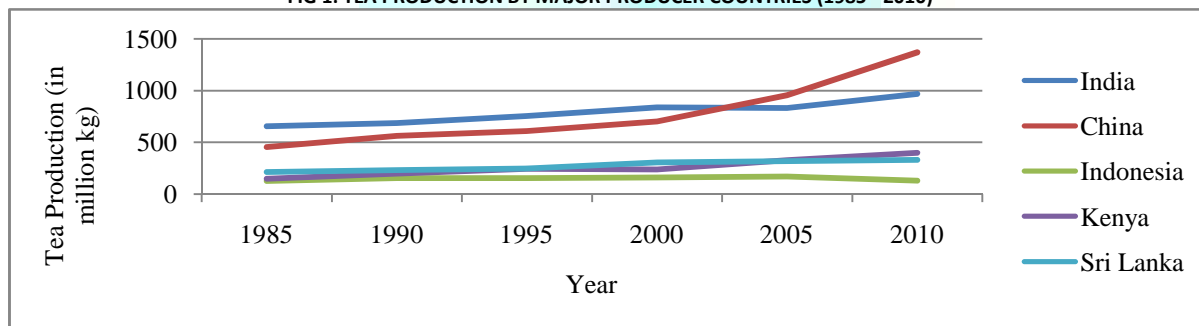
INTRODUCTION

The credit for creating India’s vast tea empire goes to the British, who discovered tea in India. The Tea Industry is one of the oldest organized firm sectors with a large network of tea producers, retailers, distributors, auctioneers, exporters and employees. India is one of the world’s largest producers and consumer of tea, which accounting for 27 percent of the world production and around 12 – 13 per cent of the world Tea export. It is directly responsible for economic and social development in far-flung areas where almost no other economic activity exists (Sahu, 2004). Tea industry gives a prestigious identity to India as well as Assam in the international platform. India’s large Tea plantations are mostly concentrated in Assam and North-Bengal.

Tea industry is very much effective in developing basic infrastructures of the producing country like road and railway communications, development of waterways, postal and telecom service, etc. in the far flung areas where tea cultivation was taken up. The industry plays a very important role in employment generation in countries like India, Kenya, Vietnam and Indonesia. In India, tea industry provides direct gainful employment to 1, 25 800 families and another 10 million people are indirectly related with it (Kadavil, 2008). It is estimated that 10 per cent of Kenya’s population entirely depends on tea industry. In Vietnam and Indonesia, more than 4, 00, 000 and 3, 50,000 people respectively are directly working in tea sector. Tea industry is also a very important foreign exchange earner to the producing countries like Kenya and Sri Lanka, having tea export value more than US\$ 655 and US\$ 830 million respectively during 2006 (Wal, 2008).

Indian tea industry remains the largest tea producer till 2005. China, India, Sri Lanka, Indonesia and Kenya are the major global tea producers. Presently India holds the second position after China in production (Fig 1).

FIG 1: TEA PRODUCTION BY MAJOR PRODUCER COUNTRIES (1985 - 2010)



Source: Tea Board of India.

It is observed from the table (Table: 1) that during last sixty years, Indian tea industry witnessed an increasing trend in area under tea and yield. In this period, area under tea and average yield per hectare increased 65.18 per cent and 83.88 per cent respectively. Until 1990, yield per hectare tea was increasing at a very faster rate; later on, yield had shown a decreasing trend.

TABLE 1: AREA AND YIELD OF INDIAN TEA INDUSTRY (1950 - 2010)

Year	Area (in 000' hectares)	Absolute increase	Yield (kg/hectares)	Absolute increase
1950	316	-	881	-
1960	331	(+) 15	971	(+) 93
1970	354	(+) 23	1182	(+) 211
1980	381	(+) 27	1494	(+) 312
1990	416	(+) 80	1731	(+) 237
2000	504	(+) 88	1679	(-) 52
2010	522	(+) 18	1620	(-) 59

Source: Various issues of Tea statistics, Tea Board of India, (+) = increase, (-) = decrease

TABLE 2: SHARE OF INDIAN TEA IN WORLD PRODUCTION (1961 - 2010)

Year	Quantity in million kilogram		
	World	India	India's percentage share to world
1961	851	354	41.6
1971	1348	435	32.27
1981	1884	560	29.7
1991	2639	754	28.57
2001	3073	848	27.6
2002	3192	854	26.7
2003	3216	878	27.3
2004	3328	893	26.8
2005	3468	945	27.2
2006	3579	981	27.4
2007	3796	986	25.9
2008	3864	980	25.3
2009	3931	979	24.9
2010	4066	966	23.75

Source: Tea Statistics, Tea Board of India, 2011

World tea production has increased by 377 per cent during the period, whereas India's production enhanced by 172 per cent only. India, the second largest tea producer of world produced 966 million kg of tea in 2010, which is 23 per cent of global production.

There are sixteen tea-producing states in India, divided into two regions - North and South India. Assam has the highest area under tea and it has the pride of world's largest tea producing state. Assam not only produces around 50 per cent of the country's total production, but also employs about 12 lakh people (Choudhury, 2006).

During last few years, Indian tea industry is passing through serious crisis. This crisis is worst felt in marketing field. Limited big buyers or companies are the major players in Indian tea market. These players have their own network of sales all over the country and export tea after blending. Therefore they collect all the profit margins from production to auction and then to marketing and retailing (Baruah, 2008). Tata Tea, Eveready Industries (Williamson Magor) etc. are such powerful buyers having enormous influence on the market and price of tea. Hence actual growers (producers) can do nothing regarding the prices of their own tea. Problem with the tea growers is that they can not hold on to their stocks for a long time. Ultimately they have no alternative but have to satisfy with a lower price fixed by the big buyers. This is a major problem faced by the Indian tea producers and its impact fall upon not only on the production but also on common consumers.

There are some other problems related to tea marketing. In India we had the Tea Marketing Control Order, 1984 under which 75 per cent of the tea produced had to be compulsorily auctioned. Now after the abolition of compulsory auction in 2001 about half of the quantity of tea is privately sold. According to media this generates black money (Choudhury, 2006). Uncertain price and uncertain returns lead to less investment in tea production. Quality improvement and brand identity are the basic necessities of Indian tea. Because another burning problem arises in the tea market is maintenance of international standard on the quality (pesticide control) of tea. Indian teas also face such pesticide residue problem in recent years, which affects in its position in international market. But testing and conformity assessment for these standards are difficult and expensive. The cost required for the test is roughly US \$ 234 per analysis. When Brook Bond was the only packet tea manufacturer, it used to offer margins of around 4 per cent to grocers. But now when a large number of packet teas are available from various brands, grocers are being offered a margin of around 6 per cent (exclusive of other promotional schemes given to them). Therefore grocers are willing to keep branded tea only. This also leads to increase in cost for all other small and medium tea manufacturers to maintain a brand to compete with the already established brands in the tea market. New packaging trend is also a growing problem among small and medium tea producers. Today, consumers are attracted towards improved and profitable packets of tea. Especially in rural areas people can not effort a big packet having ½ kg or 1 kg tea. So they will prefer mini packets of 100gm or 200gm tea. Declining market price and increasing cost of production leads to decrease in profit margins. In recent years, some soft drinks and some melt based beverages such as Horlicks, Bournvita etc. are capturing some portion of tea market for their functional benefits and in the name of fashion. So it is difficult for a tea producing country to hold a particular section of buyers as regular consumers.

THE OBJECTIVES OF THE PRESENT STUDY ARE:

1. To observe the present status of Indian tea industry.
2. To highlight the difficulties faced by Indian tea industry in marketing field.
3. Suggest measures to overcome these problems of Indian tea industry.

RESEARCH METHODOLOGY

This work is primarily an empirical enquiry of the marketing problems faced by Indian tea industry. The study is mainly based on secondary data. Sources of data are related books, published literature of the plantation companies, associations, journals, reports published by different organizations (public and private) and websites. While studying the status of Indian tea industry, emphasis was given to understand the problems of marketing.

FINDINGS OF THE STUDY

In spite of its importance tea plantation industry of India is going through crises face since 1990's. The industry has witnessed many structural changes during recent years, which includes – emergence of small tea growers in place of large plantation, introduction of bought leaf factories (BLF); crisis has led to the closure of tea estates (20 in Kerala, 30 in West Bengal, about 70 in Assam has close down since the late 1990's). It is estimated that more than 60,000 plantation workers have lost their job since 2002 and livelihood of tens of thousands more are threatened. On the plantation that remains open, workers are suffering wage cut, tougher picking demand, job insecurity and the casualisation of work applying living and working condition etc. In early 2005 the tea industry witnessed major companies withdrawing from production and concentrating on the packaging/ retailing sector (e.g. Tata. Tea, HLL etc in India). They intend to focus on brand building business and on exploring the market substantially, rather than on the plantation business, which is a low margin segment.

The tea industry in this country has some inherent weaknesses – due to poor yield arising out of poor condition of the garden (old ages of bushes with more than 30 percent of the tea grown areas being above the economic threshold age limit), defective auction mechanism, old factory setup (which affecting tea quality and price realization), poor garden management, frequent changes of garden management/managers, in-experience people has taken charge of these gardens (who has no previous experience in tea cultivation and interest in plantation business, being mostly traders, who took control over the gardens with their money power) and the management's excessive reliance on bank-debts with negligible fresh equity infusion. In some of the gardens, the neglect has been due to ownership disputes and diversion of funds from tea gardens to other activities and in many cases strained relationship between management and garden workers (ICRA study 2007) has acted as a fuel to the fire.

At the market, the rising competition at domestic as well as international front has deepened the crisis of tea industry of India. The changing world order of last decade has left its own impact on the industry. The first, second and the third world are moving towards free globalized economy, where free trade (with WTO) and free flow of investment funds are the order of the day. Consumerism has taken the front seat, moreover developed world are moving towards healthier products and quality assurance which put pressure on the export of tea from India.

India, per capita consumption of tea among the lowest 64 grams, but in volume terms India is the largest consumer. Since 1970 country has become the largest absolute consumer of tea after UK. Larger domestic demand has given a new direction to the tea industry in the recent years.

CAUSES OF THE CRISES

Despite India's historical success with the tea industry, in recent years, the industry has faced serious competition in the international and national market which has led to the present crisis. Many factors have been cited as causing the crisis in the Indian tea sector – since the late 1990's. Analysts agree that the dramatic fall in prices is one of the most significant causes of the crisis. The worst affected have been plantation workers and small growers; the poor performance in price front, has seen the closure of tea estates that employ thousands of workers and of factories (BLF) to which small growers might sell their products. The fall in tea prices in India, are being driven down by many factors:

CHANGED GLOBAL POSITION FOR INDIAN TEA

The decade of 90's has been quite depressing for the Tea Industry in India (Asopa, 2007). The major cause of depression in the industry was due to decline in the international demand of Indian tea. The traditional markets of Indian Tea, USSR and UK have drastically reduced import of Tea from India. Changed global situations like disintegration of USSR, new WTO agreement, globalization of most developed and developing markets, etc. are steadily turning adverse to India. Indian tea lost its competitive advantage to other countries on account of high cost and poor quality. But one new development has given some ray of hope to tea industry as India has become the largest consumer of tea next to UK.

DEFECTIVE AUCTION SYSTEM

India's tea market is facing yet another paradox which could be explained in terms of glaring gulf between the price charged by dealers and retailers (Choudhury, 2006). A 2005 report for the International labour organization (ILO) notes that the large tea companies are benefiting from fall in auction prices and rise in retail prices for tea "This widening gap between consumer and auction prices.....is cutting into the margins realized by the tea producers but is not being passed on to the consumer in the form of lowered tea prices" (Goddard, 2005). Price paid to plantation and small tea growers have fallen since 1998, retail prices for tea have increased. Average price for medium quality tea sold in Indian market increased from Rs.85-90 per kg in 1999 to Rs.120-140 per kg in 2005 and it is continuing to rise.

Many Industry insiders also believed that, the large buyers have co-operated on the auction floor to keep tea price low. The process the broker follows is "they first buy privately, using that they suppress prices in the auction. Then they go back to private sales.....and the sellers come back to them again, thinking that these are better prices" (Goddard, 2005).

The large buying companies use their market power (as they have their own network of sales and marketing all over the country and exported tea after blending) to push down price and took the advantage of depressed market to pay low prices; they are clearly benefiting from the current situation. Hindustan Lever, Tata Tea, Williamson Magor, etc. are such powerful buyers having enormous influence on the market and price of tea in India in general and Assam tea in particular. These big tea companies which are in monopolistic competition in consuming countries always try to stabilize prices (Asopa 2007).

OVER SUPPLY LEADS TO POOR PRICE REALIZATIONS

The price of tea has been in long – term decline while production costs have risen, putting pressure on tea growers and working condition of labourers. The decline in prices has been primarily due to growth in production in the face of sluggish demand. Low prices for tea are generally passed on to the plantation workers in the form of low wages and withdrawal of basic facilities like food, health, education, etc. given that it is easier to cut cost by reducing labour cost (as the labour are weak in bargaining power) than raise tea price (impossible in the competitive market economy) and in most of the cases producers have to remain competitive by lowering wages. Major causes of poor price realization are due to following reason:

- Competition between producing countries for a share of the world market was one of the major causes of poor price of Indian tea. World production of tea is fairly diversified and not concentrated in a particular area. Presently 36 countries of the world produce tea and many of them are big producers who prevent the establishment of a monopolistic leader, which ultimately allows fair and free competition.
- Demand for tea is rising very slowly (1.5 - 2 %) therefore the only way to increase market phase of export by a country is at the expense of competitor.
- Tea is a perishable product which deteriorates its quality and flavors very quickly. Therefore it is frequently necessary to cut prices to clear stocks. Tea producers have to stay in market despite cut in prices of their produces as they have invested a huge sum of money.

DEFECT IN MARKET STRUCTURE

The tea value chain comprises all the stages from green leaf production from the bushes to finished product and sale to the customers. Value is added to the tea leaves at each stages of the supply chain, each with associated cost (SOMO-2008). This includes the cost of plucking and sorting, factory packing, internal transportation, ware housing, sales changes (auction or direct sale), freight, insurance, interest, blending, packaging and retailers sales cost etc. In general most of the agricultural produces, value addition is done at the downstream in the higher processing and retail stages of supply chain – this is also true with tea. This part of the value chain is control by a handful multinational tea packers and brokers (SOMO 2008). Concentration is extremely high in the downstream of tea supply chain where 90 percent of western tea trade is controlled by 7 (seven) MNCs, 85 percent of world production is sold by these MNCs. (List 1) As a result, these MNCs can considerably influence world retail price.

RISING COST OF PRODUCTION

While market prices for tea have been falling, the cost of production has been on the rise in India, putting downward pressure on profitability and income. One factor which is closely related to the cost of production is, of course, productivity in terms of volume per hectore which is affected by change in climate, soil fertility, age of the tea bush, high over-head cost, poor agricultural practices etc. The stagnation in productivity in many big estates is compounded by high land labour ratio. Productivity declined in India from 1996 to 2005 in the large gardens.

Labour cost accounts for around half of the unit cost of production and approximately 55 to 75 percent of that labour cost is on plucking. High fuel (electricity a goal) cost, dilapidated infrastructure including transportation and unstable law and order situation in and around garden area etc. result in high cost of production.

Field and factory worker's productivity is also considered low in India. The impact of social cost (health, food, housing, water etc.) in the large estates in percentage terms works out to about 5-8 percent of the total costs. It implies an additional Rs.4.12 per kg for manufactured tea in NE Region of India and Rs. 3.44 per kg in South India (SOMO-2008). Therefore it is assumed that around 80 per cent of the cost of production goes towards fixed expenses like fuel, power and labour.

Inflationary pressures are now pushing up these fixed costs further. Labour unrest is another major problem faced by planter/estates. Looking into the profitability of the industry at the current price, does not provide the way to meet these costs. Rising costs and low productivity can have negative consequences on social and environmental aspects of production (sustainability problem), if these costs cannot be passed on to the ultimate buyer.

RECOMMENDATIONS

1. Indian tea industry is passing through multidimensional problems. The origin of these problems is poor price realization by the growers for their tea. In India, auction is the preferred channel for tea marketing, which has many inherent drawbacks. Heavy reliance on brokers is the main cause of doubtful

- price realization in auction. Therefore, to achieve best return from their produce, growers have to take up the issue of effective marketing. They should redesign their market strategy to suit the market requirements of 21st century.
2. The colonial traders had complete control over tea trading (from production to sell) in India until the country got independence. They had their own favorable procedure of selling tea i.e. auction. These traders were least concern about the issue of marketing due to higher demand for tea in those initial days. After independence, Indian tea industry was left to big corporate houses and traders. Market liberalization has shown its impacts. However, no change was seen on the marketing channel followed by tea growers. They did not opted for any new system of marketing but follow the traditional method for their tea. However, to fit in the prevailing liberalized world, tea producers must concentrate on effective channels of marketing, which will ensure better price realization and high profits.
 3. The findings of the study reveal that Indian tea industry is facing several problems in the international market. Emergence of new competitors and withdrawal of quota system in tea selling has negative impact on Indian tea. Therefore need arises for the Indian producers to prepare themselves as a strong competitor equipped with all the required efficiencies. In India, producers are selling their tea. Limited number of big traders does marketing part. To survive in this competitive world, producers must think beyond the traditional practices and they should try to be an active marketer themselves.
 4. Today, in this globalized economy; competition is increasing among tea growers. India is loosing its global position and low export share pushed down the country to fourth in the international market. Hence, improvement of supply management of tea and integration with global tea marketing network will be beneficial for promotion of Indian tea. Producers should reduce selling and marketing expenses by selecting and using proper marketing channels. Proper distribution of tea in suitable market will be fruitful for the industry.
 5. Most of the tea producers of Assam do not have their own brands. As Mark Kibblewhite has mentioned in the Global Tea Congress at Tocklai Tea Research Association, Assam tea has good demand in U K, but it does not have any particular brand to represent itself and not easily available in foreign retail markets, which reduces a portion of its consumers. Therefore, proper branding of Assam tea is urgently required to fulfill international as well as domestic demand.
 6. It is observed that despite the large number of tea estate in India, well known brands (national /international) by the names of the actual producers in the real scene is lacking. This is because the producers from the inception of the tea industry in India did not shown any interest in product marketing. Therefore till date, no proper and efficient distribution and marketing chain has been formed. The future development of the producers will need integration with the market.
 7. Addressing the issue of low marketing practiced by the Indian tea industry, the industry can be more responsive to the market needs and surge ahead; the study found that most of the people in the tea industry have limited experience outside the "traditional tea cup". They should come out of the old thought and face the market realities.
 8. Place the product 'Tea' in its 'life context'. The average retailer has over 1000 product lines and the average consumer uses over a 100 product lines in a day. Tea is just one of them and needs to fit into the 'life' of the retailer and the consumer.
 9. Earlier 80 per cent of the Indian tea was sent to export, but now situation has a complete opposite picture. India consumes more than 80 per cent of the total annual tea production locally. Therefore, producers must try to realize the needs of domestic market, rather than international market.
 10. India has a huge domestic market of tea, which is expanding every year. The rate of growth of tea consumption in India is higher than growth of tea production. Possibility is coming when demand for tea will overcome the production. Hence, producers have to give more emphasis on production growth. Vigorous efforts have to be taken by the industry to meet at least domestic demand of tea.
 11. European countries were the permanent buyers of Indian tea and they had purchased a sizeable amount of India's production. With the collapse of USSR, India lost a regular market for its tea. Now majority of tea produced in India is retained for home consumption. Therefore, Tea producers have to devote considerable time and resource for marketing their product to reach out expectations of the consumers.
 12. New producer countries are competing in the tea market with better quality tea. India is not equipped with strong quality or competitive price for participating in this competition. Since last 170 years of the industry, India has not witnessed any major infrastructural development in tea plantations and in tea producing regions. Hence, it is difficult to survive in the global competitive market with outdated technologies and Indian growers should concentrate on domestic market only.
 13. Indian tea growers always enjoy a readymade market established by British. However, in the recent past, due to over supply of tea against demand the market strategy has shifted from the seller market to the buyer market. Therefore, the grower must recognize the new challenges of the market and implementation of new marketing strategy must be ensured.

CONCLUSION

No doubt the tea industry is an important source of revenue for India. But it can be fruitful for the economy of India as well as Assam only through proper marketing channel. Only production and consumption can not give benefit to the economy. To a great extent, economic growth of a country depends on the performance of marketing activities which stimulates the demand for goods and services and leads to higher production. Production may be the door to economic growth of an underdeveloped and developing country, but marketing is the key to economic deadlock. Marketing also helps in the development of the standard of products and services and also increases the standard of all fields. But no definite guidelines are found from market. Though export market of tea is loosing its position, the next alternative will be domestic market which has a trend of increase in demand and dominated by some Branded products which are the market leaders. India has a large domestic market which is expanding day by day. It is difficult to monitor tea consumption in India for its large market size. Competition is strong in the domestic market also. The reason for enormous domestic consumption is not due to a high per capita consumption but because of a huge population. This domestic market should be the basic platform for the Indian tea growers (small and medium). Also to be competitive in the world market the only way will be the strong marketing bond and marketing is the only weapon for India to face the problems of tea industry.

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ANNEXURE

LIST 1: MNCS DOMINATE THE GLOBAL TEA MARKET

1. The companies dominate the Tea trade at the global level
 - Unilever (Brooke Bond, Lipton / Unilever Trading Company UTC, UK- The Netherlands)
 - Van Rees (Trader/ Blender, Supplying many packers, part of Deli Universal Corporation, Netherlands)
 - James Finlay (Trader, Producer, Packer, UK)
 - Tata Tetley / Stansand (Producer, Trader, Packer, UK)
2. Important Tea Packers in the World
 - Unilever (Lipton is a very strong brand with a world market share of 10 %)
 - Tetley (Tata Group)
 - R. Twinings (Associated British Foods)
 - Ajeepay Group (Typhoo tea)
 - Ostfriesche Tee Gesellschaft OTG: Major German company which also has activities outside Germany

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