

Ispahani Tea: Brewing Success through Innovation and Excellence

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Abstract: *Ispahani Tea was one the first companies to offer packaged tea for the Bangladeshi consumers and gradually developed a customer base that opted for higher quality and sophisticated packaging. The Company has enjoyed the leadership position in the market since the 1990s and has retained it throughout these years. In doing so, the company developed an unrivaled distribution system along with ensuring excellent quality and customer satisfaction. The strong presence of various local and multinational players has been a constant threat to Ispahani, but the company sustained its leadership position all these years by maintaining its loyal customers. Soon the domestic consumption would exceed the national production and the company would have to find out a way to meet the increased market demand by adopting various initiatives.*

Key Words: *Ispahani, Packaged Tea Industry, Distribution, Brand Building, Bangladesh .*

I. Introduction

It was a lovely winter afternoon in Dhaka and Mr. Khan just finished checking the weekly sales figure for the third week of February 2015 in the Dhaka office of Ispahani Limited located at Motijheel, the busy office district of the capital of Bangladesh. Mahboob Ali Khan, the Advisor to the Managing Director of Ispahani Limited, was closing in on his date of retirement. He was supposed to leave office on 31 March 2015 after spending almost 33 years with the company. During his entire stay with the company, he was involved with its tea business and successfully steered the business to a point where it could boast of being the number one tea brand in the country with an unrivaled status. He credited his success to his continuous belief in ensuring quality of the product and maintaining a smooth and efficient distribution channel. He was confident that if the company follows the same strategy then there should not be any significant challenge to its tea business in the near future. But then again, the future was uncertain and his departure from the company would usher into a new era of management policies.

II. The House of Ispahani: The Journey Begins

M. M. Ispahani Limited started its journey in 1820 in the then British India when they established their business in Bombay (currently known as Mumbai). The company started as a trading company but later diversified into various businesses. During the British Raj, the company had little presence in Bangladesh (Then known as the province of Bengal). The partition of India in 1947 marked a change in this setting. The Ispahani family decided to move to the Muslim dominated independent nation of Pakistan and chose East Pakistan (Present day Bangladesh) as their destination. The port city of Chittagong was a business hub in British India and hence the family established their ventures there. Initially the company focused on the jute business and in the 1950s established their first jute mill, Chittagong Jute Manufacturing Company Limited. Jute was the main cash crop of East Pakistan at that time and it was a natural choice for many of the businesses that were trying to establish their foothold in the newly independent nation of Pakistan. Simultaneously the company was also involved in Tea Trading, a business that they were already familiar with. In 1954 they entered the Cotton & Textiles Industry through the establishment of the Pahartali Textile and Hosiery Mills. Although Jute remained their major business for many years, the decline of the Jute Industry after the 1980s meant that the company became more and more reliant on other businesses, mainly Tea Trade.

III. Tea Industry in Bangladesh

Tea production in Bangladesh can be dated back to as far as 1854, when the first commercial cultivation of tea had started at Malnicherra, Sylhet. Since then, the industry has come a long way, and at present there are 172 tea estates in the country with a total land area of 116,264 hectares¹. Tea has always been an important sector for Bangladesh economy as it was one of the few commodities that the country used to export since it gained its independence in 1971. Despite this reality, investment in this important sector has always been at a very minimum level, hindering its growth to a great extent. For example, the investment rate in

¹ Ahammed, K M. 2012. Investment for Sustainable Development of Bangladesh Tea Industry – An Empirical Study, Bangladesh Tea Board, Chittagong.

tea industry was only 3.64% on average of the turnover per year between 1979-80 and 2008-09, whereas the rate of average national investment is around 18.72% of GDP per year (Source: Bangladesh Tea Board). Such lack of investment did not however stop the continuous increase in tea consumption in the country. The demand of tea has always been on the rise due to a gradual but consistent increase in tea drinking habit which has resulted from higher income, population growth and rapid urbanization. The demand for tea for internal consumption in Bangladesh in 1989 was 10 million Kg, and over a period of two decades it increased to 60 million Kg in 2011. Between 2002 and 2011, the demand had been increasing at a rate of 4.10% per annum whereas the production had increased at a rate of 1.03% per year only. This low level of production increase was making it quite difficult to meet the increasing demand of the market and consequently price of tea has increased and exportable surplus of tea has reduced. It can be safely assumed that the demand will only continue to increase even further in the coming days with the rise in income level and a continuous upsurge in the tea drinking habit of the people of Bangladesh. The figures from a report by Bangladesh Tea Board indicate that by 2025, the internal requirement of tea would be 84.06 million kg as opposed to the total production of 73.63 million kg. So it comes as no surprise that tea export from Bangladesh has become negligible at present and the country has started to import tea to meet its domestic requirement.

IV. Ispahani Tea: The Road to Success

What had once started as a side business for the House of Ispahani, gradually emerged as one of the largest ventures for the company. Within a few decades of starting the tea business, Ispahani tea became the market leader in Bangladesh. The road to success it had to go through has not been instant, rather a slow and constant one. Ispahani did not own any Tea Garden till 1960. In the 1960s they bought four Tea Gardens, three in Moulavibazar district and one in Chittagong district. The largest of the four is located in Mirzapore, Moulavibazar. Because of the unique auctioning system of Tea Business, Ispahani uses only 20-25% of their own produce from the four tea gardens that they have. The rest comes from other tea gardens. Ispahani's Tea Trade business operates as a separate SBU and has no connection with the profitability of the Tea Gardens owned by the group.

Since the very beginning of its involvement in Tea Trade, Ispahani has always been a major player and gradually became the most dominant and key market player by 1990. Before that, there was no clear market leader in this industry since loose and non branded marketers used to hold about 70 percent of the total market share in Bangladesh. Ispahani has always had a vision that they would eventually become the market leader and planned accordingly. In order to provide the tea consumers a better tea consumption experience, Ispahani decided to offer its consumers better quality and sophisticated packaging to enhance their consumption experience. As a consequence of this initiative, it introduced the laminated pouch, the double chamber tea bag, the "stand up" pouch, the food grade jar, the three layer pouch, the "bag-in-bag" packet etc. All these offerings were popular with the consumers and it helped Ispahani to become the pioneer in the marketing of tea. They became the market leader in Bangladesh and also established the name Ispahani as a synonym to Tea to many. At present various brands offered by Ispahani such as Mirzapore Best Leaf, Mirzapore Double Chamber Tea bags, Blender's Choice and Zareen are market leaders and household names in Bangladesh.

The number one brand of the company is Mirzapore Best Leaf (including Tea Bags), which comprises of more than 40 percent of total sales by Ispahani Tea. Tea Bags are becoming popular very rapidly in Bangladesh because of improving economic conditions as well as change in customer tastes and preferences. 20 years ago less than 2 percent of Ispahani Tea's total sales were from Tea Bags. Now this figure has crossed 10 percent. The main competitor brands are Lipton Taaza, the leading brand of Unilever Bangladesh; and Seylon Gold, the leading brand of Abul Khair Group (One of the leading conglomerates of Bangladesh). The 100 grams pack of Mirzapore Best Leaf is priced at Taka 40 for the end users and Taka 36 for the retailers giving the retailers a margin of just over 10 percent. Lipton Taaza sells for Taka 35 per 100 grams and Seylon Gold sells for Taka 34 per 100 grams. The retailers' margin for Seylon Gold and other tea brands from Abul Khair is higher than the other competing brands which encourages push sales from the retailers. This has helped the tea business of Abul Khair Group to gain the second largest market share (volume wise) in the tea industry of Bangladesh in a relatively short period of time. Ispahani has also positioned two brands, Zareen (Retail price Taka 44 for 100 grams) and Blender's Choice (Retail price Taka 45 for 100 grams), in the premium segment of the market. However, Ispahani does not have any Green Tea in its brand portfolio. The management believes that the future of Green Tea market in Bangladesh is not very bright as the local production is negligible and hence import is the only recourse. Green Tea is also expensive (The customers in Bangladesh are very price sensitive) and it does not go with the taste preference of most Bangladeshi Tea Drinkers. The main player in the organic tea market is Kazi & Kazi Tea who generally relies on sales of tea bags for penetrating the organic tea market. So far they have failed to achieve even 1% market share of the total tea bag sales in Bangladesh. So the organic tea market surely has a long way to go before becoming established in the country.

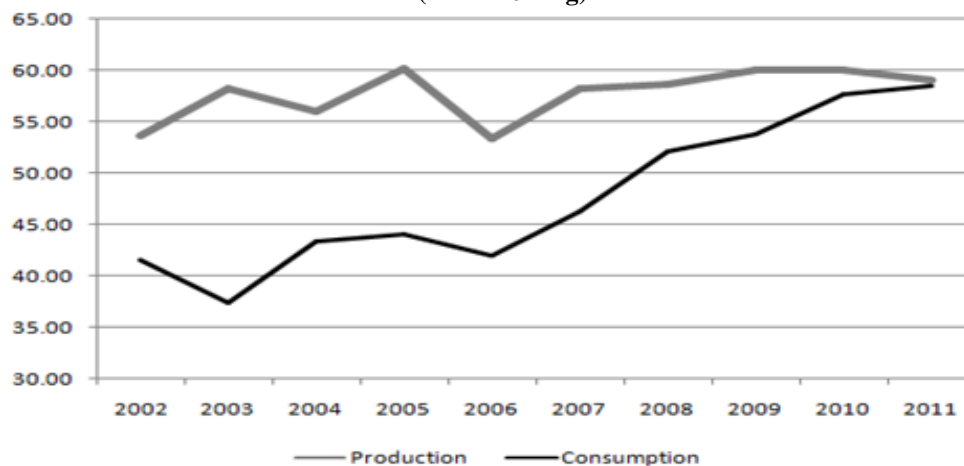
An unrivaled distribution system of its own has always been the major competitive advantage for Ispahani through which it is able to spread sales centers and divisional offices all over the country. This indeed is a unique advantage as no other competitor has its own distribution network and competitors are dependent on independent distributors for reaching the retailers. This allows Ispahani not only to ensure its products availability but also to reduce its cost by eliminating the distributor's margin. Currently Ispahani Tea owns three factories. Two of the factories are located in Chittagong, including the largest one which has been operating since the 1950s. In 2010, a third factory was established at Srimangal, Moulavibazar in response to the rapidly growing demand of Tea Products in Bangladesh. The Company has divided the country into 23 divisions and it has 510 sales centers across Bangladesh. The order is generally placed in the factory by the divisional managers. In some cases a few large sales centers (e.g. Tongi) also place the orders directly to the factory. The tea is sent from the factory to the sales centers via pickup trucks. There are 350 pickup trucks that are used by Ispahani, all are owned by them. The Pickups are also used by the sales centers to distribute the tea to the retailers. In some localities Ispahani uses Rickshaw Vans to reach the retailers. Ispahani owns 200 Rickshaw vans for this purpose.

Another major source of its success lies in its people. In the 1980s, once the company had realized its potential in becoming the market leader in the Tea industry, it started emphasizing on recruiting quality people for managing the operations. Apart from the selective recruitment, it also ensures continuous development of its employees through regular training. Research and development initiatives are given equal importance for coming up with better products. Ispahani prides in having the state of the art machineries as well as a very strong tea tasting department that allows it to have uniform quality in their Tea.

V. Conclusion

It has been a long journey for Ispahani to reach the pinnacle of success, but the company always had its priorities set to overcome all obstacles. Since the very beginning of its operation, the company has focused on providing the consumers the best possible experience in terms of quality and customer satisfaction and this has played a vital role in building and maintaining the brand image of its Tea products. Ispahani now enjoys the status of the single largest tea company of the country as well as the topmost position in brand awareness among its consumers. As Mr. Khan was reflecting on the success of Ispahani's success, his smiling face had the pleasant aura of a person who has performed his responsibilities well. He hoped that his works will be further progressed by his successors and Ispahani's reputation will grow more and more and someday Ispahani Tea will make its footprint beyond the borders of Bangladesh.

Exhibit 01: Total Production and Internal Consumption of Tea in Bangladesh (In million Kg)



Source: The data for preparing this graph has been obtained from statistical reports of Bangladesh Tea Board

Exhibit 02: Packaged Tea Market in Bangladesh (For the Month of February 2015)

	Urban sales	Rural sales	Value (Million BDT ²)	Volume (Metric Tons)	Number of Retailers
Bangladesh Total	56.40%	43.60%	496.50	1,331.00	779,350
Ispahani	64.20%	35.80%	211.80	530.00	445,738

Source: Ispahani Retail Audit Report (February 2015)

² BDT = Bangladeshi Taka

Exhibit 03: One Year Market Trend (Packaged Tea Sales Volume – Metric Tons)

Company	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	Sept. 2014	Oct. 2014	Nov. 2014	Dec. 2014	Jan. 2015	Feb. 2015
Ispahani	493.7	432.9	455.7	455.0	502.9	498.9	503.6	574.6	540.0	587.0	564.5	530.0
Abul Khair	283.2	259.0	244.0	253.7	280.0	272.8	266.7	322.0	308.9	341.3	343.9	322.9
Unilever	257.2	227.4	228.0	227.8	234.6	234.0	227.3	257.6	219.3	227.6	220.3	223.8
HRC	38.9	36.6	36.4	38.3	37.3	41.5	39.6	49.7	45.0	47.6	56.6	52.8
Meghna Tea	28.9	25.2	31.5	30.3	34.8	35.8	33.8	37.6	39.8	49.8	44.0	37.6
Others	138.4	123.9	132.6	122.8	120.5	128.2	132.1	152.1	137.7	176.7	169.3	163.9
TOTAL	1,240.3	1105.0	1128.2	1127.9	1210.1	1211.2	1203.1	1393.6	1290.7	1430.0	1398.6	1331.0

Source: Ispahani Retail Audit Report (February 2015)

Exhibit 04: Retailer Reach (Number of outlets in thousands)

Company	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	Sept. 2014	Oct. 2014	Nov. 2014	Dec. 2014	Jan. 2015	Feb. 2015
Ispahani	409.7	408.4	424.9	423.9	438.1	456.8	462.9	454.5	453.2	453.6	454.8	445.7
Abul Khair	283.9	280.1	289.5	287.0	279.3	282.1	269.7	271.6	270.6	275.5	272.8	268.6
Unilever	124.5	125.2	126.5	128.1	122.6	122.9	121.1	119.9	113.1	109.7	109.6	117.4
HRC	40.7	40.1	40.6	39.4	38.1	36.7	36.9	37.4	38.8	39.1	39.5	39.6
Meghna Tea	42.7	44.9	48.3	50.9	51.7	57.8	54.8	46.3	50.6	55.4	50.4	49.0

Source: Ispahani Retail Audit Report (February 2015)

Exhibit 05: Strength by Channel (Volume Share)

Company	Grocer	General Stores	Restaurants	Other Outlets	Total
Ispahani	56.80%	18.00%	21.30%	3.90%	100.00%
Abul Khair	55.50%	12.20%	27.90%	4.40%	100.00%
Unilever	67.20%	28.40%	1.70%	2.70%	100.00%
HRC	62.00%	9.90%	18.40%	9.70%	100.00%
Total Market	57.30%	17.60%	21.00%	4.10%	100.00%

Source: Ispahani Retail Audit Report (February 2015)

Exhibit 06: Consumer Pack Sales (Volume Share Trend)

	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	Sept. 2014	Oct. 2014	Nov. 2014	Dec. 2014	Jan. 2015	Feb. 2015
Ispahani	48.4%	47.7%	48.6%	48.2%	50.2%	49.1%	50.5%	50.0%	51.1%	51.7%	50.9%	49.6%
Unilever	33.6%	33.5%	32.0%	32.1%	31.0%	31.0%	30.7%	29.9%	28.1%	26.7%	26.5%	28.1%
Abul Khair	9.4%	10.1%	10.1%	10.3%	10.9%	11.1%	10.6%	11.9%	12.0%	11.8%	12.2%	11.8%
Others	8.6%	8.6%	9.3%	9.4%	7.9%	8.8%	8.2%	8.2%	8.7%	9.8%	10.4%	10.6%

Source: Ispahani Retail Audit Report (February 2015)

Exhibit 07: Tea Bag Sales (In Million BDT)

	March 2014	April 2014	May 2014	June 2014	July 2014	August 2014	Sept. 2014	Oct. 2014	Nov. 2014	Dec. 2014	Jan. 2015	Feb. 2015
Ispahani	34.84	33.18	32.68	32.25	34.48	36.77	38.87	44.27	43.03	46.80	45.76	42.83
Abul Khair	12.29	10.66	10.23	9.67	10.83	11.94	10.62	12.64	11.72	12.40	13.40	13.93
Unilever	6.61	5.68	7.62	7.85	9.28	9.11	9.10	9.95	8.38	9.85	8.81	6.92
Others	0.94	0.77	0.75	0.84	1.00	0.86	1.33	1.22	0.84	1.06	0.99	1.08

Source: Ispahani Retail Audit Report (February 2015)