



Linnéuniversitetet

Kalmar Växjö

Master thesis

The green gold from Sri Lanka

An explorative research of the value chain of tea in a developing country



Author: Sara Johnsson

Supervisor: Tom Karlsson

Examiner: Fredrik Karlsson

Course code: 4FE18E

Date: 2016-05-23

Preface

I would like to thank my supervisor Tom Karlsson, who is the inspiration for the research as well as the source of knowledge and expertise along the development of the research. Further thanks to my examiner Fredrik Karlsson, for tips, thoughts and great advice. I also want to take the opportunity to thank the participating respondents from; Lumbini Tea Factory, Greenfield, Asia Siyaka Commodities, Tea Tang and A. F. Jones Export. Your contributions have been essential in this research and I am very grateful that you took the time to set up interviews with me. Last but not least, my sincere appreciation to my driver who was there for me day and night and drove me all across Sri Lanka.

Graduation is around the corner, after four years of studies and finally this journey through another business culture, I look forward to and am excited for what is to come. Despite blood, sweat and tears, it has been both fun and educational, but now it's over. Finally, friends and family in Sweden and overseas, you made my stay in Sri Lanka a sunshine story that will be hard to forget!

මමට ස්තූතියි

Thank you

Linnaeus University, 2016-05-23

Sara Johnsson

Abstract

Degree project in Business Economics, School of Business and Economics at Linnaeus University, Master thesis Course 4FE18E

Author: Sara Johnsson

Supervisor: Tom Karlsson

Examiner: Fredrik Karlsson

Title: The green gold from Sri Lanka - *An explorative research of the value chain of raw material in developing countries*

Background: Price pressure, together with factors as commodization and demands for lower production costs has had a negative impact on further investments on the tea industry in Sri Lanka. Developing countries must persist in their efforts to catch up with the rapid growth and increased global trade to maintain an important source of growth. Despite increased recognition regarding the importance of economic growth, where it is crucial for a company's ability to profit with long-term viability by finding a unique combination and collaboration of activities within the value chain, there is still a confusion of how an emerging vertical integration can strengthen the tea industry.

Purpose: The purpose of this research is to evaluate, define and describe the value chain of actors and activities from raw material to finished product that activate value increments within the tea industry in Sri Lanka. In order to reach this aim, a deeper understanding of how enterprises choose their way of distribution commodities or value-added product. The empirical data is combined with a theoretical framework that investigates the challenges with vertical integration within the tea industry, focusing on strengthen Sri Lankan tea producers' value chains.

Delimitations: Distinction that investigates Sri Lanka and its value chain of tea.

Methodology: This minor field research was performed with an evaluating research design in Sri Lanka. A qualitative approach has been used in combination to the ethnographic method that carries out the collection of data. Semi-structured interviews have been conducted with companies within the tea industry in Sri Lanka to meet the research objective.

Conclusions: The vertical integration can be strengthened through informal integrate functions and its emergence can thus promote business networks. Actors linking through investments by brokers can thereby simplify the process of value adding activities to the current tea industry in Sri Lanka.

Keywords: Value chain, Value adding activities, Vertical integration, Sri Lanka, Agribusiness

Table of contents

Preface	ii
Abstract	iii
1 Introduction	- 1 -
1.1 Research Background	- 1 -
1.2 Historical Perspective of the Ceylon tea industry in Sri Lanka	- 3 -
1.3 Problem Discussion	- 5 -
1.3.1 Research question	- 9 -
1.3.2 Purpose	- 9 -
1.4 Structure of the Research	- 10 -
2 Method	- 11 -
2.1 Evaluating Research Approach	- 11 -
2.1.1 Step 1	- 12 -
2.1.2 Step 2	- 13 -
2.2 Data Collection and Selection	- 15 -
2.3 Ethnographic Research Design	- 17 -
2.4 Respondents	- 18 -
2.5 Source Criticism	- 21 -
2.6 Compilation and Analysis of Cases	- 21 -
2.7 Ethical Considerations	- 24 -
2.8 Method Summary	- 26 -
3 Empirical Framework	- 27 -
3.1 The Value Chain of Ceylon tea	- 27 -
3.1.1 Elements of the value chain	- 28 -
3.1.2 Tea estates	- 30 -
3.1.3 Brokers Company	- 32 -
3.1.4 Exporting company	- 35 -
3.1.5 Factory with own manufacturing	- 38 -
3.2 Colombo Tea Traders Associations/ International Tea Committee	- 42 -
3.3 Summary of the Empirical Framework	- 45 -
3.3.1 Summary of the value chain of Ceylon tea	- 46 -
4 Theoretical Framework	- 48 -
4.1 An introduction to the Concept of a Value Chain	- 48 -
4.1.1 Vertical integration	- 50 -
4.2 Business Relationships	- 53 -
4.2.1 Strategic partnership	- 54 -
4.3 Business Networks	- 55 -

4.4 Summary of the Theoretical Framework _____	- 58 -
5 Analysis _____	- 61 -
5.1 Ceylon Industry of Today _____	- 61 -
5.1.1 Breakdown of the Ceylon Industry _____	- 63 -
5.2 Vertical Integration within the Value Chain _____	- 65 -
5.3 Integrating the Value Chain by Business Relationship _____	- 67 -
5.4 Value Adding Activities within the Network _____	- 70 -
5.5 Summary of the Analysis _____	- 74 -
6 Conclusion _____	- 75 -
6.1 Emergence of Vertical Integration within the Value Chain _____	- 75 -
6.1.1 Cooperation and coordination _____	- 76 -
6.1.2 Strengthen Sri Lankan tea producers' value chains _____	- 77 -
6.2 Recommendation _____	- 78 -
6.3 Tentative Contribution _____	- 81 -
6.4 Reflection and Closing Words _____	- 82 -
7 Source of references _____	- 83 -
7.1 Electronic sources _____	- 85 -
Appendix 1- Interview guide _____	- 87 -
Appendix 2 – Export of Tea, countries of destination _____	- 89 -
Appendix 3 – Monthly average prices _____	- 90 -
Appendix 4 – Quantities of tea sold _____	- 91 -
Appendix 5 – Exchange rates 2015 _____	- 92 -
Appendix 7- Annual average prices _____	- 93 -
Appendix 8 - Annual quantities sold at auctions _____	- 94 -

Table

Table 1. Data collection and categories.....	- 16 -
Table 2. Compilation of interviews, respondents.....	- 20 -
Table 3. United Kingdom - Import and Re-export (International Tea Committee, 2015)-	
44 -	

Figure

Figure 1. Tea Value Chain and Tea Consumption (Reenen, Panhuysen and Weiligmann, 2010, page 6)	- 6 -
Figure 2. Research design, step by step	- 15 -
Figure 3. Summary of the Empirical Framework	- 45 -
Figure 4. The value chain of Ceylon tea	- 47 -
Figure 5. Porters value chain model. (Porter, 1985)	- 49 -
Figure 6. Model of Empirical and Theoretical concatenation	- 60 -
Figure 7. Structure of the links in the observed value chain	- 61 -
Figure 8. Breakdown of activities in the value chain for tea products	- 62 -
Figure 9. Export company' position within the value chain	- 63 -
Figure 10. Tea estates: position within the value chain	- 65 -
Figure 11. Factory with own manufacturing: position within the value chain	- 66 -
Figure 12. Increased demand on the market	- 67 -
Figure 13. Brokers company: position within the value chain	- 69 -
Figure 14. Diagram over three largest players within the tea industry	- 72 -
Figure 15. Identified positions between the elements along the value chain	- 74 -
Figure 16. Emergence of Vertical Integration	- 77 -
Figure 17. Summary of the basic cause-and-effect logic	- 79 -

1 Introduction

This section highlights the background of the selected topic, problem discussion, research question and the purpose of this research. Tea growing faces countless social, environmental and economic challenges, which increases the importance of raw material value adding activities and business strategy. This chapter aim to provide a broader insight of vertical integration and business relationships impact on the Sri Lankan tea industry.

1.1 Research Background

About two thirds of the population in Sri Lanka is engaged in agribusiness. This makes the agribusiness a large provider to the country's economy through factors such as income, foreign exchange and employment (Food and Agriculture Organization of the United Nations, 2015; Yusuf and Trondsen, 2013). Sri Lanka has a relatively diversified agribusiness and has provided international markets with agro-based products for an extended period of time. According to Senior Vice President of Asia Siyaka Commodities, Dhammike Wedande (2016-03-31) it is the humid climate that forms the basis for the export targeted cultivation of tea in the highlands as well as natural rubber and coconuts along the coast. Tea, diamonds and coconuts are Sri Lanka's main exports with earnings of \$11,88 billion during 2014 (Central Intelligence Agency, 2015). One of the most significant export commodities is Ceylon tea, which also makes Sri Lanka the fourth largest tea producer in the world (Sri Lankan Tea Board, 2015).

Yusuf and Trondsen (2013) claims that agribusiness represents an important, absolute and comparative advantage for many developing countries. Sri Lanka's foreign tea exchange annually generates \$700 million to the economy, and accounts for 2 percent of the Gross Domestic Product (GDP) (Department of Census and Statistics, 2015). Stanton and Burkink (2008) claim that the GDP in developing countries grows depending on the agriculture, hence it benefits from low-income groups two times more than any other sectors of the economy. Braga and Strebel (2012) claim that historically, the tea market has shown a persistent state of oversupply, which has maintained a downward pressure on prices. Falling prices might be appealing to buyers and customers, but it creates a downward spiral that threatens the long-term economic health of the industry (Lindvall, 2011).

The price pressure, together with factors as commoditization and demands for lower production costs has had a negative impact on investments and further improvements of agribusiness, which has been undermined (Braga and Strebel, 2012). The decreased margins and underinvestment's jeopardised productivity and quality of the raw material has put a hard pressure on how companies can continue as actors on the global market (Food and Agriculture Organization of the United Nations, 2015).

The globalization has led to increased competition and easier interaction on extended markets. Burda and Dluhosch (2002) explain that globalization affects major organizations and has created an integration of our world's economics. Because of the globalization it is easier to ship goods worldwide today, when it is able to go from producing countries in the south to consuming countries in the north in only a few weeks (Randøy, Oxelheim and Stonehill, 2001; Braga and Strebel, 2012). While globalization makes it easier to distribute resources in a quick and convenient way, Porter (1980) claims that for most of the international companies, the sequence of transactions and transformations reaching from raw materials to the final product have by nature become more global. Bair, Gibbon and Ponte (2008) claim that an understanding of the globalization's impact on enterprises, would gain a better understanding of total production costs.

Despite a large domestic consumption, more than half of the tea production in Sri Lanka is annually exported to international markets, mainly to Europe, the Far East and North America (appendix 2). Exporters emphasize that Sri Lanka produces approximately 340 metric tons of tea per year and according to the European Commission, 95 percent of the packaging during 2012 took place in Europe (Sustainable Agribusiness Initiative, 2016). Multinational operators transport their bulk orders to Europe due to the value adding process (Sri Lanka Export Development Board, 2016). This points towards that a big part of the value chain does not take place in Sri Lanka, which according to Braga and Strebel (2012) is an indicator that the country loses some ability for improvement of the agribusiness. Thereby, a number of international middlemen are involved in the distribution and the Sri Lankan companies' faces obstacles in exporting domestically produced volumes in a smooth manner (Sri Lanka Business, 2016).

Stanton and Burkink (2008) emphasize that developing countries must persist in their efforts to catch up with the rapid growth and increased trade in the rest of the world to maintain an important source of growth. The development is now taking place in a rather different condition compared to a couple of years ago since the previous more spot-market of relationships that characterized them for centuries has changed. Although, the existing trading system, established by the International Tea Committee, aims to protect agriculture and export subsidies in the US, Asia and the EU, as well as prevent developing countries from having adequate market prices and market access for their products (Michael J de Zoysa, 2016-03-31). The networking for manufacturing and trading are nowadays better described by the term value chain and are prominently discussed in recent developing programs. Michael J de Zoysa (2016-03-31), chairman of the Colombo Tea Traders Association, emphasizes the work to continue the change:

How would it be if they saw the possibility of converting the entire industry and guard it against commoditization? There are conditions for achieving technological and vertical developments, which means that they could win; both as a first mover and catalyst for an industry-wide transformation (CTTA, 2016; Michael J de Zoysa, 2016-03-31).

Weakened trading conditions for tea products are one of the main arguments for abandoning the bulk market and instead focus on agro-based products with a higher level of value-added activities (Sustainable Agribusiness Initiative, 2016; Stanton and Burkink, 2008). Furthermore, Stanton and Burkink (2008) claim that, improving the agribusiness value chain in developing countries can make an important contribution to increasing income and reducing poverty within the country, by enabling smallholders to use the opportunity available for improving the value adding activities of their production. Recognition is increasing regarding the importance of economic growth for enable poverty reduction, around the world it is increasing as well as the crucial role of functioning markets and private sector development (Lindahl, 2005).

1.2 Historical Perspective of the Ceylon tea industry in Sri Lanka

Sri Lanka is an independent, republic, island in the Indian Ocean, just south east of the Indian peninsula. Economically, it is among the world's poorest countries. Sri Lanka, known as Ceylon up until 1972, was colonized for centuries, during the 16th century by the Portuguese, during the 17th century by the Dutch and finally by the British from the 19th century until it became independent in the year of 1948.

Tea was introduced to British Ceylon, by a Scotsman named James Taylor, when the large coffee plantations on the island were decimated by disease in the 19th century, and the extensive tea industry emerged during the British colonization. (Sri Lankan Tea Board, 2015). Taylor found the hill country of Haputale, with its warm climate, high altitude and sloping terrain, to be particularly well suited for tea plantations. A certain Ceylon tea was introduced on the market and famous tea merchant Thomas Lipton became an important distributor during the 1890's. (Dhammike Wedande, 2016-03-31). Lipton imported approximately 30 000 tons of Ceylon tea to London during the first decade. This successful start may be the reason why Sri Lanka is one of the world's largest producers of the raw material today, with 340 million kilos produced per year. Only China, India and Kenya produce more.

According to the Sri Lankan Tea Board (2015) the tea industry employs around 13 million workers, where 9 million are small and medium-sized enterprises. The smallholders are vulnerable due to the poor yield and quality resulting from the downward spiral that threatens the fundamentals of the tea industry. This, along with the fact that the small and medium-sized enterprises meet extensive sustainability challenges. The International Tea Committee has handled these challenges by regulating the industry and protects it from corruption, since the early 19th century.

Agreements were made to limit the crop and exports on a voluntary basis when the British accused the Dutch for not following the set regulations in 1931. The British tried to strengthen the position of its own producers and imposed an import tariff on tea exported outside the commonwealth. Exports had then vastly increased to markets outside the UK and marketing campaigns advertised the cause with "Buy British goods". Meanwhile, there was increase of trade from the Dutch East Indies which made the average prices of tea in London drop to nine and a half pence per pound, while in Amsterdam, tea prices were held at a constant. These frictions urged further negotiations between the tea unions. The International Tea Committee (ITC) was a result of these negotiations and it was organized in 1933 by representatives of the tea planters in India, Ceylon and the Dutch East Indies. The committee' aims to administrate and secure that companies within the industry follow the regulations by the terms of the International Tea Agreement and are even today regulating the industry (Michael J de Zoysa, 2016-03-31).

1.3 Problem Discussion

The question of how to achieve high growth rates under the present international conditions has been the Sri Lankan government's top priority since 2003, when they formulated *Poverty Reduction Strategy Paper (PRSP)* (International Monetary Fund, 2015). There is a strong political commitment to strategies of a dynamic poverty reduction.

We strongly encourage you to export value added Ceylon Tea, rather than in bulk form. Value addition is a great way to increase your earning (Sri Lanka Export Development Board, 2016).

The involvement of the Sri Lanka Export Development Board (EDB) has proven to be an important driving force of the value chain, which according to Stanton and Burkink (2008) affects the economic and social progress throughout a developing world. EDB continuously explain that agriculture-led development is the key to social progress and poverty reduction in many developing countries. New sources of income in agribusiness is now especially important in order to meet the challenges in co-operation development. Sri Lanka's main income of today derives from its agricultural production and its backward and forward linkage, which is basically the value addition received by processing agriculture-based products (EDB).

Bair et al., (2008) argue that by understanding the complex linkages in the value chains, which affect the logistical understanding of companies' direct and indirect production cost, a corporation can organize their value chain. The activities that comprise a value chain can according to Porter (1985) be controlled within a single company or divided among different companies. Porter (1985) explains that the idea of the value chain is based on the process view of organizations and how they can locate their operations more efficiently, outsource various operations and thereby focus on their core-competencies. Each company has its own value chain which will distinguish them to a greater or lesser extent from its competitors. In a dynamic and highly competitive environment, companies have a high operational effectiveness and focus on strategy, according to Benton (2009). The understanding of the environment will thereby affect a company's ability to find a sustainable strategic approach for the value chain (Benton, 2009).

Figure 1 illustrates Sustainable Agribusiness Initiative's (2016) explanation of the tea industry's value chain. It starts with the tea factories, which are usually located close to the tea plantations, since the primary process has to start within five to seven hours after harvesting. Secondly, tea trading takes place at the open market, Colombo Tea Auction, where eight brokers control and provide access to market information. Furthermore, EDB claims there is no direct substitutive price-competition among different factories and their agricultural products, because they depend on special agro-ecological conditions, at least for those located in different climate zones.

On the other hand, if the differentiated demand increases, it will open up for opportunities to place a variety of goods on local, regional and global markets. This is especially shown in the last and most critical process. Sri Lanka is familiar with the blending and packaging but focus rather less on meeting the end-customers' needs. This, since the raw material is usually distributed to the importing countries in bulk and the value adding as well as the customer marketing is mostly done overseas (Sustainable Agribusiness Initiative, 2016). This makes the tea industry's value chain slack, and value creation abroad is more encouraged, mainly because of the inexperience of value adding activities. Previously, actors have focused on getting paid for the raw material and have not seen the gain in the value refine which enables a better profit.



Figure 1. Tea Value Chain and Tea Consumption (Reenen, Panhuysen and Weiligmann, 2010, page 6)

Thompson (1967) explains that implicit and explicit attention is fixed on efforts to economize on transaction cost. Technologies, domains of organized action, the strength and the limitation of the market as well as hierarchical modes are all recognized. Porter (1998) emphasize that most important for a company's profitability and long-term viability is to find a unique combination of these activities.

Their special attention and how they carefully select activities in order to differentiate themselves from competitors creates a positive impact on their sustainable competitive advantages. Stanton and Burkink (2008) claim that, both multinational enterprises and small as well as medium-sized enterprises play different roles in countless interrelated value chains by revealing wider consistencies within a certain industry.

The United Nations Development Programme for Sri Lanka (2015) claims that by gathering business partnership for sustainable development, there is a possibility to achieve strong commitment and cooperation within the industry. The United Nations Development Programme claims that international trading increases Sri Lanka's exports and also plays a part in achieving a development of the current universally rule-based and equitable trading system that is fair and open, thus benefiting all parties (United Nation Development Programme, 2015). Coltrain et al., (2000) emphasize that a collaboration between enterprises needs support from higher authorities to enable investments which in the long-run will create value and be supportive to developing countries. This is valuable because it has a great impact on the internationalization process as well as on the interaction of companies' networks. Companies depend on partnerships with others to manage a global performance that puts value to the agribusiness (Bitzer and Bijman, 2014; Coltrain et al., 2000; Ritossa and Bulgacov 2009). Kirzner (1973) explains that involved actors have to learn from each other on how to manage a company's impact on the global and constantly evolving market.

Ritossa and Bulgacov (2009) claim that the cooperatives' level of internationalizing is limited in developing countries because of the lack of technological and financial assets. The improved access of technology and knowledge is for this reason an important way to share ideas and support innovation between businesses which seems possible since the world is more interconnected today than before (United Nations Development programme). Companies are consequently encouraged to adopt corporation integration within their business strategy. This upgrade means acquiring the technological, institutional, and market capabilities that according to Mitchell, Keane and Coles (2009) allows companies to improve their competitiveness and move into higher-value activities.

Ritossa and Bulgacov (2009) state that strategic relationships are becoming more widespread when it comes to higher-value activities, which are making the management structure more advanced within the agricultural sector. New forces in the international market are promoting new institutional arrangements of multi-actor collaborations, which should motivate that small single actors do not fail to meet the competition on international level from bigger actors (Kirzner, 1973). Cooperation can open up for new markets, distribution and information channels to increase core competencies and product differentiation which can ensure survival of the agribusiness (Ritossa and Bulgacov, 2009). Strategic partnership will, according to Bitzer and Bijman (2014), allow a better access to resources, which will organize a successful export of emerging agro-based products. This will increase the global presence and profit to the estates. However, when the actors get the resources needed for the value adding production it also leads to high dependency between corporations. Ritossa and Bulgacov (2009) highlight the importance of meeting the needs and interest of all partners.

The majority of the research done on the tea industry's value chains in developing countries have focused on how large multinational companies can act on the global market with little or no research on small and medium-sized enterprises. Stanton and Burkink (2008) claims that traditionally, leading companies have been the main actors for different industrial areas that serves as nodes in the global network. In addition, small and medium-sized enterprises have been required to combine global business strategies in a global production network without any large resources nor the capabilities that large enterprises are holding. Benton (2009) explains that manufacturers have to identify their unique competences and achieve strategic positions by researching how value adding activities within their value chain may affect the final result of the business. Stanton and Burkink (2008) argue that it is often only a few companies in the value chain, whether it is a buyer-driven or supplier-driven chain, which control and coordinate its various activities. Corporations within the tea industry in Sri Lanka is, like in most agricultural sectors, highly complex and contain several actors at different levels (Sri Lankan Tea Board, 2015). There is no such thing as completely vertical integrated or completely non-integrated companies. Therefore, a debate should be held on these two contrasting alternatives and how these engagements can strengthen Sri Lanka's position within the tea industry.

1.3.1 **Research question**

By examining the roles, attitudes, and inequalities as well as the opportunities and challenges in the value chain, this research aims to evaluate which activities can strengthen the value chain of raw material and thereby investigate enterprises within developing countries, and their possibility to act on the global market. To sum up this chapter and the discussion about utilization of value adding activities in a developing country, the research question for analyzing the value chain of the tea industry is;

- *How can the emergence of vertical integration strengthen Sri Lankan tea producers' value chains?*

1.3.2 **Purpose**

The purpose of this research is to evaluate, define and describe the value chain of actors and activities from raw material to finished product that activate value increments within the tea industry in Sri Lanka. In order to reach this aim, a deeper understanding of how enterprises choose their way of distribution commodities or value-added product. The empirical data is combined with a theoretical framework that investigates the challenges with vertical integration within the tea industry, focusing on strengthen Sri Lankan tea producers' value chains.

1.4 Structure of the Research

The first section is an introductory chapter which describes the background to the selected topic, followed by a problem discussion that introduces the subject to the reader. The problem discussion then leads to the issue and the purpose of this research. The next section presents the research's methodological choices which reflect the practical work and the positions taken during the research. It also clarifies the design of the research's value chain analysis. The method section ends with source criticism showing awareness that the sources must be critically examined.

The third section presents the empirical data which are collected through in-depth interviews with representatives from companies involved within the value chain. The companies' current activities within the value chain will be clarified here. When the empirical framework is compiled, the next section commences with the theoretical framework. The conceptual value chain, business relationships and business networks are the theoretical parts described here, and they form the frame of reference on which this thesis is based upon. The fifth section consists of the analysis, in which the empirical data are linked with the theory. The analysis model is used to answer the research question to meet the research objective. The sixth and final section summarizes the above sections and presents drawn conclusions along the completed analysis and answer of the research question. Suggestions for further research, reflections on the research and its tentative contribution are also presented in the conclusion.

2 Method

This thesis is a Minor Field Research performed in Sri Lanka, supported by SIDA. The purpose of this section is to clarify and expose the research methods used for the aim of the research. The particular focus is on distribution and value adding activities within the value chain of tea in Sri Lanka. In order to fully understand the result and findings of this research, it is also important to clarify what the methods and processes behind the results are, as well as the reasoning for choosing these particular methods.

2.1 Evaluating Research Approach

The research aims to, by empirical data evaluate, and by theory investigate the challenges of achieving a better understanding of which activities in the value chain that activate value increments. The starting point was to identify the current value chain as well as existing enterprises and activities. A contact with an enterprise within the tea industry located in Sri Lanka was established in August of 2015. This was done to identify challenges and discuss possible approaches and methods of the research. The research started with Lumbini Tea Factory, by discussing their core concept and feasible development options, how their past strategies have influenced their current situation and how they differentiate themselves on the market. Interviews, along with more informal meetings yielded a cumulative understanding of the challenges and the fact that the value creation process of raw material is not specified for the tea industry in Sri Lanka. Therefore, to make this research possible, I decided to delimitate and investigate Sri Lanka and its value chain of tea. The research is viewed as an evaluation research which will take into account the entire value chain and whether single players can develop the existing industry separately as well as in collaboration.

To answer the research question and follow the aim of the research, a normative approach is being applied in addition to a positive. The reason of applying both theories is because the positive contributes to the evaluation and definition of how the Sri Lankan value chain works, while the normative theories are explanatory and forward-looking and aim to answer the question of how the emergence of vertical integration should be strengthen and how this could affect the value chain (Badersten, 2006). This has been done through two steps:

2.1.1 Step 1

Firstly, the topic was created through the own pre-understanding and prejudices about the subject. This thesis aims to empirically map out the value chain and by theory explaining the challenges with the value adding processing of tea, with a focus on keeping activities in Sri Lanka. Identifying the factors that play into the value processing and achieving this objective required a method that had great importance to the collection of empirical data. Therefore, the companies' own activities and views were important to consider in order to answer the question.

An insight was needed into how the companies themselves experienced their role in the value chain and how changes and regulations set by the Colombo Tea Traders Associations have influenced their current position. To enable this research, getting acquainted with the tea industry and Sri Lanka as a developing country became necessary. Thus a pilot research was carried out, which will provide an additional empirical perspective in order to get additional input to the first step's framework. The pilot research was followed through with interviews with representatives from Lumbini Tea Factory, Greenfield, Asia Siyaka Commodities, A.F. Jones Exporters and Tea Tang which all are Sri Lankan tea companies working as various functions within the chain.

According to Bryman and Bell (2013), there are different views of how theory and empiricism interact. This research research aims to, by empirical data evaluate and by theory investigate the challenges of getting a better understanding of which activities in the value chain that activate value increments. To achieve this aim, an approach with focus on the collection of empirical data was needed, thus the importance of gathering information about the current situation, to be able to draw conclusions about possible improvements. The thesis is therefore characterized by an inductive approach, which means that the research is distinguished. Accordingly, it is the empirical data that drive the research while the theory is the results of the research (Bryman and Bell, 2013). I have also researched theoretical facts as well as previous studies that Bryman and Bell (2013) characterizes as deductions. The research is therefore characterizes mainly as empirical operated with some elements of deductions work.

The gathering of further empirical data was conducted through document studies, mainly articles and statistics given by the International Tea Committee, as well as semi-structured interviews with respondents from the major of companies within the Sri Lankan tea industry. The interview questions were divided into the following categories: management and organization; business relationships; value adding production; trading and export; technology; and product development (appendix 1). The gathering of data later culminated in a revised model adapted for the value chain and how it can be developed with the help of business relationships and how value-added activities within the existing value chain can be implemented. The intention was to create an understanding of how enterprises choose their way of distributing raw material or finished products, and how the impact of their choices would affect the final value of the business. The research aims to generate a greater understanding and insight of the current challenges, within the description of Cassell and Symon's (2004) qualitative research approach. The choice to base research on a qualitative approach with document studies and semi-structured interviews from a small number of companies rather than a selection from a larger population has limited the possibility of generalization (Yin 2013). Generalization of the research is not possible, since it is limited to only investigating Sri Lanka and its value chain of tea.

2.1.2 **Step 2**

Furthermore, qualitative research methods were used to create a description of the case company's structure and its value adding activities. This was put together with a further analysis of the data to gain a better understanding of how and by whom the value is created and distributed. The use of a qualitative research approach has meant opportunities for impressions and semi-structured interviews (Cassell and Symon, 2004). Respondents were able to present detailed answers as well as in-depth interactions on how companies work within the value chain and what prevents their development. Additionally, the qualitative approach aims to create depth in the research by focusing on the workers and their business culture, this will create a deeper understanding of the tea's value chain. To create a deeper analysis, only a few cases could be examined in order to really form an understanding of the selection of value adding activities within the value chain and its effect on the final price. The information gathered from interviews and interactions with the companies has been of great value to the overall perspective. Although there is a risk that other research has not been highlighted enough.

With a basic understanding about the diverse functions that are constantly involved within the chain, additional theoretical material was added as well as further empirical studies of the regulation controlled by the International Tea Committee and Colombo Tea Traders Associations. In order to gain additional depth for the research, something similar to a trainee program took place, where all of the above mentioned companies were paid at least one visit where their daily work was observed. Interviews were conducted with representatives with positions as: managers; manufacturers; brokers; and exporters. The focus was mainly on: the end activities that take place before the tea ships overseas; how the value adding activities are functioning today; and on recognizing weaknesses in the complex chain.

Therefore, the second part aimed to analyze the tea industry by looking at its strengths and weaknesses according to the perceptions and experiences of the value chain actors themselves and their own awareness and satisfaction within the industry. Most of the primary qualitative data was collected through the interviews but statistic given by the International Tea Committee was also used to be able to move forward with the research (appendix 2-5). All the collected data including different rates was converted into US dollar, which is an international rate within the tea industry that makes comparison possible (exchange rates are found in appendix 5).

When all the empirical data was collected, the material from the interview was gone over, the data was converged and the conclusions were categorized in order to present it in the empirical investigation chapter. The different steps accumulated several perspectives of the matter into an understanding and a perspective of its own. At this step of the research, the theoretical framework had been collected and it includes theories about the conceptual value chain; the business relationships; and the business networks. This was implemented in the analysis in order to filter out the subsequent conclusion and recommendation, as well as answer the research questions and carry out the purpose of the research.

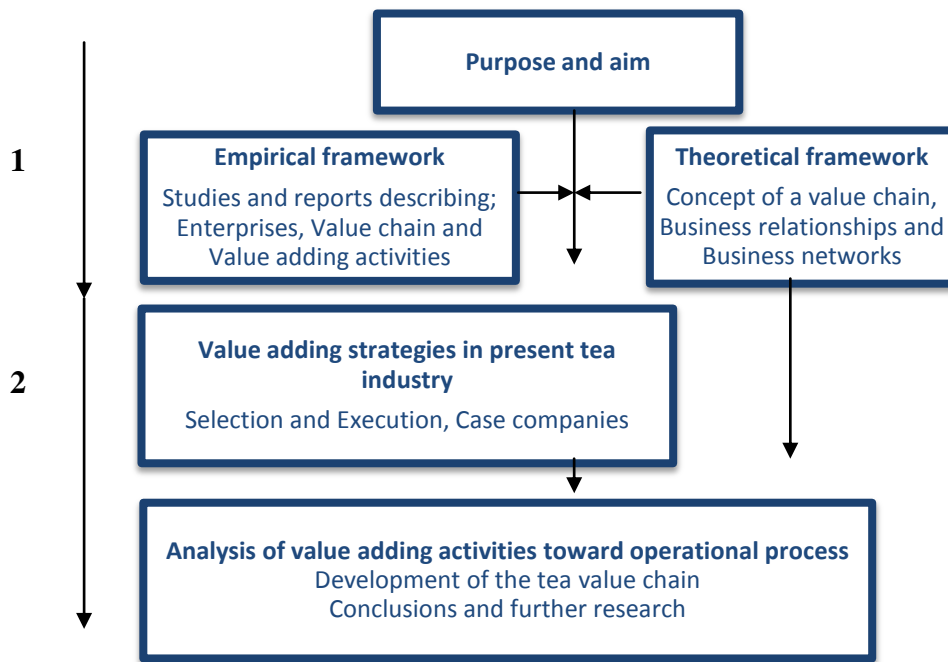


Figure 2. Research design, step by step

2.2 Data Collection and Selection

The aim of the data collection was firstly to map out the value chain of the actors, from raw material to finished product. Secondly to define the value distribution of the value adding activities in the value chain both within Sri Lanka and between geographical regions. Lastly, the collection of data was obtained in order to investigate the activities within the value chain and the flow of profits from foreign shareholders.

For the research to be practicable, a selection had to be made on which cases to research. Selection is a term used to explain how a researcher selects the appropriate empirical material in the shape of respondents and data for the research (Bryman and Bell, 2013). The work of selecting which cases to research was done by, in advance set up criteria for what the research would contain. Bryman and Bell (2013) explains this as a strategic method that enables the researcher, though the prior information, to find the sample needed. The research provides a broad and comprehensive information which is required to provide a qualitative description of a particular phenomenon or event in a particular organization (Svensson and Starrin, 1996). To enable an investigation of the current value chain, a distinct focus on all of the main elements was needed. This was therefore conducted at an early stage and mainly to enable contact with different actors within the various elements. At this stage, four possible categories were found:

1. Companies working at the tea estates, manufacturing the tea.
2. Companies trading the tea at the Colombo Tea Auctions.
3. Companies purchasing tea at the Colombo Auctions on account of oversea customers.
4. Companies working within the entire value adding process in Sri Lanka, selling the final products with or without their own brand.

This strategic choice enables setting up criteria to obtain advance information, locating what should be included in the sample so that the best possible information can be retrieved. At least one company in each category was chosen to enable a full immersion in the cases and thus find an explanation for their choice of activities within the value chain and how they were handled. While every case is unique, it also belongs to a broader category (Denscombe, 2009). These categories laid the foundation for further research structure. Additionally, an identification was done through analysis and a theoretical approach where their positions within the value chain was determined as follows:

Category	Business element	Company	Theoretical approach
1.	Tea estates	Greenfield	Fragile integrated
2.	Brokers company	Asia Siyaka Commodities Plc.	Strongly integrated
3.	Exporting company	A.F. Jones Exporters Exporters Ltd.	Integrated in the target market
4.	Factories with own manufacturing	Lumbini Tea Factory Ltd.	Vertically integrated

Table 1. Data collection and categories

The choice of methodology aimed to carry out a qualitative research using a value chain analysis, where information from the archive data will form the empirical part, and then be analyzed. It was important that the selection was done systematically, otherwise there would be a risk that the sample had not contained the cases providing the most appropriate information for this research.

2.3 Ethnographic Research Design

The research design and framework was chosen with inspiration from an ethnographic perspective where the researcher becomes a member of the group, this to enable observation of the behavior and work. Bryman and Bell (2013) explains the concept as a way to understand human beings as well as to get a glimpse of what their actions mean for that particular individual and a method where human culture and society get studied. According to Aktinson and Hammaesley (1994) ethnography is a primary method used for researching different cultures. In order to understand and be able to analyze these practical situations within Sri Lankan tea industry it was valuable for the researcher to participate in the field during a longer period. Various elements of the value chain was evaluated on location in Sri Lanka to enable further research.

According to Aktinson and Hammaesley (1994), an ethnographic research demands that the researcher is welcomed to the location and allowed to observe the daily work, this may prove difficult because of cultural differences. Kaj Barkö is a tea enthusiast and a frequent visitor to Sri Lanka. He introduced the researcher to his wide network in Sri Lanka enabled observing the various elements of the value chains. Initially, ethnographic observations was conducted at three different tea estates: Pedro Tea Estate, Greenfield and Lumbini Tea Factory. The researcher stayed at the different estates and factories and observed their daily work for a week. This led into contact with other actors downstream the chain. Mr. Mohan Selladurai, marketing manager at Lumbini Tea Factory, assisted in building a network of contacts with Asia Siyaka Commodities, the third largest brokers company in Sri Lanka. Here, the researcher took part in a trainee program from the 29th of April 2016, which led to at least one day of observations of each different activity held within the tea industry based in Colombo.

Firstly, a short briefing was held with Anil Cooke, CEO at Asia Siyaka, since he wanted to get a deeper understanding about the research and learn of the intentions during the week at their office. Secondly, a meeting was set up with the head officers at the main companies involved within the value chain. This enabled ethnographic studies of retail-, export- companies and Colombo Tea Traders Association daily work. Bryman and Bell (2013) explains that ethnography focuses on investigating the mechanisms that determine how the research object understand the global world, which for this research enables an evaluation of how the existing value chain works.

The research has an ethnographic embossing and includes interviews with convenience sample, which may make the thesis results seem as subjective (Bryman and Bell, 2013). However, the naive approach is considered departed from after interviewing numerous actors at a number of different companies with various activities within the value chain. The fact that conducting interviews and ethnographic studies of each company has been limited to only one or two days, except for Lumbini Tea Factory where the researcher stayed for five days, has however not enabled the researcher to be a part of the studied environment more than as an outside spectator. The interviewees has enabled contact with the next in line, which can eliminate the risk of making generalizations, but instead show that the research is useful in the Sri Lankan tea industry.

2.4 Respondents

It was crucial for the research to increase the overall knowledge of the resellers that sells Ceylon tea around the world. Therefore, a number of semi-structure qualitative interviews was conducted with various experts in the branch. Bryman and Bell (2013) describe a semi-structured interview design as a conversation around predefined topics in which the respondents are able to organize their response. This description is consistent with the approach used in this research as interview opportunities were largely based on open questions where the respondents were given the opportunity to freely formulate their answers. Based on the replies, follow-up questions were asked for clarification.

The respondents are actors within the business in Sri Lanka, working with factory management, manufacturing, trading and exports. The progress of the research was characterized by the fact that the current respondent introduced the next one and so forth. Bryman and Bell (2013) explains this as a snowball effect since the sample does not follow any pattern, which is a critical since there is no basis for if those respondents are useful for the research. Thus, I have been careful in the construction of these researches respondents to ensure a critical perspective when interviewing the individuals and companies that are taken into account for this research. Thus, contact was maintained with the respondents who gave different perspectives and angles, all to see the purpose from different perspectives and to answer the research question. The various respondents have helped to create a wider understanding of different business areas and the company as a whole, for further presentation of the respondents, table 1.

The main questions were focusing on the value chain and its activities situated in Sri Lanka, mostly to be able to capture the opinion of the most problematic situations, followed by a guideline, appendix 1. This provided a structure for the interview to make the whole discussion coherent. The interview guide was consciously independent from organizational roles, so the respondents, based on their own contexts and experiences, could describe their vision of the possible issue. The respondents' answers, based on their positions and influence, would hopefully compile a comprehensive picture of the companies' different activities within the value chain and its various value-added activities.

Cultural differences also constituted a barrier and it is a question of getting to know each other before returning to the facts. Therefore, all interviews usually commenced with dinner at a restaurant, a cup of tea or an invitation to their home. The meetings also offered a great chance for both sides to clarify and follow-up on interesting topics. Initially, simple questions were asked, with the hope to build a relationship and an environment in which the respondent was open-minded for more detailed questions related to the primary research. During the interview it was a deliberate choice to let the answers control the direction of the interview and less about the query result. This led to questions, which in some cases did not always follow the pre-intended sequence.

Although the discussion in some cases drifted around subjects not necessarily concerned with the product or even the research in hand, abandoning the interview guidelines resulted in disadvantages that some actors were given more time, while other issues ended up in the background. The basic idea of varying the order of the questions for the focus of the conversation was to create a better flow of the conversation and enable a deeper understanding of the specific respondent's perception of its role in the value chain. Finally, when the collected material was summarized, the respondent had the opportunity to ask questions or add additional details.

Audio recording and transcribing are according to Bryman and Bell (2013) useful aids to succeed with an analysis of interviews. To facilitate the data analysis, all the interviews were audio recorded. This made it possible to listen several times and thus clarify ambiguities, and resume where memory failed.

Bryman and Bell (2013) argue that audio recordings do not only have positive consequences, that there is also a risk that the respondents are concerned about the recording itself. With the intention to avoid this problem each respondent was asked for approval. The recordings were later transcribed in close connection to the interview sessions. For a time efficient, yet accurate, way to transfer words into text, a simplified transcription method was implied in which what was said was written down without depth focus on aspects like pitches, thoughtfulness or interruption frequencies.

Respondent	Company	Position	Time	Date
Anonymous	International Tea Committee	Chairman	40 min	2016-04-08
Michael J de Zoysa	Colombo Tea Traders Association	Convention Committee	30 min Mail	2016-03-31 2016-05-01
Dickie Juriansz	Colombo Tea Traders Association	Convention Committee	30 min	2016-04-09
Kaumini Ratnayake	Greenfield Bio Plantations Ltd	Marketing Executive	45 min	2016-02-16
Chaminda Jayawardana	Lumbini Tea Factory Ltd.	Managing Director	20 min	2016-04-01
Mohan Selladurai	Lumbini Tea Factory Ltd.	Marketing Manager	45 min Mail	2016-02-17 2016-05-01
Shanaka Yasarathne	Asia Siyaka Commodities Plc.	Broker	70 min	2016-03-28
Anil Cooke	Asia Siyaka Commodities Plc.	Chief executive officer	25 min Mail	2016-03-30 2016-05-01
Dhammike Wedande	Asia Siyaka Commodities Plc.	Senior vice President	45 min	2016-03-31
Emil Diaz	Asia Siyaka Commodities Plc.	Vice President Warehouse	60 min	2016-03-29
Quintin Dissanayake	A.F. Jones Exporters Ltd.	Managing Director	75 min	2016-03-31
Shamika Dasanayaka	Tea Tang Ltd.	Junior Tea Executive	45 min	2016-04-09
Kaj Barkö	Barkös te	Managing Director	Mail	2016-01-15

Table 2. Compilation of respondents

2.5 Source Criticism

The selection of theoretical and empirical sources, was done with a critical approach to assess the theoretical sources' credibility. When gathering empirical material, it was taken into account that subjectivity can shape the interviews (Patel and Davidson, 2011). This may consequently influence the response received from the interviewees. Thus, subjectivity was reduced by applying a critical approach as well as recording the interviews and carefully take into account what was said during the interview. The interview conducted by e-mail could however be reviewed again to carefully analyze the responses. A high degree of credibility, according to the research authors give good support, but also help to bring legitimacy to the research.

Trots' (2008) authenticity perspective, have been considered during the work with ensuring the credibility of the sources; *time, authenticity, dependent and biased*. Regarding *timing*, literature used in the theoretical framework have been up to date or written by the original author. The ambition has been to have an even range over time, which means that if a newer source is based on the same arguments as an old source, both can be used to show different perspectives. For example, how different methods should be considered. *Authenticity* of the sources is considered by using several sources and putting various arguments against each other. *Dependency* has been confirmed by comparing the sources to each other, and by that, biased materials has been sorted out. The last perspective, *biased*, is often linked to the dependency perspective because writers may try to hide their subjectivity by not having any opinions on the subject but angle the theory anyway. Through awareness about the authors' as well as well-known publishers' professional background, material have been excluded where there is a risk that it is biased and therefore also it has been made sure that it is not depending on each other.

2.6 Compilation and Analysis of Cases

The interpretation and analysis of collected data is, according to Bryman and Bell (2013) a complex and extensive work. Through the research, a structured and thoughtful method has been adapted, mainly to reduce the difficulty of understanding the current value chain. This thesis is made through a value chain analysis, mainly characterized by the collected material, in particular from transcribing interviews as well as collating, analyzing and compiling data based on pre-selected topics (Yin, 2013).

The research was conducted with an inductive approach which therefore constituted the framework of the empirical basis of the recognized theme and presentation of the current value chain. Kaplinsky (2000) explains that value chain analysis forces a focus on the various knots of suppliers and buyers and tends to have a more global focus. Value chain analysis generally restricts itself to a single marketing channel and follows the chain to the point of final consumption, whether this is in the product's country of origin or not.

././ the theory of value chains suggests simplicity and an easy clarity of focus. However, the real world can be much messier, ././ the researcher will sometimes have to make arbitrary decisions on what to map in charting a path through complex value chains (Kaplinsky and Morris, 2002 p. 52).

The total value chain cost can, according to Kaplinsky (2000), increase when there is a lack of information sharing between actors in the value chain. Therefore, this type of analysis makes it possible to identify primary actors' roles and interrelationships, governance cooperation and possible growth potential. Additionally, it can also explain prevailing circumstances that have arisen within the value chain as well as clusters that have arisen within the industry. According to Patel and Davidsson (2011), an ongoing analysis of the interviews can give indications of how to move forward and open up to new perspectives along the research. In order to structure the information, the interviews were recorded and transcribed, the collected material was then compiled and organized.

Firstly, the material was reviewed and listened through several times to identify essential elements. The transcription of the material was mainly done to get an overview of the material, and to initially be able to see patterns, similarities and distinctions between the different actors and their activities within the chain. This resulted in a database, which then was divided into smaller parts to be assembled in the new design, creating the basis for the analyzing data (Yin, 2013). Subsequently, a mind map was made in order to predetermine themes and to visualize connections. The categorization was based on both the main areas and sub-categories and simplified compilation of the empirical material. The transcription and thematic analysis enabled creating an overall picture and a structured in-depth understanding of the objects of research.

Additional key words were picked out from the transcription, such as; *interactions*, *value adding activities* and *challenges*, to search for connection which can be seen as a form of coding. This process allowed a greater range of patterns in the data, which also was used in part as Yin (2013) terms “remounting of data”. In this remounting, shared coding, previously made up of different themes and concepts, were analyzed during the work. The themes are: *value chain*, *vertical integration*, *business relationship* and *business networks*.

During categorization of the collected data, a search was conducted for keywords and patterns. It was ensured that the material followed within the four categories identified in the value chain. The last step involved in the analysis of the collected data, was to interpret and draw conclusions from the material (Denscombe 2009). Initially, the material was interpreted, in order to create a profound explanation where the main themes laid the basis for the perceived research (Yin, 2011). The chosen themes were interpreted separately to create a structure and then divide the empirical material. The empirical data is then processed in relation to the theory which examines the full range of activities that, according to Kaplinsky (2000) are needed to bring a product or service from its conception to its final use.

This value chain analysis thereby includes the small and medium-sized enterprises, and multinational companies that perform those activities in a vertically coordinated chain, as well as the final consumers of the product or service. Another interesting point for this thesis is thereby to analyze the collaboration and trust within the value chain. The idea of cooperation between stages or actors creates a potential win-win situation, since there is a greater likelihood of generating collective efficiency and a scale of developed relationships where benefits are shared among firms (Kaplinsky and Morris, 2002). This intends to provide opportunities to enhance the positions on the global market in terms of production and marketing. The models presented through the research are thereby designed to create texture and clarity, and to get the reader to see how theory and empirical fit together, which led to the completed analysis.

2.7 Ethical Considerations

The ethical conditions has been considered throughout the essay to ensure that the work follows established ethical guidelines and does not adversely affect the public perception of research. Bryman and Bell (2013) argues that it is important that the researcher considers the ethical aspects as it can affect research *results, credibility* and *prospects* for future research. When choosing the research object, careful focus was put into what the research may benefit the individual; the society; and the profession. Thus the following guidelines were established:

- If there already are enough researches on the valuation of companies.
- If the community has any use for an evaluation research of the value chain.
- If the research can contribute to the development of the current value chain and the value adding activities.

It was made certain that the research followed along the above guidelines and the, according to Bryman and Bell (2013), ethical justifications benefiting the local companies, and the Sri Lankan government along the results from the *Poverty Reduction Strategy Paper*. According to Bryman and Bell (2013), research obtaining ethical justification lead to greater acceptance because the results provide the benefit that the ethical justification strives for. Thus, society accept the result better than if the results is not considered to contribute to the individual, the community or the profession. When the research was found ethically justified, ethical guidelines concerning the data collection were considered, which according to Bryman and Bell (2013) have to be done to ensure a properly conducted ethical approach. The literature mentions *five* requirements that the researcher should pay attention to during the collection of empirical material. The researcher must take the following into account:

Persons concerned have been informed with *required information*, mainly the respondents of the research method and the research's purpose. Informing the participating respondents about the research object and let them know that it is voluntary and that they have the right to cancel whenever they want and made sure that they gave *consent*. Important since the research is based on empirical data obtained from semi-structured interviews, it was important to create a safe environment for interviewees.

Treating the research subjects' data with great *confidentiality* as stated in the empirical framework. Also, guaranteeing *anonymity* when the respondent is requiring it which have been considered during the data collection and the analysis process in order to ensure continued cooperation and security for all involved. An ethical stance was made concerning not naming anyone that hasn't been able to defend his or her actions; because this would violate their rights and be ethically wrong. Therefore, all of the respondents have been able to go through the material where their names occur, to make sure it was presented in a correct way. Bryman and Bell (2013) argue that it is important to consider how the material will affect the individuals occurring in the research. Their privacy should not be impaired and the participants should have consented to everything in order to ensure that the material would not damage the participants. The interviewees were informed about their choice of being anonymous; since most of the information would be made public they needed to approve of having both company as well as their full names published in this thesis. Only the respondent from International Tea Associations chose to be anonymous.

The *utilization* secured by using the collected data for this specific research's purposes only. This was done by clearly communicating that the purpose of the conducted interviews was to build empirical evidence for the thesis, and that the collected information would only be used for this purpose. Last but not last, not giving the research subjects any misleading or *false information* concerning the purpose of the research. This made the conversation more comfortable and opened up a good dialogue.

The focus has been on presenting the empirical material and to relate objectively to the companies' way of organizing their value chain, without any personal opinion on valuations or local authorities. It has not been the intention of the researcher to moralize over local actions but rather focus on finding how reality works and the following effects. During the analysis, the focus has been on finding an explanation to and understanding the valuation process as well as the valuation models that fit local companies. Interviews are used to understand the reality and have made sure of not putting my own opinions about their specific actions or descriptions.

2.8 Method Summary

The background of this research was a current problem within the tea industry in Sri Lanka, whether they can increase their value-added activities within the country and thus increase their potential for development. The starting point was to identify the current value chain with an ethnographic research design to confirm the existing enterprises and activities. The scientific approaches used were inductive with an empirical basis. The challenges were found much bigger than simply the Sri Lankan tea industry. However, due to limited time and resources a conscious decision was made to only focus on the value chain of tea within Sri Lanka.

Before the empirical collection of data, four cases were selected, representing main actors in the industry;

1. Companies working at the tea estates, manufacturing the tea.
2. Companies trading the tea at the Colombo Tea Auctions.
3. Companies purchasing tea at the Colombo Auctions on account of overseas customers.
4. Companies working within the entire value adding process in Sri Lanka, selling the final products with or without their own brand.

The respondents who participated in this research are representatives from the following companies; Greenfield Bio Plantations, Asia Siyaka Commodities, A. F. Jones Exporters, Tea Tang and Lumbini Tea Factory. The selection of respondents was done in consultation with each company, whereby different individuals with different organizational roles that could contribute to the research were identified. A total of 13 various respondents were interviewed. All were semi-structured interviews, in person or by e-mail. All interviews were recorded with respondents' consent in which facilitated transliteration and compilation of data.

Based on core characteristics of the value chain were themes determined. A value chain analysis was subsequently conducted to analyze the collected empirical material. Due to the ethical considerations, an open dialogue, concerning the purpose of the research, was maintained with the companies, the respondents and others. The aim was to avoid anyone being misled, intimidated or misunderstood in their role as a respondent.

3 Empirical Framework

Since the aim of the research was to understand the value build-up for each link, a breakdown of the diverse significant activities that may generate cost or revenue was done. To establish these activities, the main activities of the branch value chain had to be identified. They will be presented here to get a greater understanding about the market and the different companies work throughout the chain. The diverse activities within the chain will be presented, followed by a company's vertical integration and finally information regarding the Colombo Tea Traders Associations and International Tea Committee's regulations of the value chain.

3.1 The Value Chain of Ceylon tea

Sri Lanka, the pearl of the Indian Ocean is known for its vivid cultural diversity and spectacular scenery. An island of 65,610 sq. km just 4 degrees north of the equator, ascending for sea level to approx 2450 meters has been blessed by nature resulting in a diverse array of climates and scenery. One of the fortunate discoveries of pioneer tea planters in the latter part of the 19th Century was the effect of diverse climates on tea production. This resulted in an array of fine teas, each unique to its' agro-climatic district and unparalleled anywhere else in the world (A.F Jones Exporters Ltd; Quintin Dissanayake, 2016-03-31).

Ceylon tea is harvested all year round by small and medium-sized enterprises in Sri Lanka. Ceylon tea is grown and produced according to uncompromising, traditional methods since 1880, and is famous for its quality and taste, which is based on the different parts of the Sri Lankan tea growing regions. The tea grows in seven agro climatic regions; Nuwara Eliya, Uva, Uda Pussellawa, Dimbula, Kandy, Ruhuna and Sabaragamuwa, where it is handpicked to preserve its inherent aroma (Sri Lankan Tea Board, 2015). By comparing the value chain of the commodities such as coffee and cocoa, it gives a clear vision of the tea value chain as less fragmented and notably shorter. Dickie Juriansz (2016-04-09) chairman in the Colombo Tea Traders Association explains that in this kind of industry, only a few players have considerable impact within the value chain.

3.1.1 Elements of the value chain

The Sri Lankan tea industry is controlled by major companies who control various production stages upstream and downstream of manufacturing operations. Only a minority of the Sri Lankan enterprises have direct contact with the buyers overseas (United Nations Development Programme, 2016). According to Dickie Juriansz (2016-04-09) it is only the export companies that have established a co-operation with the international buyers who gets the information from the target market. Dickie Juriansz (2016-04-09) claims that these both create advantages and disadvantages since they also include elements as ownership of plantation estates and the factories. Export companies' independency can create high *flexibility* and they can easily adjust according to the market's demand.

Resulting from the lack of contact between the export companies and the estates and enterprises is also a couple of disadvantage in form of *quality*, since there is a low feedback from the buyers according to Braga and Strebel (2012). Flexible suppliers are also finding it difficult to *track down* where the tea comes from. When it comes to bigger buyers overseas it is important to know the growing and handling situation since they need to take responsibility of their chain. According to Braga and Strebel's (2012) market research on consumers in Western Europe; 60 percent declare that they take social and environmental factors into account when deciding which products to buy but are often discouraged by price and availability. It also creates an *uncertainty* since the export company does not hold the raw material before the order from the buyer, and when competing internationally, it is important to be able to deliver right on time.

Dickie Juriansz (2016-04-09) explains that the land policy in Sri Lanka is relatively strict. About 80 percent of the land is owned by the state. Individuals only have the right to possess approximately 20 hectares. Sri Lanka is already a rather small country and depending on the land policy, the inhabitants' land tends to be dominated by small-holding units. Additionally, restrictions have been enforced regarding sale, mortgage and leasing of land. This increases the obstacles, since the owner do not have the opportunities to get enough finances due to the limitation of investment in land. This raise the competitiveness within the industry and leasing of land becomes quite expensive due to all the bureaucracy.

“Expensive? What is expensive in their opinion? Mr. Dickie Juriansz grabs the calculator and calculates rupees to US dollar. He applies a power price parity and reveals a number, which according to him corresponds to the cost in Sri Lanka. For a Swede, it is not a high price perhaps, but for a Sri Lankan, it equated more than an average five-year income.

To cultivate land, landowners have to apply for a special permission with the Agrarian Service Development Act. Dickie Juriansz (2016-04-09) explain this as yet another factor raising the cost as well as a negative impact on business. Because of this, contracts between farmers are generally used as a method for outsourcing agricultural products for processing and export (Sri Lanka Business, 2016). In Sri Lanka, this consequently becomes a natural response to the large number of small enterprises structure. Middlemen’s’ are therefore linking the tea industry from raw material until finished product. Dickie Juriansz (2016-04-09) explains that the main integration of the value chain is based on the integral part, the Colombo Tea Auction where factories choose brokers to trade the tea for them to different buyers. The most common buyers are export companies who buys for companies overseas, mainly in the Middle East and North Africa, followed by Eastern Europe and Russia (appendix 2).

Industries and tea factories are the only industrial elements of the value chain that are based in Sri Lanka. The main element is the tea factories that are based close by the estates, mainly because the tea has to be processed quickly after harvesting. The middlemen contributed by lack information, high interest rate and fear to take credit because the business is too risky and unpredictable in price (Sri Lanka Business, 2016). The industrial function within Sri Lanka is therefore insecure and enterprises as well as estates have to get monetary assistants in order to facilitate their business.

Asia Siyaka Commodities lends money to the estates, to enable investments since they today has a low profit, but mostly it will just enable them to stay afloat (Dhammike Wedande, 2016-02-31).

At the end of the Sri Lankan war, a strong involvement of foreign investors emerged. However, as early as the 1980s, Sri Lankans begun to accept low margins and profits

when foreign shareholders started to invest in the tea-industry. According to Dhammike Wedande (2016-02-31), Sri Lanka did not follow this development and now they do not have the economy required to reach out to the global market. The volume purchased by foreign wholesalers is rather big in comparison to inbound wholesalers who do not get advanced payment from downstream actors.

Buyers outside Sri Lanka are the main consumers that control the trends of competition and challenges in the high-end market, while the bulk countries such as Vietnam and Indonesia control price competition in the market. If Sri Lanka should be a contender in the more profitable market with higher growth it will require additional information from the outside world of action and market researchers conducted by the Sri Lankan companies (Dhammike Wedande, 2016-02-31).

Dickie Juriansz (2016-04-09) continues to explain that the value chain includes all agents, from estates to end consumers on the international market. The mapping of this is an explanation of the flow of knowledge within the chain, which is an important key for competitiveness. The market today is an aggregation of enterprises of different levels and structures, including estates, brokers and exporters. All are relevant parts of the chain. A presentation of the available information on these elements, from estate to final product sold to the customer, will follow below.

3.1.2 Tea estates

It's noon in Sri Lanka and I am still not adjusted to the time difference. I encounter five Sri Lankan women, Tamils. They are wearing traditional dresses and all of them are carrying their baskets filled with tea on their backs. I remind myself to never complain about neck pain, these ladies are carrying about 5-10 kilos on their necks, the baskets are tied with a string around their heads. Within 24 hours, the tea they are carrying will be processed, packaged and ready for transportation to Colombo where it will be prepared for sale.

The first critical node of the value chain is the activity held at the estates and factories. They are usually located close to tea plantations since the primary processing of the tea leaves should start within five to seven hours after harvesting. According to the Sri Lankan Tea Board (2015) this is the main reason why the industry is driven by small and medium-sized enterprises. Their profit from the agribusiness is entirely dependent on the many varieties of tea, quality and altitude. Kaumini Ratnayake (2016-02-16), Marketing Executive at Greenfiled Bio Plantations, explains that in terms of quality designations, whole leaves are best and the tips are the very best. Altitude is a vital indication of tea quality; *Udawatte* (high-grown tea) is considered the finest, due to the slow growth, it has a delicate, subtle flavor that makes it greatly sought after. *Medawatte* (mid-grown tea) has a floral and malty taste and a fullness of body that is less refined. *Ytawatte* (low-grown tea) is stronger, higher in caffeine and more robust.

Kaumini Ratnayake (2016-02-16) explains that the tea leaves gets plucked by hand every seven days by Tamil women. The daily goal is 20-30 kilos each and their monthly salary is around \$55. After the plucking the tea leaves are taken to the factory for withering. Forty percent of the dried leaves are then crushed in a 1.5 hour long fermentation process that stops when the rusting of the leaves has reached about 100 degrees Celsius. This gives the leaves their final blackened brown color. Sri Lankans' defined art to process regulate the myriad variables to produce proper tea, will therefore demand the premium price at 450 rupees per kilo, which is the highest average in the world (appendix 3).

The factories then sends their samples to the chosen brokers company and wait for them sell it on the auction. The estates are faced with the challenge of lack of capital for their agribusiness which they are especially reminded of when they are not receiving any profit until the tea is sold at the auction (Kaumini Ratnayake, 2016-02-16). At the end of 2015, The International Tea Committee changed the lead-time from three weeks to a limit of two weeks, which approximately gives the factories and estates a profit for their delivered tea two weeks after harvest (Sri Lanka Business, 2016).

Tea estates

- Tamil women pluck the harvest-ready tea
- Managers deliver it to factories that are continuing the by-processing
- Payment of the tea is received after a minimum of two weeks

3.1.3 Brokers Company

It is Monday morning and I have just learned that quality, quantity and number of buyers is always an uncertainty. The weather is changing and a recent droughts may be the commission for the factories when they cannot deliver their tea to the market. However, the market fluctuates and a buyer who is asking for 1000 kg one week can be asking for 500 kg the following week. The tea market can be set in comparison with the stock market, all public information affects it, and the brokers have to be ready for things to come.

6.5 million kilograms of tea is sold weekly at the Colombo Tea Auction, one of the largest tea auctions in the world (appendix 4). The access of market information is limited due to substantial variation in quality, quantity and demand, as well as the small numbers of brokers controlling the market. They constitute large number of participants upstream the tea value chain. Sri Lankan broker companies are working according to the International Tea Commodities regulations and their work all depends on how efficient they are selling and how good they are with building customer relationships.

3.1.3.1 Asia Siyaka Commodities

I am on the fifth floor, in a building overlooking the river. I am standing in an office that resembles the open-space offices shown in British films. It is my first out of five days with Mr. Shanka Yasarathne, broker at Asia Siyaka Commodities. Eight-hour workdays does not exist here, one works for as long as the market is open. I am their guest and staying in one of Colombo's finer hotels. I have been welcomed as a family member. Through a local's perspective, I get to see what the city has to offer.

Anil Cooke (2016-03-30) CEO of Asia Siyaka Commodities explains that they are one of the bigger broking companies in Sri Lanka. They are four employees, mainly focusing on low-grown in 80 different tea factories. From Monday to Friday, brokers

will be personally obliged to protect customer relationship and ensure that all parties involved are provided with updated information.

It is totally in the hands of the producer to decide on the broker, it is up to us to service our client and keep him with us. The more tea we get weekly from a garden the better it is for our share and our profit margin (Shanaka Yasarathne, 2016-03-28).

Brokers are working in both the urban and rural market. According to Asia Siyaka's broker Shanaka Yasarathne (2016-03-28), there are currently eight broking companies that are certified to sell at the Colombo Tea Auction. Shanaka Yasarathne (2016-03-28) explains that the brokers' job starts on Monday morning with valuating the tea that the factories have sent to their main office, the valuation sets the précis and the brokers start negotiate with the factories. If the brokers are not satisfied with the quality, they will visit the factories and advise them how they can improve their processing. These activities ensure that all parties involved are satisfied with the prices that are going to be put in the catalog and asked on the auction.

Warehouse manager Emil Diaz (2016-03-29) explains that these catalogs prints every Friday and includes all the information needed for the auction, including; quality, quantity and seller. To make the buyers interested in the different grades, the sampling division sends samples to all of the buyers' offices. Emil Diaz (2016-03-29) explains that there are two types of buyers in the auction room; (1) main buyers and (2) local buyers. The samples arrive to all potential buyers by mail or airmail within a fortnight before the auction. All the buyers will thus have the time to evaluate the tea and resolve how much they are willing to bid. In the meantime, the bulk is stored in either the factories' own warehouses, or it is shipped to the brokers' warehouses for a handling fee. According to Anil Cooke (2016-03-30), was the first brokers company to build a warehouse. When they had detected the need for warehouses, they went to observe different industries around the world to gather the information needed to plan and organize a warehouse functional for the logistic needs. This makes Asia Siyaka Commodities an intermediate of both trading and handling the bulks.

Today, Colombo tea industry works as a cluster where it only takes the export companines to get their tea delivered in 1,5 h by the intermediate instead of 1 or 2 days (Anil Cooke, 2016-03-30).

Anil Cooke (2016-03-30) proudly explains that because of this, it now takes one week less to package the tea for shipping. When Asia Siyaka first started with these activities, other brokers companies within Sri Lanka followed suit. Now, the cluster have created competitive advantage as they work in a more efficient manner, since the entire activities take place within a small area of Colombo.

I am holding my passport in my right hand and, as quietly as I can, open the door with my left. The auction has already started, or has the last not finished yet? What I do know is that I have never seen anything quite like this before. When I am sitting in the auction room, I can barely follow the quick pace. Mr. Shanaka Yasarathne, sitting in the front, is talking too fast for me to even understand if it is said in English or Sinhalese. He brings down his gavel and I guess he got the price he asked for.

Every Tuesday and Wednesday it is time for the open market sale at the auction, with approximately 170 buyers. Main and local companies are there for the same reason; to buy some of the 700 kilos of tea that is up for auction. All of the tea that is taken into the auction rooms is branded with the Lion logo, symbolizing that the tea was produced in Sri Lanka. It is the brokers' responsibility to sell to the best price and it all depends on the market's demand (Dhammike Wedande, 2016-02-31).

Shanaka Yasarathne (2016-03-28) claims that most of the tea gets sold at the auctions. If not it will be taken to the private market where the price will be set by using forward contracts. A forward contracting can also be done with 10 percent of the tea factory's total produce and the price is set based on the last auction price as advised by the proprietor. Usually the private market price is much higher than the auction price, this is however a secure way of getting that special quantity and quality of tea to a predetermined price. Anil Cooke (2016-05-01) explains this way of selling tea as a small part of the industry. The main reason why is because the regulation from the International Tea Committee says that the tea has to be taken to the open market first. That is why the auction system was introduced in the first place, to prevent corruption and secure an open market sale. Anil Cooke (2016-05-01) finally raises the subject that:

In the tea industry there are several companies competing with each other in an open market, a greater quantity can thereby be offered at any given price level. If the equilibrium-price falls, the consumers will ask for more goods at the new equilibrium because more people can afford to increase their purchases.

Brokers company

- Builds relationships both upstream and downstream
- Trades tea at the Colombo Tea Auction
- Responsible for forward contracts and privat market sale

3.1.4 Exporting company

According to the Sustainable Agribusiness Initiative (2016), the blending, packaging and marketing are more of the lucrative sections of the value chain and these activities are usually carried out overseas in buyer countries. The export market of Ceylon tea is run only by large traders and they are mostly foreign companies. Export companies within Sri Lanka are the only ones that can send orders from Sri Lanka to the buying countries. In Sri Lanka there are relatively few actors that are engaged in the export trade, where foreign buyers collect a large quantity of products from established companies and the Colombo Tea Auction. Sri Lanka exports 40 percent unprocessed tea overseas and miss out on the value adding activities from retail and wholesale services that could have stayed within the country (Sri Lanka Export Development Board, 2016).

3.1.4.1 A.F Jones Exporters

I can see how the tea leaves unfurl in the cup I am holding in my hand. I can hear Sri Lankan, English and various other ringtones drown each other out. I am noting the high tempo, and how people go back and forth in the tea testing room. Sales is in focus here, and only when the negotiations are concluded, is a representative from the export company visiting the auction to bid on the variety, quality and quantity of tea to the price that the customer wants.

According to Manager Director at A.F Jones Exporters Quintin Dissanayake (2016-03-31), the whole world is their market, mainly since only 20 percent of the tea is consumed in Sri Lanka while the rest is shipped overseas. For example, India has their focus on the local market (appendix 2), Sri Lanka always has to identify where their

market is. Export companies are taking care of the communication with the overseas buyers. The export process is controlled and well organized with actors overseas but it is always unreliable and thus an uncertain expense (Quintin Dissanayake, 2016-03-31).

The customers can be both small enterprises as well as multinational companies, but they have one thing in common; they want a customized product. The customer can tell their wishes and then will A.F Jones Exporters obtain the correct type of tea, process it as the customer requires and then send them their product (Quintin Dissanayake, 2016-03-31).

Quintin Dissanayake (2016-03-31) explains that negotiations concerning type of tea; packaging; bulk and price packaging is the most vulnerable part of the value chain. The price elasticity for black tea vary between -0.32 and -0.80, which makes the export companies responsible to predict the market price (Food and Agriculture Organization of the United Nations, 2015; Shanika Dasanayaka, 2016-04-09). A 10 percent increase in black tea retail prices will lead to a decline in demand for black tea between 3.2 percent and 8 percent (Food and Agriculture Organization of the United Nations, 2015). Thus, export companies strive to get their marginal profit and meet the broader needs when they calculate their production cost, (Quintin Dissanayake, 2016-03-31). The final customer cost is approximately three times higher than the price paid by the export companies at the auction.

The first Friday after the auction, the export companies are due to pay 10 percent of the price to the bookers company, the full cost has to be paid off within ten days, which means they have to wait to collect the tea until the payment is registered. When the bulk tea or customized product has left the country, the value chain within Sri Lanka ends, no more value adding process or activity will happen within the country. According to Shanika Dasanayaka (2016-04-09), the export companies has been able to process in a more time efficient manner since they introduced cooperated warehouse handling. The packaging and processing can all be within reaching distance when the tea has been sold at the auction. Quintin Dissanayake (2016-03-31) explains that they have an improved possibility to process the value adding activities the customers have ordered within a limited time.

Row after row with bulk tea, behind the glass doors I can see the tea being packaged. From where I am standing I recognize the exact same activity usually being held at the factories. Standing next to the machine that sorts and cleans the tea, all to ensure its quality, I am starting to wonder how it would be if they could ensure that this has not already been done and thus decrease the risk to do it all again. How much labor would they save? How much space would open up for other activities and would it allow more focus on value-adding activities?

Quintin Dissanayake (2016-03-31) explains that the perfect situation for the tea industry would be if each company could own their own plantations as well as factories, this to ensure high quality and to certify delivery of the desired quantity. This, however, is proved difficult for two reasons. A company can, most likely, not afford an investment of this measure. And even if they could, the law complicates it further. The legal regulation declares that the raw material has to pass the auction where it can only be sold to the highest bidder.

There are export companies that have their own gardens but not their own packaging and export rights. However, according to Quintin Dissanayake (2016-03-31), this is not happening in Sri Lanka yet. Furthermore, Quintin Dissanayake (2016-03-31) explains that there are companies, like Ceylon Tea Services, who own shares of plantations, like the Kahawatte plantations, where they trade privately as well as via the auction system to create their blends. Because of the regulated limitations, they do trade with others, but prioritize on their own estates.

The car is already waiting outside, Mr. Shanaka Yasarathne picks me up and we are on route again. So, what is the loophole? How can some companies be responsible for their whole value chain and sell their own branded tea, while some are not? I merely have time to utter my thoughts before he grabs the phone and I can hear Mr Chaminda Jayawardana's voice. The next morning, my bags are packed once again, for a five-hour journey back to Deniyaya and Lumbini Tea Factory, where my research once began.

Export company

- Networks with companies overseas
- Takes orders and manufactures the customized product
- Buys the tea at the auction, forward contract or private market
- Ships tea overseas

3.1.5 Factory with own manufacturing

Manager Director at Lumbini Tea Factory, Chaminda Jayawardana (2016-04-01) explains that they have direct contact with the individual estates and urban assemblers upstream of the value chain as well as with the Sri Lankan exporters downstream. Lumbini Tea Factory and other wholesales companies work as “tea agents” since they buy the raw material from their estates, process it and subsequently sell it as their own branded product or through brokers at the Colombo Tea Auction. According to Chaminda Jayawardana (2016-04-01), the issue of frequency of transaction and experience in the business can reduce the cost, since relationship among traders can secure a stable buyer.

3.1.5.1 Lumbini Tea Factory LTD

The view of the tea fields is spectacular as I am overlooking them with the founder of Lumbini Tea Factory by my side. Mr. Lumbini is reserved and smiles when he is asking his oldest son to tell the story about how the dream of owning his own factory became a reality. Mr. Chaminda Jayawardana, son of the founder, has invited me to their family dinner. Initially, he teaches me how to eat rice and curry with my hands, before he goes on to tell the story about the family business success.

Chaminda Jayawardana (2016-04-01) explains that Lumbini Tea Factory is collecting tea from their different estates around Deniyaya. Company managers are responsible for the quality at each estate. *If the quality from one estate is bad, it can ruin a whole day's work, since they have to throw it away (Mohan Selladurai, 2016-04-01).* The quality is therefore constantly checked and the existing managers are responsible for finding new or improving existing estates and thereby improve the efficiency within the process. Then when the raw material is collected from the different estates, it is processed in the Lumbini Tea Factory's own manufacturing process, all to make sure that it is handled in the right way, sorted and cleaned so it represents a high quality tea.

Lumbini Tea Factory is, like any other tea factory, selling their tea via the Colombo Tea Auction. Additionally, they retain some for their own branded product. According to Marketing Manager Mohan Selladurai (2016-03-17), they are allocating 10 percent of the quantity from the manufacturing for their own purposes, as they have six local factory outlets within Sri Lanka.

Lumbini Tea Factory branded products are, for instance, sold at Harrods in the United Kingdom. Chaminda Jayawardana (2016-04-01) explains that, the last five years, only 10 percent of the total produce have been exported under their own brand, the rest of the raw material has been sold through the auction in Colombo and other local sales. 70 percent of their tea is consumed of the locals in Sri Lanka and the remaining 30 percent is exported internationally. Mohan Selladurai (2016-04-01) explains that the international market demand today is limited to bulk tea and it is only a few actors who put their own label on the products. When selling the tea under own label, Lumbini Tea Factory, is more profitable and automatically the brand name will thereby be promoted (Mohan Selladurai, 2016-04-01).

According to the International Tea Committee's regulations, tea factories can only process 10 percent of the whole quantity for their own packaging without putting it through the auction. It will prove difficult if they want to have their own value adding activities for more than these 10 percent, since they then will have to put it through the auction and buy it back from there (Chaminda Jayawardana, 2016-04-01).

Chaminda Jayawardana (2016-04-01) claims that it is a hard to make it on the global market. Lumbini Tea Factory is constantly working preventively by having an International Marketing Agent working with the marketing and sales to companies around the world with business to business communication. The International Marketing positions are according to Mohan Selladurai (2016-05-01) both important and prestigious, constantly mapping out how Lumbini Tea Factory strategically can find new business partners. Their strategy is priori to reach new customer markets by participating in both international and local tea fairs as well as being unique among the other companies.

Lumbini Tea Factory is among the few tea factories in Sri Lanka that have gained a lot of standard certificates worldwide because of their better quality products. The latest was the National Chamber of Export's price for *Tea value added* and *Suppliers/service providers to exporters*. These certificates are important for the company's reputation. Mohan Selladurai (2016-04-01) explains that they work hard to be unique; hence they are exporting their products to many different countries. This, along with marketing and differentiation on the market is Lumbini Tea Factory's method of constantly trying to preserve and extend their role on the global market.

The entire Sri Lankan tea industry is related to the ozone friendly Montreal Agreement, this automatically makes Lumbini Tea Factory a sustainable business. The managers have realized they should strive to use their sustainability in order to strengthen their brand. The questions they are trying to answer now are: Does the value chain have consumer recognition? Does the organizational flexibility have the ability to certify the large estates as well as smallholders and at the same time stand out on the market? (Mohan Selladurai, 2016-05-01).

Chaminda Jayawardana (2016-04-01) explains that the vision of Lumbini Tea Factory is to achieve a worldwide name for the company within five years. Even when the market encountered structural problems, Lumbini Tea Factory continued its growth in demand and they predict that the years to come will be good. Firstly, because customer trends in drinking tea has already emerged on the market. Secondly, because the perception of tea as a healthy beverage has increased. Lastly, because the green tea market has expanded outside of Asia with a wide range of value-added products.

A second track of the market growth showed the increased use of tea bags in developing countries where most people had traditionally consumed tea with loose leaves. The board of directors at Lumbini has a plan to approach this, but because of their official policy Chaminda Jayawardana (2016-04-01) asks me to keep it out of the research. Strategically, they are investigating the possibility of enabling customers to communicate with the management directly without contacting any intermediary. Lumbini Tea Factory will thereby be responsible for the whole value chain for more than 50 percent of their produce.

Back to the loophole... I want to understand how other large companies managed to be responsible for its entire chain and not just 10 percent. How can companies take advantage of their opportunities to generate a larger market share? Even more interesting is the transformation of which Lumbini Tea Factory is looking for, from 10 to 50 percent.

Chaminda Jayawardana (2016-04-01) explains that it is not a loop hole as such.

Say you own a brokers firm under your own name, then you open a plantation company under your mother's name. Thereby, two independent companies can sell and buy from each other through forward contracts or the Colombo auction, without any questions asked (Chaminda Jayawardana, 2016-04-01).

Dilmah Tea takes advantage by the loophole in the following way: Merrill J. Fernando owns an exporting firm called Stassen Exports, he also own plantations but they are under the name of another member of his family. Chaminda Jayawardana (2016-04-01) continues by explaining that not everyone can make this work, mainly because of the financial funds needed. Dilmah Tea took a chance in the late 19th when the market was down and the bulk prices were low. They entered the market with products branded Dilmah and they are to this day standing strong on the market. They are following the regulations but have found their own way to enter the global market. Today, Dilmah has partners in 102 countries worldwide.

In pursuit of excellence, Merrill has established the most integrated family tea business in the world with ownership or investment in plantations, printing and packaging, tea broking, import and distribution of equipment and materials for the industry – all with a single focus, the world's finest cup of tea. The Group's flagship tea brand, Dilmah, has re-established Ceylon Tea as the finest on earth (Dilmah Tea, 2016).

Dilmah is one of the companies that are selling their own branded tea to the market and are represented as an actor from the 5 percent of the Sri Lankan tea industry that are working like this. According to the International Tea Committee, their strategy is completely approved and by including their export with the forward contracts it has resulted in a 15 percent export of value added and branded products where the companies are working together.

Factory with own manufacturing

- Collects tea from the estates, processes and manufactures the tea in their own factories
- Builds relationships both upstreams and downstream
- Sells value added products to companies overseas and bulk through the auction

3.2 Colombo Tea Traders Associations/ International Tea Committee

It is rush hour in a sticky heat as I am sitting in the car that Colombo Tea Traders Association has sent to pick me up. The driver is waving excitedly as he is trying to tell me, in Sinhalese, that we have arrived. Mr. Michael J de Zoysa welcomes me with a firm handshake in the parking lot. We enter a conference-room large enough to accommodate 50 people, but it is only the two of us who are going to spend the next 40 minutes here. The company's tea-lady enters, I ask for plain tea while he takes two teaspoons of sugar and milk.

The Colombo Tea Traders Associations (CTTA) has, since 1883, been controlling the tea production and sale in Sri Lanka and their work is integrated in the entire tea industry within Sri Lanka. Chairman Michael J de Zoysa (2016-03-31) explains that they have been taking care of the common interest of everyone associated and made a closely knit of the tea industry. The association's success comes from a co-operation of all divisions; producers, buyers, brokers and bankers that are associated within the tea trade. It ensures that however large the crops are, the Colombo Tea Auction provides a suitable market and outlet for the bulk of Ceylon tea and have been and still are preventing it from corruption.

Our goal was to revive Ceylon tea by placing it as values-driven. Under the brand design, quality has always been important. But now we want to leave an impression on characteristics such as sustainability as it allows an engagement in a positive dialogue with consumers and possesses an improved brand (CTTA, 2016; Michael J de Zoysa, 2016-05-01).

Michael J de Zoysa (2016-03-31) explains that the Colombo Tea Traders Association have followed the International Tea Committee since it was established in 1933. In

addition to the task of managing the regulation system, the aim of the International Tea Committee has been to collect and compile statistics and information concerning tea production, export, consumption and stocks in all producing countries as well as providing the market with a source of information about the industry.

The regulated system was renewed on 31 March 1955. An agreement was made between the governments of the participating countries to maintain the International Tea Committee as a center for the collection and publication of statistics and other information related to tea. Furthermore, the Colombo Tea Traders Association is linked with all the functions along the chain of processing the raw material and they perform daily controls of the estates within Sri Lanka. They use a method where an official within the organization tastes, quality assures and controls thoroughly every shipment of tea before it is sold at the Colombo Tea Auction, all to ensure that every tea estate delivers good tea. Upon their confirming and acceptance of the tea, the package will be labeled with the Lion Logo, along with the slogan *Pure Ceylon Tea Packed in Sri Lanka*, which is considered to be a known sign of a high quality worldwide.

The Colombo Tea Traders Association aims to follow this quality ensuring method with the vision to: *Make pure Ceylon tea the most aspired hot beverage in the world*. To meet this vision, they have the following marketing objectives to work with (CTTA, 2016):

- Increase value added/pre-packaged exports of Pure Ceylon Tea from 60 percent to 75 percent by 2016
- Increase the pure Ceylon Tea pre-packed in Sri Lanka indigenous brand share with Lion logo from 15 percent to 30 percent by 2016.
- Increase the pure Ceylon tea pre-packed in Sri Lanka with Lion logo Private Label share from 15 percent to 20 percent by 2016.
- Re-establish Ceylon Tea as the pre-eminent Black Tea in the world.

Michael J de Zoysa (2016-05-01) claims that exporters have, since the early 1980s, mostly been focused on economies of scale. This made Sri Lanka ship big amount of bulks, since this secures the profits for the estates. However, this decreased the possibility of building a brand for the individual factories, because all tea was sold under the name of Ceylon tea. During the 20th Century, the awareness of higher

profitability grew stronger, and Sri Lankan tea exporters are now more focused on the export value of processed tea to customers around the world, according to the International Tea Committee. However, it is only a limited quantities labeled products as the raw material cost is lower in bulk form and the buyer can, irrespective of processing in the country or not, then use the name as Pure Ceylon Tea and Lion logo on their packaging. Michael J de Zoysa (2016-03-31) explains that this results in incentive for buyers to have the value adding activities where it is most profitable.

If there is a possibility of transforming the whole industry and guarding it against commoditization, the Colombo Tea Traders Association would be the first to jump on that development of industry-wide transformation (Michael J de Zoysa, 2016-05-01).

Michael J de Zoysa, 2016-03-31, follows up with a reasoning example concerning the United Kingdom who has been importing in bulk and re-exporting the finished product for decades. Statistic given by the International Tea Committee (table 2) also claims that it is common that the importing countries as United Kingdom process the tea and then re-export it.

UNITED KINGDOM					
Imports / Re-exports / Net Imports / Apparent Consumption / Per Head					
Year	Imports	Re-exports	Net-Imports	Apparent Consumption Total (a)	Per Head (b)
	MT	MT	MT	MT	KGS.
1990	177,928	36,035	141,894	144,909	2.51
1991	178,165	32,083	146,081	151,735	2.62
1992	175,612	30,970	144,642	147,039	2.53
1993	193,858	33,547	160,311	157,971	2.71
1994	182,789	34,402	148,387	148,689	2.54
1995	169,918	33,899	136,019	140,986	2.40
1996	181,350	32,898	148,452	147,080	2.52
1997	181,879	31,341	150,538	152,666	2.61
1998	175,831	29,566	146,265	145,924	2.49
1999	162,399	25,085	137,314	136,962	2.33
2000	155,907	22,431	133,476	144,047	2.44
2001	164,031	27,473	136,558	132,925	2.24
2002	166,521	29,923	136,598	138,702	2.33
2003	156,590	31,311	125,279	131,342	2.18
2004	156,199	27,444	128,755	134,070	2.23
2005	153,394	25,162	128,232	125,906	2.09
2006	161,310	25,906	135,404	134,685	2.23
2007	156,504	25,352	131,152	133,257	2.13
2008	157,155	27,397	129,758	130,431	2.12
2009	147,850	27,714	120,136	126,191	2.03
2010	149,831	30,653	119,178	123,191	1.96
2011	154,500	26,434	128,066	127,658	2.00
2012	144,575	21,288	123,287	124,159	1.95
2013	137,571	22,299	115,272	114,779	1.81
2014	128,126	21,786	106,340	107,651	1.70

Table 3. United Kingdom - Import and Re-export (International Tea Committee, 2015)

According to the statistics shown in table 2, the re-export has decreased during the last couple of years, this should be observed together with the decreasing amount of net import to the United Kingdom. However, according to Michael J de Zoysa (2016-03-31), this shows that less tea gets value added for re-export now than before. The International Tea Committee (2016-04-08) claims that while the re-export has decreased, the value added export from Sri Lanka has increased. Regardless from existing market positions, Michael J de Zoysa (2016-03-31) claims that the industry needs to find an incentive way within their value chain to improve their competitiveness.

3.3 Summary of the Empirical Framework

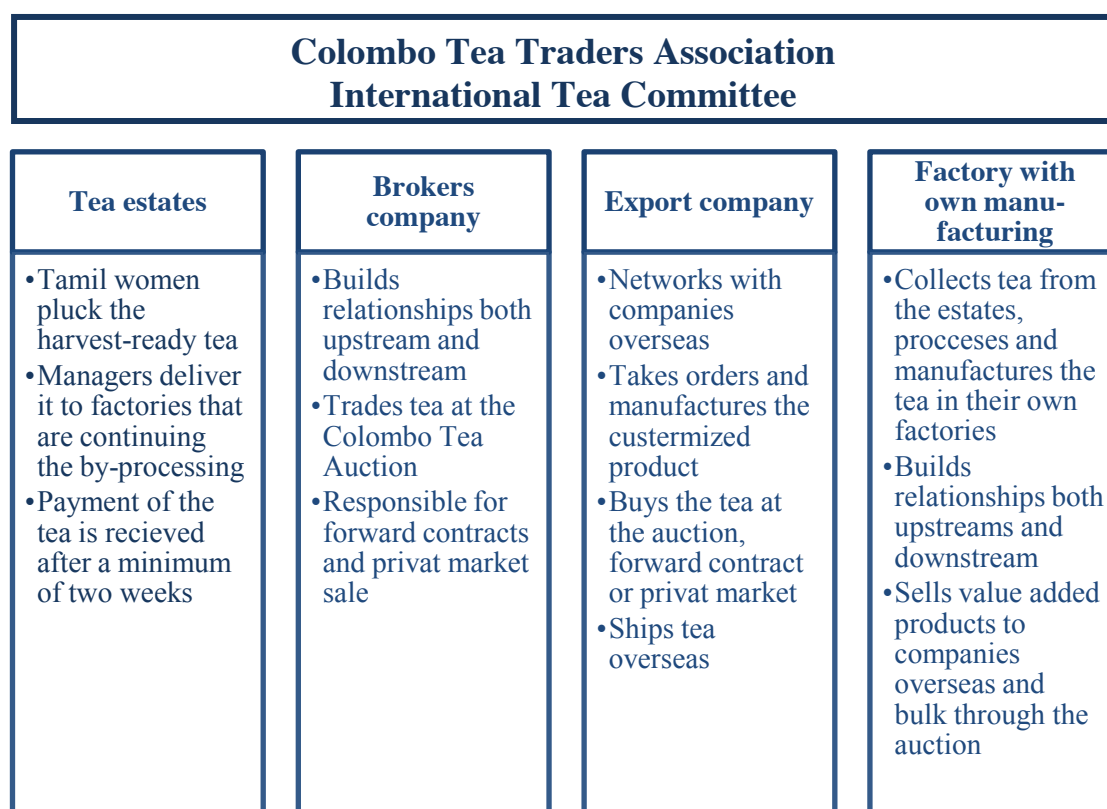


Figure 3. Summary of the Empirical Framework

3.3.1 Summary of the value chain of Ceylon tea

The summary in figure 3 shows the different specialties within the various categories and are summarized and presented in their completeness with the regulatory organizations impending above. This model will return in the next section, in which the theoretical aspects are highlighted. Furthermore, the value chain of Ceylon tea is illustrated in figure 4, which begins with the small and large estates that are dependent on the middlemen; brokers- and exports- companies. The factories have to choose which of the brokers companies who will put their tea on the market and trade the tea to the exporters to a handling fee of 1 percent of the total profit at the auction. Brokers companies are the tea traders. The trading takes place at the Colombo Tea Auction, the brokers are therefore the link between the supply and demand within the industry. They are responsible for the well-organized sales on the open market, according to the regulations of the Colombo Tea Traders Association and International Tea Committee. The export companies bid on products according to the demand of their customers. After the final bid, the product will once again be processed to secure that it has the correct quality. The blending and packaging also takes place in this step. The products in bulk, which represent 40 percent, or in finished products, that represent 45 percent, will then be shipped to the customer.

The Lumbini Tea Factory take care of their whole process by forward contracting about 10 percent of their produce. The 10 percent is determined by the Colombo Tea Traders Association and represent the approved forward contracts that allow Lumbini Tea Factory buy back 10 percent of their tea before it enters the open market. Nevertheless, Dilmah Tea who own both their estates as well as manufacturing facilities are 5 percent which therefore allows 15 percent of the total produce to be sold, branded and value added. Dilmah may thereby process their own tea and sell it as their own branded products to the overseas market, and subsequently hold a higher marginal, since it less expensive to produce, and get a better profit of their value added products.

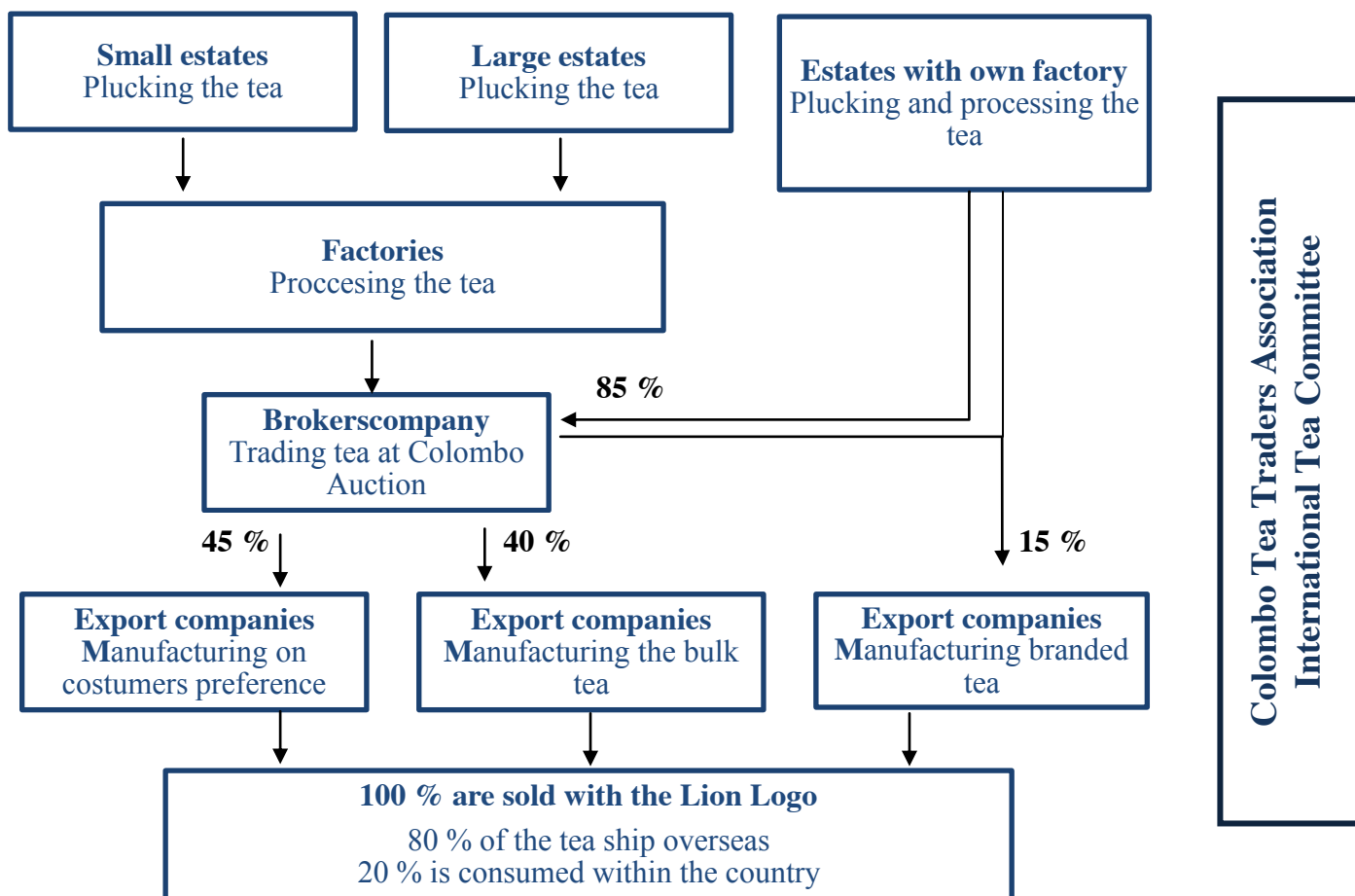


Figure 4. The value chain of Ceylon tea

4 Theoretical Framework

The key purpose of this research is to generate results that will allow the Sri Lankan tea industry to get a better understanding of what activities in the value chain that activate value increments. The theoretical framework therefore includes; the value chain framework, business relationships and export networks to be able to achieve this analysis and by that determine recommendations to give to the branch and companies along the value chain.

4.1 An introduction to the Concept of a Value Chain

The concept of the value chain was introduced by Porter (1985) in his book *Competitive Strategy* where he focuses on the internal process of a business. Porter (1985) claims that the value chain is based on the process view of organizations, which made its way to the forefront of management thought as a powerful analysis tool for strategic planning. The tool sees manufacturing and services as a system that is built upon a subsystem which includes inputs, transformation processes and an output.

Value chains consist of links, as different *actors* which are responsible for different *activities* which are important for the value chains survival according to Porter (1985). The classic value chain introduced by Porter (1985) consists of traditional linkages, but an activity does not need to be limited to merely one link. Kaplinsky and Morris (2002) emphasizes that activities can be outsourced and that this creates further links in the value chain. Kaplinsky and Morris (2002) describe this as chains consisting of companies or organizations that cooperate to deliver goods and services. This concept account all parties involved, directly or indirectly, in fulfilling a customer request. Additionally, the concerns of the value chain should be reflecting how to maximize the total surplus generated by the chain. Organization costs and profits from its value chain determine in what way the activities are carried. This is determined by how the following processes involves the use of resources; labour, materials, equipment, buildings, land administration and management. Grant (2006) claims that when a company is changing their logistic process it usually raises some cost while some are falling. Thus, an evaluation of the total cost of the value chain is needed. For this reason, a company has to find a preferable concept to create and deliver products to the final customer, effective implementation can according to Porter (1985) carry significant business results.

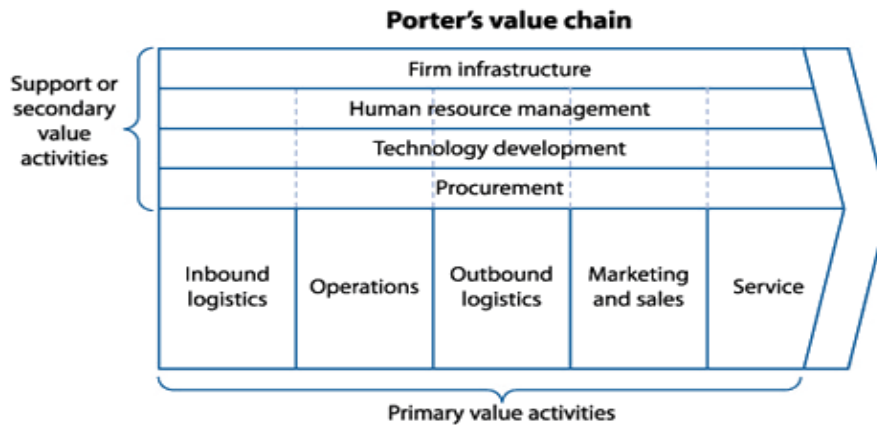


Figure 5. Porters value chain model. (Porter, 1985)

In each process, organizations engage over hundreds of activities which convert input to output (figure 5). All companies must undertake these activities in some form, which Porter (1985) categorizes as primary or supportive activities. According to Porter (1985), the primary activities are:

- *Inbound Logistics* - The relationships with suppliers and all activities required to receive, store, and distribute inputs.
- *Operations* - All activities required for transforming inputs into outputs, products and services.
- *Outbound Logistics* - All activities required to collect, store, and distribute the output.
- *Marketing and Sales* - Activities informing buyers about products and services; encouraging buyers to purchase them, and assisting the purchase.
- *Service* - All activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

Secondary activities are:

- *Procurement* - The achievement of resources.
- *Human Resource management* - Activities that are needed when recruiting, hiring, educating, developing, compensating and/or dismissing employees.
- *Technological Development* – Resources as hardware, software, procedures and technical knowledge brought to the firm's transformation of supply to product.
- *Infrastructure* - Ties a company's various parts together and consists of functions or divisions such as accounting, law, economics, public affairs, government relations, quality guarantee and management.

4.1.1 Vertical integration

According to Harrigan (2003), organizations are primarily connected with the market through professional marketing middlemen, together with the fact that it requires expanded knowledge to represent an expanded role in the value chain. Michael Porter's value chain model is the basis for the vertical integration described by Harrigan (2003). Vertical integration refers to the degree of integration that exists between a company's value chains which connects suppliers with distributors. Vertical integration is a strategy for an increased or decreased level of control that a firm possesses over its transformations and distribution along the value chain.

Harrigan (2003) claims that there are two types of vertical integration that companies can use: *forward* integration concerns a company's control over its distribution, while *backward* integration concerns a company's control over their inputs and supplies, *full vertical integration* occurs when a combination of the two is made. According to Burrell, Cook and Klein (2008) it is generally done either through a merger of a supplier and/or a distributor or when a company chooses to expand its operations. The performed activities are traditionally conducted by their suppliers or distributors and can enable a cluster (Burrell et al., 2008). According to Harrigan (2003), vertical integration was originally used to achieve economies of sales during the 19th century. During the 20th century, it proved to be a strategy to ensure the supply of vital inputs instead, hence it proved more cost effective to perform the role of suppliers and distributors than to spend time and money on integrating with third parties. However, the integration between organizations increased during the late 20th century and the resolutions followed after developments of information and telecommunications technology, which open up for advantages such as lower transaction costs. Ellingsen and Paltseva (2016) explain this result as *Coase's law*, which is recognized by the Nobel Prize winner Ronald Coase, but also as *the law of diminishing business*.

This law establishes that when the transaction costs are decreasing, it will automatically reduce the size of the company and more outsourcing might occur (Coase, 1937). Coase (1937) explain that transaction costs are crucial for economic forces. The transaction costs of having a department that handles a special activity can turn out to be lower than if the business would buy activities on the market.

Coase (1937) argues that the offer available on the market must be reviewed and evaluated before a contract can be completed, thus this also includes transaction costs. These transaction costs are found to control how companies choose to act on the market when it requires both time and money to implement a contract. Coase (1937) explain that the efficiency loss that occurs therefore might be smaller than the transaction costs of buying the service or product on the market which encourages companies to produce the goods or provide the service internally. Williamson (1981) argues that by buying a product from a spot market to meet the company's weekly needs would mean a case-by bargaining. If the business instead sticks to a single supplier, a business relationship will build over time, where trade constitutes an increasingly important part of the contract.

Williamson (1981) explains that transaction costs are incurred when the goods or services are transferred across a technologically separable interface. When these limits and machines are working well, transfers flow more smoothly, hence decreases the cost. However, the higher friction that occur, the higher the price will get. Therefore it is important for a business to compromise (Williamson, 1981). Williamson (1981) argues that contracting and implementing complex decisions tend to be quite expensive, and in addition, they have showed complicated to understand because they miss out on realism and distinguished strategy. Williamson (1981, p. 553) argues for the "(1) *recognition that the human agents are subject to bounded rationality, and (2) the assumption that at least some funds given to opportunism*". Williamson (1981) continues by explaining that an agreement would still be possible if human actors are optimistic. They must prove reliable and extract promises from agents that they will behave in the same way when unforeseen event occurred. Actors that are dishonest makes the transaction costs of contracting higher and it would be economically inefficient.

The current scope of vertical integration is usually a kind of development strategy which can reduce transaction costs for the company. Porters five forces analysis ensure industry dynamics, the dynamics can then show whether integration can reduce the bargaining power of alternative power suppliers and customers. An entry barrier shows how difficult it is to break into the market and according to Porter (1979), it depends on the number of players on the market.

The barrier is based on capital, economies of scale, product differentiation, cost advantages, availability of distribution channels and legal obstacles (Porter 1979). Dunning (1988) mentions that the salient variables that differ countries from, among other things, capital structure and workforce. Furthermore, different countries permit an impact on the performance of enterprises when their activity is affected. The barrier can according to Schmidt and Porteus (2001) also be seen as a company's capacity to make IT investments. Schmidt and Porteus (2001) claims that developed countries have the basic infrastructure needed to take advantage of IT investment, which increases an organization's cross-controlled efficacy.

Several players on the market decrease the ability to negotiate for both customers and suppliers (Porter 1979). The balance between company and customer is linked to reliability and efficiency and the customer's bargaining power switch depends on the number of players and whether the organizations are operating under the interest of consumers (Porter 1979). Porter (1979) emphasize that the price a customer is willing to pay for a product often depends on the cost of similar products and whether it is fulfilling the same function or need. If there are close substitutes, the price will be inelastic compared to when there are no substitutes. Hence, the price may rise by producing products and services with special features, since this increases the elasticity (Porter 1979). Harrigan (2003) enhance the vertical integration which is the main reason for the integration or acquisition, especially if suppliers or distributors are regarded as major strengths in the chain. The vertical integration can therefore create *benefits such as*:

- Economies of scale and competitiveness
- Cost reduction
- Control over the entire value chain, reduces threat from suppliers and customers

Harrigan (2003) claims that when a company decides to implement a vertical integration they initially identifies how the current market works and how the company could benefit from this strategic action. A review of the market economy is made to ensure the cost of the action and confirm external market factors that can streamline the control of input and output results. If the integration is done without taking this into account *disadvantages* might appear:

- The degree of vertical integration can hardly be determined via quantitative meanings.
- Vertical integration can solve a problem while other problems are amplified, thus ensuring core competencies.
- Balancing the capacity of the old and the new activities may be hard to achieve.

4.2 Business Relationships

The ability of designing, coordinate and operate progressively more complex networks of manufacturers and retailers, is something that Barros, Barbosa-Povoa and Blanco (2013) claims to be the reason of companies' successful executions of business strategy. Organizations that work along a cluster should therefore also remain flexible and dynamic in order to survive the ever-changing world of today (Burress et al., 2008).

According to Kumar (1996), trust between partners creates a reservoir of goodwill that helps preserve the value chain, if one party engages in an act that its partner considers destructive (Kumar, 1996). Both partners have to contribute and the trust strategy only works with those partners that are willing to participate. Otherwise, a hostage company will try to reduce its dependence on its partner, which moves the relationship into the apathy quadrant and interdependence. According Kumar (1996), exploiting power is a strategy advantageous in the short run, but in the long run it seems to be self-defeating for *three* main reasons:

Firstly, exploiting power to extract unfair concessions can come back to haunt a company if its position of power changes. Kumar (1996) explains that previously manufacturers had a limited quantity of high-demand products they would deliver to a given store, and then the stores had to participate in their promotions programs. During the last decade however, there has been a role reversal, the stores have become bigger which has intensified the manufacturers' battle for shelf space. Furthermore, this has resulted in the stores now being able to demand that manufacturers pay them for carrying new products, which also forces them to participate in the stores promotion program.

Secondly, companies systematically exploit their advantage, but in the meantime, victims ultimately seek ways to resist the exploitation. According to Barros et al.,

(2013), retailers form associations of buying groups or pursue vertical integration or mergers to counteract the control of manufacturers. Because of this, manufacturers are now reacting to the pressure tactics of traditional retailers by seeking direct links to their end customers through the internet, mail-order operations and by opening their own stores (Kumar, 1996). This should therefore link them to the consumers which will ultimately permit them to reduce or eliminate their dependence on retailers and dealers.

Thirdly, when retailers and manufacturers work as partners they can provide the greatest value to customers at the lowest possible cost. Moreover, when they cooperate, both partners can increase their sales volume and generate significant returns. Corporate systems like this can squeeze the excess costs out of the industry by eliminating surplus inventories and various middlemen (Kumar, 1996).

4.2.1 Strategic partnership

Corporate conditions are constantly changing when they compete on a more globalized market and according to Grant (2006), a company should evaluate other indications when controlling the processes. Savitz and Weber (2006) explain that when protecting the business by reducing the risk of harm to customers, employees and communities, emerging risks and management failures should be identified early. This is done by limiting regulatory interventions and retaining the explicit or implicit license to operate granted by government or by the community at large.

Firms develop a competitive advantage by establishing, combining and effectively deploying its physical, human and resource in ways that add unique values which are difficult for competitors to imitate (Savitz and Weber, 2006). According to Lambert and Enz (2012) successful business relationships among individuals depend on the development of the understanding of the value proposition. Mostly, each company in the business world is co-dependent with a few different companies which have an impact on their strategy, operation and attitude towards their chain of suppliers, customers and the government (Partanen and Möller, 2012). Organizations have to be aware of the fact that stakeholders and customers have different expectations of a company (Savitz and Weber, 2006). Rowe, Mason, Dickel, Mann and Mockler (1994) explain that it is nowadays highly important to identify a business vision and strategy to be able to manage the uncertainty.

Companies are therefore starting to collaborate more with the environment, which characterizes networks with both suppliers and customers (Savitz and Weber, 2006; Randøy et al., 2001). These interactions are not completely random, the company's business relationships will show a pattern which will have an effect on their technical knowledge and organizational interdependency (Lambert and Enz, 2012). Successful networks will arise from interactive processes of emergent, co-creative learning of shared problems. Companies should develop structures, processes and mechanisms in order to bridge organizational and interpersonal differences which will enhance real value from the partnership (March, 1991). Strategic relationships consists of a multifarious set of activities and how the actor performs will affect the final offering (Partanen and Möller, 2012). According to Randøy et al., (2001) strategic relationship will in fact have a long-term impact on the competitiveness of the entire network in the long run. Kanter (1994) uncovers three central aspects of business partnerships:

- First aspect: Business networks are constantly evolving, and beyond the direct reasons of entering a business relationship the relation can also open up unexpected opportunities for both parts.
- Second aspect: When the skills of all partners bring value to the final product the partnership are measured as successful by involved partners in collaboration.
- Third and final aspect: A business needs a solid structure to be able to enhance learning and the internal structure cannot be controlled by formal systems because it has to recognize and managing the human aspects of the network (Kanter, 1994).

4.3 Business Networks

Companies' ability to penetrate a foreign market depends on their business networks. Bitzer and Bijman (2014) emphasize critical factors by explaining the meaning of networks in export encouragement. Companies have two main choices, *first* if they wish to engage in export activities and if so, the *second* decision is whether to use a direct or an indirect export mode. Indirect export is done through the use of an independent export business for overseas sales and the actors can engage in foreign markets by using indirect exports expect higher short-term profits according to Rambocas, Meneses, Monteiro and Quelhas Brito (2014).

The advantage of indirect exports is that the company moves quickly into the market. The company's operations are working together which usually stand for the majority of the costs. Rambocas et al., (2014) claims that the company does not need to put a lot of resources into the export process. The downside is that there is a higher risk when the company does not have direct control over their sales. If an exporter is interested in boosting the profits by receiving immediate incomes from other markets, the use of an indirect export mode can be beneficial. To achieve a long-term profit, the company should rather use direct export. To enable direct export, the company requires control of a large set of resources and capabilities. The need of investments and handling with fixed cost is higher compared to using indirect exports (Rambocas et al., 2014).

Rambocas et al., (2014) explains that direct exports is when an exporter sells directly to buyers in foreign markets, either through a self-dependent unit or by a foreign-based organization. Direct export is a more effective way of working than indirect since it requires fewer sacrifices in terms of time and expenses. Companies' internal capabilities in the form of, for example, personnel or finances should according to Schmidt and Porteus (2001) possess the kind of knowledge required to penetrate a new market. How the management controls organization clarifies their ability to expand and establish themselves on a global market and if the production is efficient enough to survive in a new market (Rowe et al., 1994).

Companies usually encounter barriers to access data and information on potential customers, as well as technological data that provide information about individual customers and potential markets. Schmidt and Porteus (2001) claims that careful evaluation and questioning information is needed, this includes the relevance and utility of the information and how it could be affected by cultural similarities and differences. Gathering information is expensive and many small enterprises rely on information contributed by consultants. This can cause that the company to receive knowledge that may not be considered important for their business (Ritossa and Bulgacov 2009).

Ritossa and Bulgacov (2009) claim that when a company tries to use direct export, there are external export barriers, which are considered more uncontrollable. These barriers have different effects depending on where the businesses choose to export to, and they are categorized into administrative, governmental, implemental and sustainable.

These barriers describe the challenges associated with a states' enabling or prevention of international trade on the hosting or domestic market. Barriers are mainly established either domestically or at hosting markets to control the export of goods and services. Ritossa and Bulgacov (2009) explain that by creating such barriers, the state can protect a particular market from corruption and increased competition. According to Schmidt and Porteus (2001) these barriers indicate that the small and medium-sized enterprises need financial resources in order to act on a global market. To deal with the problem, the smaller companies need enough financial capital to make an international commitment. Schmidt and Porteus (2001) claims that the direct export will cut costs in the long-run and give financial profits. However, the chance to develop a direct export is depending on the presence of a favorable market, access to knowledge and technology as well as low production costs. According to Rambocas et al., (2014) a company using direct export can also receive higher brand loyalty and satisfaction from consumers and buyers, since direct export is creating higher efficiency as well as stronger ties within relationships.

The previous basic export industry of supplies is leading the way for the expansion and development of higher-value export products as well as more industrialized agribusinesses (Ritossa and Bulgacov, 2009). When profitability and marketing of agricultural exports and business activities is discussed, several studies are pointing at the term of value adding. Agricultural producers can, regarding to Coltrain, Barton and Boland (2000), both strengthen their competitive advantage and increase their export possibilities by engaging in value added production. This can be defined as participants of food companies who add value by refining or transforming a product. Due activities such as engineering agro-based products to consumers and changing distribution channels designs, are all openings to additional value. The increasing international demand for high value agricultural products has made it easier for producers to add value and to market these products to consumers (Worldbank, 2008).

Ritossa and Bulgacov (2009) explain that distribution companies have a number of opportunities to compete with their products on higher levels of the global commercial market, which increase their income. By engaging in value-added production, a farmer or small enterprise can wish, and many times succeed in earning higher amounts, compared to only producing raw supplies (Coltrain et al., 2000).

Previous studies have identified the importance of understanding the connection between a firm's capability in marketing themselves, together with their export performance (Bitzer and Bijman, 2014). Even though engaging in value-added production is highly promoted by researchers, organizations are often consistent of limited resources (Coltrain et al., 2000). Bitzer and Bijman (2014) further explain that even if the global market is improving the chances for small and medium-sized enterprises to engage in the global market, there are large multinational companies that are setting limited access due to the market. When aiming to engage in international markets, the main variation between large companies and small enterprises is the fact that limited resources often constrain the small enterprises (Bitzer and Bijman, 2014). One certified and proven winning way to reach these assets needed to engage in value added production is by forming effective producers' organizations to engage with other small producers.

4.4 Summary of the Theoretical Framework

The theoretical framework presents the theories used for explanation of the challenges within the existing value chain, with a focus on value-added activities. The theories that are treated are divided into three sections: value chain, business relationship and business networks.

The first part of the theoretical section introduces the concept of a value chain and how it is used to strategically demonstrate a company's activities as the flow function and how they work to meet customer requirements. Vertical integration is also addressed under value chain as it describes a common way to streamline the flow of activities and how different actors can work to achieve a common goal. The first part also discusses how transaction cost affects the barriers that naturally subsist on the market.

The second part deals with business relationships and how a value chain should consist flexible on today's ever-changing market. It also emphasizes on how trust between parties creates partnerships which can contribute to the individual actors' strengths on the market. Furthermore, strategic partnerships are concentrated within business relationship since it has been found that combinations of the individual companies' resources can create strategic opportunities that will strengthen their long-term

competitiveness. This leads to the third and last section that deals with business networks based on the competitiveness achieved in partnerships and thus raise the possibilities of settling on a global market. Distribution channels comprises barriers stated that are either domestic or on a hosting market. Barriers are created to control the export of goods and services and can protect a particular market from corruption and increased competition. These barriers also create difficulties to conduct direct export of raw materials. Using the previous research discussed in the section above, it created a deeper understanding of the subject which will further be analyzed in relation to the collected empirical data.

The following model has been designed to clearly highlight factors and understandings of the activities in the value chain that activate value increments in the Sri Lankan tea industry (figure 6). The empirical section is the same as presented in the empirical framework and it forms the basis for the evaluation of today's challenges which are presented in the upper section. The theoretical framework helps to investigate the challenges found in the empirical results. These three theoretical sections are subsequently reflected through the lower part of figure 6 and will be considered throughout the analysis, mainly to see how actors should interact to achieve vertical integration, with a focus on value-added activities. The boxes below are then grouped after the three theoretical sections, where each box shows the factors that emerged through the theory in the different subjects. This is to create a clear structure and give clarity to the factors. This model is thus a concatenation of empiricism and theory and also provides the basis for the analysis and later appears in an elaborate version in the conclusion chapter.

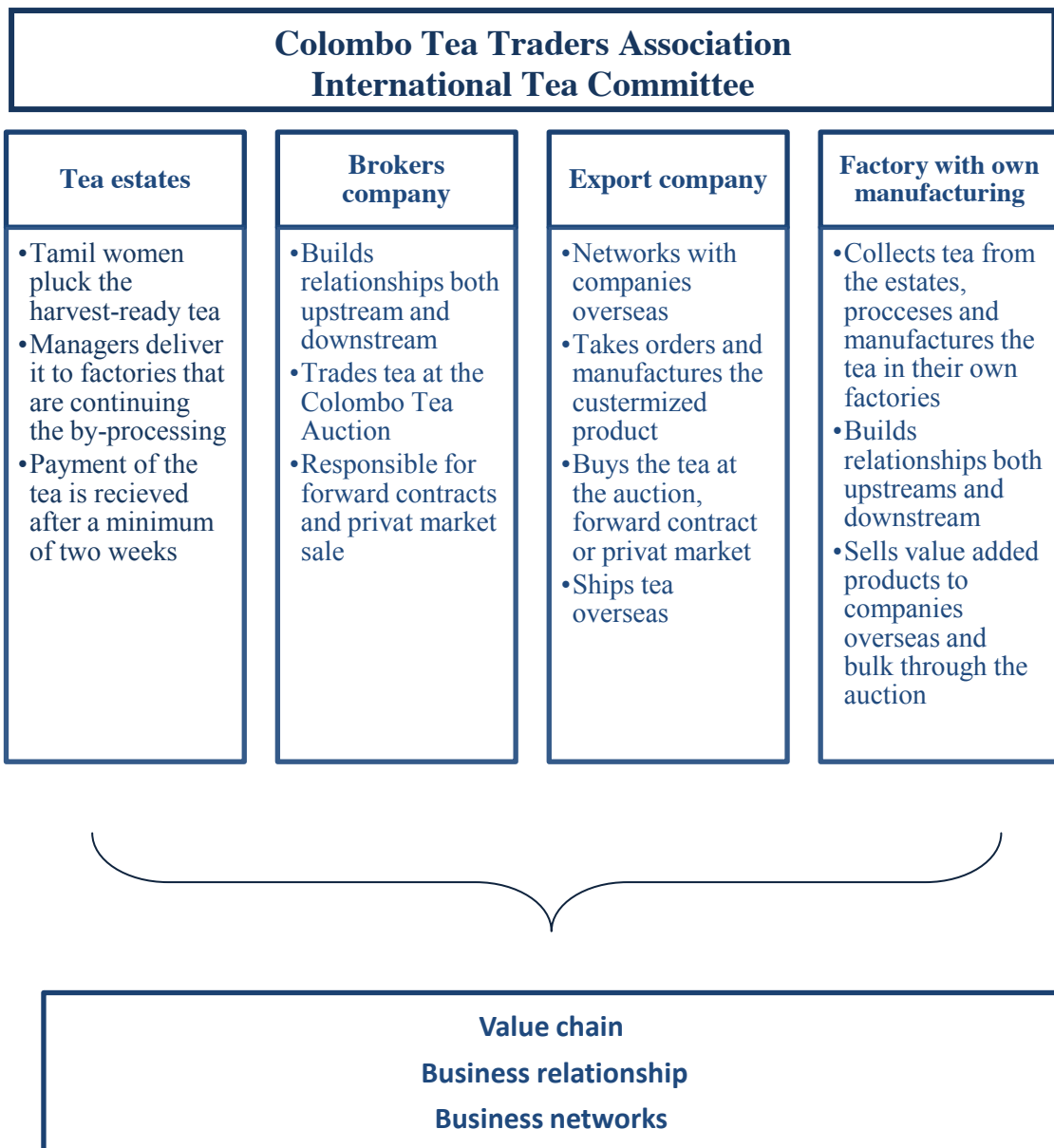


Figure 6. Model of Empirical and Theoretical concatenation

5 Analysis

In terms of large-scale nationalization of the former British estates and land redistribution after the independence, Sri Lanka's agribusiness prevails in taking a small farmer structure. Small and mediums-sized enterprises are the dominating agents in Sri Lanka's agribusiness. The agents want to achieve better integration into global value chains and ensure higher incomes for themselves, while governmental organizations want to ensure that the greater part of the value chain is kept within the country. The specific ways to achieve social and financial integration and growth in Sri Lanka's agribusiness is the most important part of this analysis.

5.1 Ceylon Industry of Today

Based on empirical findings, the largest part of the value chain is based on small and medium-sized enterprises working independently to manage their activity and then send the input to the next actor in the downstream chain. Each organization within the Sri Lankan tea industry manages and controls its operations based on their own goals and strategies, while the next actor along the chain might have a different strategy. Actors within the value chain should according to Kaplinsky and Morris (2002) work together to transform the input to the output demanded on the market. The concept cooperation should take place between all parties involved, directly or indirectly, which Porter (1985) mainly clarifies due to the fulfilling of a customer request. Based on the four observed categories' in this research, a basic structure of the value chain is presented in figure 7.

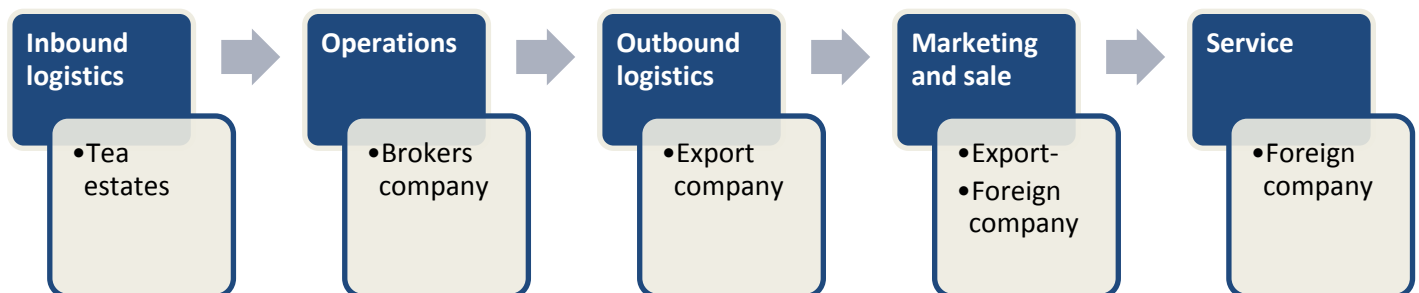


Figure 7. Structure of the links in the observed value chain

From raw material to get sold overseas, the chain will involve hundreds of activities, which according to Porter (1985) should be handled in an efficient manner to generate great business results. How each activity is executed in order to generate customers' interest might therefore raise questions concerning supply, demand, quality of the raw material and what price the tea will be sold for. Even though the agribusiness of Sri Lanka has gone through a relatively good development, a bottleneck has been identified in this widespread structure which leads to exceptionally high post-harvest losses. The distinguished between process and transportation could be the reason of the losses. Porter further explains that the concerns of the value chain involve how the total surplus or value generated along the chain can be maximized. Figure 8 illustrate the chain of different activities and which actor that most commonly is responsible, until final product, based on the collected data.

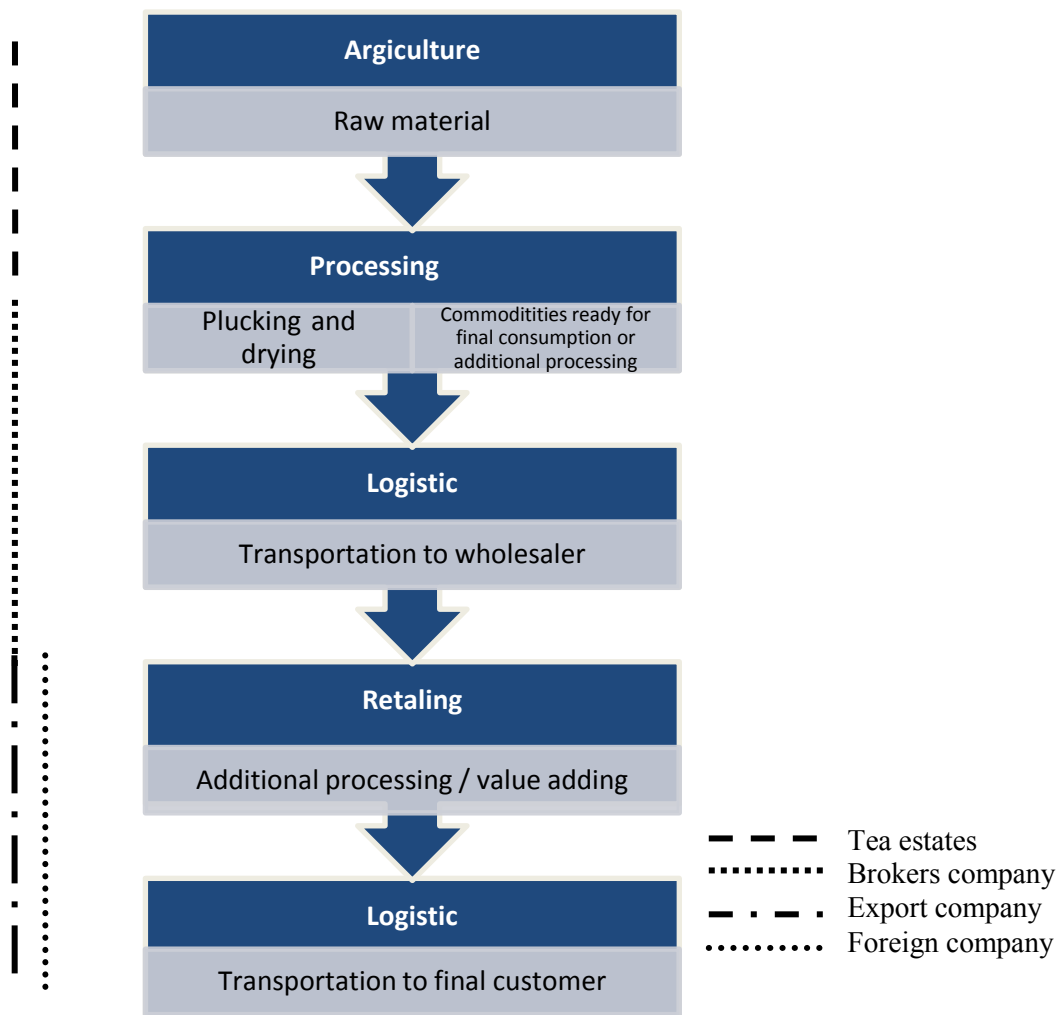


Figure 8. Breakdown of activities in the value chain for tea products

5.1.1 Breakdown of the Ceylon Industry

Tea from India, Kenya and Indonesia are relatively close substitutes to Ceylon tea on the global market, the price will, according to Porter (1979), be relatively inelastic and therefore raise the competition between the different actors worldwide. Hence, it raises the incentive to overview the downward spiral and how the export companies generate customers' interest, mainly to be able to meet the different expectations and also protect their competitive advantages of Ceylon tea.

The business results within the tea industry are therefore depending on economic barriers as well as cost advantages which could enable price and product negotiation and thereby affect the target markets demand. A.F. Jones Exporters take care of their customer relationships and they often receive the same orders time after time which show that export companies are well integrated with their customers, it clarifies that they know their target market (figure 9). As long as export companies analyze this volatile variable and focus on the customers' demand it will be possible for them to keep their customers in the long-run (Partanen and Möller, 2012).



Figure 9. Export company' position within the value chain

Nonetheless, since tea has shown to be an inelastic product and the price remains relatively steady, the export companies mainly have to find the right marginal that covers all of the expense even when the price elasticity differ. They thereby enable a prediction of the business results for export commodities and their survival will increasingly depend on strong business relationships. However, even with this sort of control, awareness should be raised towards other differentiations. Salient variables that differ, such as labor and capital structure, could have the same effect on the business result according to Dunning (1988). These variables may have a low impact on the exporting companies' performance since they work independently to other actors, mainly to keep flexible.

Export companies seem to be more dependent on quantity of a certain product and finding the right supplier for that specific order, without any further obligations to any agents or estates. But on the other hand, if the supplier is unable to deliver and the export company has to find new tea estates in a limited time, it may affect lead-time, the total cost and thereby affect the price and demand. Their flexibility could thereby firstly be enabled as long as their capital structure will allow them to stock up in anticipation of demand.

According to Porter (1985), an evaluation of the value chain's total cost would therefore enable a more preferable concept to produce the desirable output. When the production focuses on desirable products and information shares between parties within the value chain, it will also remain efficient and effective. Since there is an uncertainty in supply it is even more important that knowledge transaction is primarily in the widespread production structure, which thereby raises small farmers' dependency on the middlemen who bring their products to the market. It is clear in the empirical findings that there is information asymmetry within the interactions, both up- and downstream the chain. The export companies are currently not sharing their predictions of the market with the actors upstream the chain, which according to Harrigan (2003) lead to remarkably longer lead-time. Orders and information flow might allow other actors to calculate and improve the prognostication within the value chain. Williamson (1981) claims that the less friction within the chain, the smoother the activities will flow. The transaction cost will be lower and since different actors within the tea industry are involved in different activities it would seem important to compromise. Lack of contact between the supplier and the market could lead to difficulties in keeping up to date with price and demand.

Transaction can increase the cross-control in an efficient manner but primarily when the flow is well working. It is important to keep transfers up to date with the market and thereby obtain valuable information to a low cost for the businesses upstream the chain (Porteus, 2001; Williamson, 1981). Thus, there is a gap between estates and the actors downstream the value chain, mainly since information concerning market trends and consumer preferences do not reach all the way (figure 10). The estates' lack of information will, according to Bitzer and Bijman (2014), result in a weakened position for the tea estates which might lead to a failure of their natural and systematic learning about value adding processes.

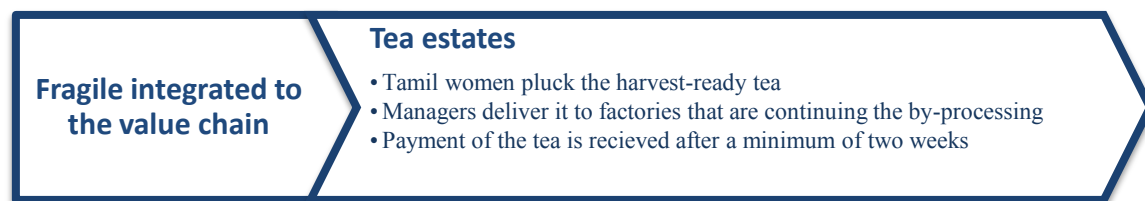


Figure 10. Tea estates: position within the value chain

Global attention is raised to the advantages of today's technology which can transfer information at lower transaction costs (Ellingsen and Paltseva, 2016). The International Tea Committee claims that actors operate with the various challenges of the value adding of raw material and the technology issues and solutions may seem important for the agribusiness development. Technology transfers could enable more convenient interactions of knowledge and information and the smoother the interactions works, it would no longer be necessary to integrate the whole value chain. On other hand, a large part of the activities within the value chain of the Sri Lankan tea industry take place in rural areas and technology is not always trustworthy. This also follows along Coase's (1937) explanation concerning the law of diminishing business, when the transaction cost is increasing, it will decrease the level of knowledge transferred to the tea estates. Small and medium-sized companies could therefore lead to low integration and thereby no economies of scale which could be counteracted by vertical integration.

5.2 Vertical Integration within the Value Chain

Business partnerships could be fleeting and relatively loose while others, like Lumbini Tea Factory, are closely merged and more or less controlling their upstream and downstream flow. Harrigan (2003) claims that closely merged companies could maintain their level of control over its inputs and distribution of earnings along the value chain as long as they integrate technology. Lumbini Tea Factory is familiar with the target market and since they are dependent on their own estates, the transfer of information will be a key access for enable a flow of products.

The tea industry is general characterized by the sales of merchandise with push-marketing, relatively long lead times in production and production processes that generate a relatively high percentage of products. The empirical findings in this research correspond with this description which could get compared with Partanen and Möller (2012) statement about that one actors poor performance affect the value chains final result.

This makes it important to secure that actors all along a chain are working towards the same goal, by using the most efficient resources for the activities. Each actor should therefore be specialists in their specific field while the main activity of Lumbini Tea Factory is to control the quality and be responsible for the indispensable tasks of transportation as well as processing products necessary for the atomized structure. The contracts set up with the suppliers will therefore enable trust to the partnership and result in receiving a product of higher quality, which according to Kumar (1996) can be manufactured and shipped as a branded product overseas.

Lumbini Tea Factory can thereby control their value chain of input to output, reduce cost and thus get a higher profit from the customer (figure 11). According to Kumar (1996), as long as both partners are willing to participate, they may benefit from the mutual goodwill. However, the relationship will move into the apathy quadrant once either company reduces their dependency.



Figure 11. Factory with own manufacturing: position within the value chain

Vertically integrated companies are hard to find within Sri Lankan tea industry, most likely because the Colombo Tea Traders Association's way of controlling the market and corruption creates limitations. Porter (1979) explains that these kinds of regulations add legal obstacles to the market could limit the distribution channels. Government regulations can be effective in more than one way, since they force the actors to bid on the open market with the incentive to remain a stable average price and less corruption (figure 12). On the other hand, this limits the amount of warranties, which in turn creates difficulties for relational contracts to more than 10 percent of the total produce and thereby makes it harder to predict business results.

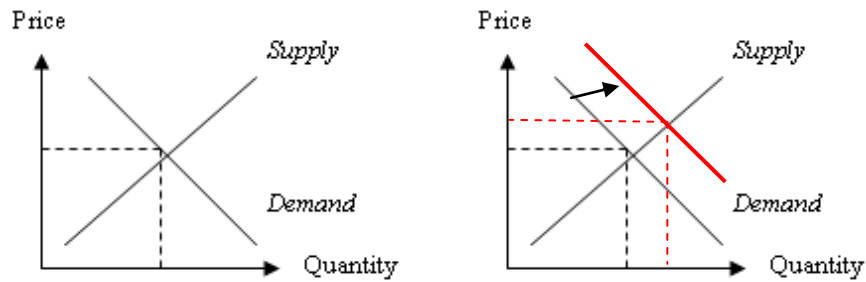


Figure 12. Increased demand on the market

Lumbini Tea Factory are closing deals by forward contracts where the price depends on the last sale and the estates inquiry, thereby most likely to a higher price than at the auction. These higher prices will occur from transaction costs, mainly since it both takes time and requires money to execute a contract (Coase, 1937). Therefore, actors may have to consider the opportunity cost if they instead can not secured customers satisfaction. However, these contracts have shown to be a safer way of handling the raw material, since both parties will secure a deal. Nonetheless, 1 percent of the total price charged as a handling fee will be billed to the brokers companies. This will therefore affect the brokers' incentive to raise the price in the auction-room when they see a special demand (figure 12).

The collaboration between Lumbini and their suppliers is mainly built on investments and a multi-sectoral effort to define, measure and enforce corporation. Kanter (1994) claims that integration seems necessary to enable improvements in both social and environmental performances, which legitimately can be solely by reference to long-term strategic advantage for a vertical integration. While vertical intergraded companies are responsible for their upstream and downstream of supplies, the network should strive to find their unique values to develop a more efficient value chain that can include value adding activities.

5.3 Integrating the Value Chain by Business Relationship

The estates, as well as the brokers are aware of the fact that the amount of tea they deliver might get sold immediately and give the estates a good profit. But the bulks might as well be stored in the warehouse for additional time and thereby create an extra cost for the estates. The flow of activities is almost non-integrated with the exception of the Colombo Tea Traders Association, who is caring for the whole flow from estate to final customer.

When caring for these activities along the value chain, Partanen and Möller (2012) are referring to connectedness, which is attributing to a company's strive to integrate in relationships in order to build up its own capabilities and strengths. The quality of the raw materials will be the main resource in this process and thus it will be in focus to create a linkage between the actors downstream the chain and the estates. Furthermore, this unique integration will, according to Harrigan (2003), create synergies, and collaborated companies may be able to increase their boundaries. Small enterprises within the value chain might thereby achieve competitiveness advantages on the global market.

According to Savitz and Weber (2006), depending on the activities held within actors own business model, vision and strategy, unique value may be added, which may prove difficult for competitors to imitate. Coordination of the network could thereby prove as important in order to be able to involve activities that lead towards a vertical integration as well as an independency for the small enterprises. Asia Siyaka Commodities is shown to be one of those eight middlemen that are coordinating the chain of the raw material, customers demand and their own business strategy.

In short, the brokers companies' trading is the process of upgrading which could allow small and medium-sized enterprises to access viable value chains. On the other hand, it could also improve the actors' position on the market by closer merging within the existing value chain. The brokers' coordination could make them an important asset by integrating all of the divisions that are adding value to the products, and thus increase the understanding of the value proposition. Furthermore, Kanter (1994) claims that the different partners' skills should be used to enable a strategic partnership. Small enterprises have a weaker bargaining power because of their limited resources. According to Rambocas et al., (2014), business relationships could empower small enterprises to gain competitive advantages. Mainly since those partnerships systems could squeeze the excess costs out of the industry by eliminating superfluous inventory and various middlemen.

Since multi-actor collaborations could motivate the small enterprises to meet the international market, this would thereby invite them to compete with the bigger actors internationally. However, the intentions and duration of these partnerships might be most important for a key corporate asset and the brokers companies would thereby be dependent on trustworthy partners to make it a collaborative advantage. Williamson (1981) claims that if the actors are dishonest, the transaction costs would be considerably higher and economic ways of contracting between tea estates, brokers- and exports- companies would be expensive.

This indicates that, in order for the partnership to be functional and respond to the market's demand, all actors must be able to contribute to the process. Brokers are the main company that has the most knowledge both up- and downstream and could therefore link the estates together with the export companies (figure 13).

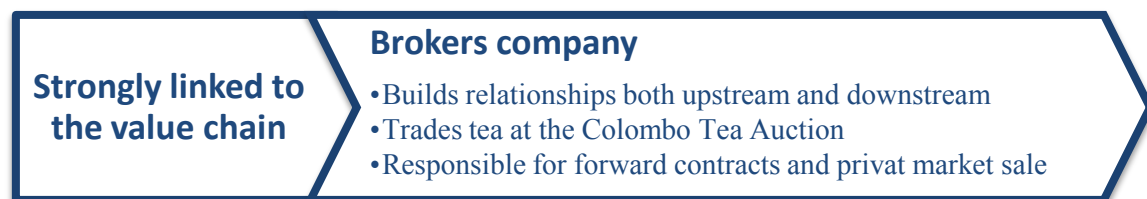


Figure 13. Brokers company: position within the value chain

According to Kumar (1996), retailers and manufacturers' joint effort could bring higher value to the end product and together eliminate unnecessary costs that appear during the process. This may include transaction costs in terms of uncertainty and new agreements with suppliers. Harrigan (2003) argues that if a company agrees with the particular supplier, a business relationship may evolve over time, and trade would constitute an increasingly important part of the agreement. The activity of brokers' integration both upward and downward the flow of players could make clearer predictions and participation can thus facilitate future investment opportunities. Investments that could increase their capacity to buy more quantity therefore affect their competition advantage within the global tea industry.

5.4 Value Adding Activities within the Network

The empirical findings show that 80 percent of the total quantity gets shipped overseas. 45 percent depends on the customer preferences which evidently make it important for the actor to relate to the market's demand. Savitz and Weber (2006) also claims that organizations have to be aware of customer expectations in order to keep up with the global changes. Consumers' expectations for products and services are increasing more dramatically than ever, and if Sri Lankan companies do not keep up with development will they sooner or later fall behind. To produce these commodities however, they would need their own estates, factories and warehouse, this may prove difficult since the government are the main owner of land and the price are known as high.

A factory does not have the rights to export, and since the land is expensive there are no export companies that own tea estates, this makes them dependent on each other. According to Harrigan (2003), centralized networks could be designed to encourage organizational managers, particularly of global business enterprises, to reorganize and redefine their responsibilities toward the actors along the chain who shares a mutual field of challenges. Small enterprises that have a low independency can work inhibiting for their way of expanding which affect long-run decisions concerning export. Referring to the research of Bitzer and Bijman (2014) concerning value adding activities, it is stated that strategic integration within the value chain allows higher access to the needed resources as well as higher possibilities to organize successful export of emerging enterprises. However, a network of value adding activities can be problematic because of the different authority levels of the involved actors, as well as the varied years of experience. Companies should therefore, according to March (1991), develop structures, processes and mechanisms in order to bridge organizational and interpersonal differences and thereby enhance real value from the partnership.

With the background of the International Tea Committee, there is a demand of value added products, mainly because of the re-export of tea from England which Sri Lankan actors should try to take over. Harrigan (2003) argue that threats from other suppliers can be reduced by controlling the entire value chain, this would also make them closer to their clients.

A raised incentive for the tea industry to reach direct export to the final customer would, according to Rambocas et al., (2014), be more cost efficient and thereby also raise the buyer driven manufacturing. Williamson (1981) argues that if a business agrees to continue with a single supplier, it may over time build a partnership. Subsequently, trade controlled by a single brokers company could thereby strengthen a business network.

Dalimah accomplishes to control their whole value chain by building their own family network of elements and value adding activities. According to Harrigan (2003) this success could be based on their buyer driven manufacturing and the fact that Dalimah have connected their upstream and downstream of suppliers and distributors in order to increase their level of control along the chain to a lower cost. This kind of informal integration could be useful since they, to a lower cost and by less investment could be able to manage a local value adding and thereby keep more of the profit within Sri Lanka. The development could thereby improve the vertical integration and create competitive advantages.

According to Rambocas et al., (2014), buyer driven manufacturing will require that exporters sell directly to buyers in foreign markets, which primarily happens either through a self-dependent unit or a foreign-based organization. Previous studies of Coltrain et al., (2000) have identified the importance of understanding the connection between a firm's capabilities to market themselves, together with their export performance. Bitzer and Bijman (2014) claims that a certified way of reaching the assets needed to engage in value added production on a global market is to collaborate with other actors within the marketing process. Small enterprises could take advantage of these collaborations and thereby only take responsibility for the work they specialize in, mainly to keep the value adding process within Sri Lanka. However, there are obstacles within the value adding activities. There are many actors on the global market, Sri Lanka may have the highest average price on the raw material but is only the third biggest actor.

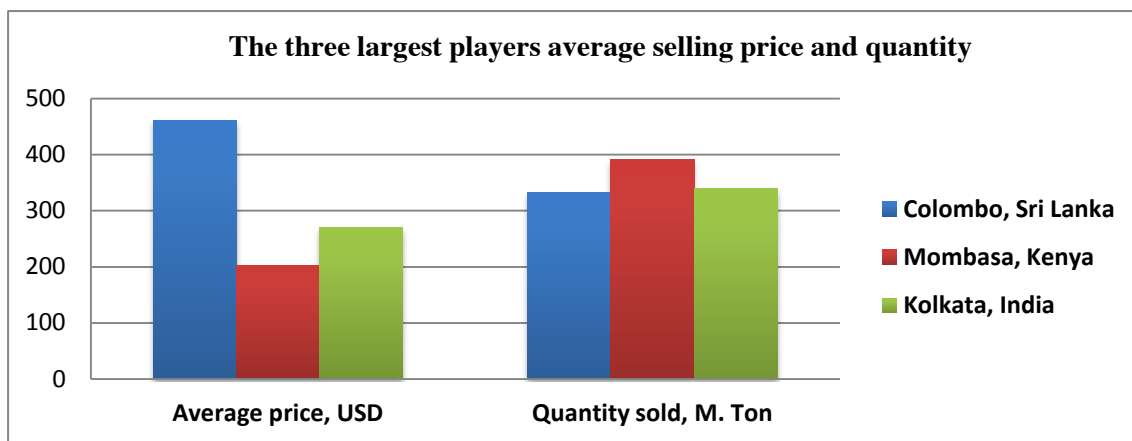


Figure 14. Diagram over three largest players within the tea industry

The diagram, compiled from appendix 6 and 7, shows that both Kenya and India are selling a higher quantity to a lower price and should subsequently, according to Porter (1979), be seen as strong competitors (figure 14). Accordingly, it may prove difficult for the refined and processed agro-based products of Sri Lanka to penetrate the global market. When other countries within the agribusiness sell to a lower cost, Sri Lanka should try to meet the competition as an integrated industry, and make sure that their high quality gets sold on the market. The development should, according to Schmidt and Porteus (2001), be based on an innovative solution which could motivate small business owners to work together to achieve common goals.

Ceylon tea is a recognized tea because of its controlled productions and should be sold in its value refined form in order to yield higher margins to the Sri Lankan economy. The main goal of the Tea Traders Associations is to preserve the rank of Ceylon tea, which clarifies the importance of the Lion Logo. According to Savitz and Weber (2006), an existing well-known brand could motivate competitive advantages. The quality certificate, the Lion logo, is a common mark that links the Ceylon industry together. It is entirely possible for the re-exporting companies to import tea from the cheaper producing countries, blend it in their factories, put the Lion Logo on and get a higher marginal than if they bought all of the raw material from Sri Lanka. What if they could restrict the use and only give the licensed companies the right to use the Ceylon certificate mark? Even if it would require some effort from the Colombo Tea Traders Association, it might secure the quality of tea delivered from Sri Lanka as well as capture the interest from more customers that appreciate a certified quality product.

The Colombo Tea Traders Associations' need of integration along the elements could improve the quality of Ceylon value added products. A limitation of the Lion logo would not give the opportunities for other producers abroad to use the certificate. Investments in the networks' linking activities are thereby important for economic development and a possibility for changing the acceptance for low margins and enable future gain. An enhanced integration of the elements could thereby reduce the bargaining power of alternative suppliers and customers, which in turn would create efficiency within the chain (Porter, 1985; Williamson, 1981).

As mentioned above, it may prove difficult for the refined and processed agro-based products of Sri Lanka to penetrate the global market, but on the other hand it may prove self-destructive if the industry does not try to meet the challenges because the elaboration of the value chain are not realized. Savitz and Weber (2006) claim that, by taking control over their business and collaborate in networks competitive advantage, the marginal for the high-value products could be raised. These advantages might be the reason for continuously using the same and specific supplier which thereby could reduce the transaction cost for a company while the networks may enable activity on the global market. The ability of combining these different elements and recourses could streamline the development of their physical, human and organizational resources.

5.5 Summary of the Analysis

The following figure summarizes the specialties within the different elements and their position along the value chain according to the analysis.

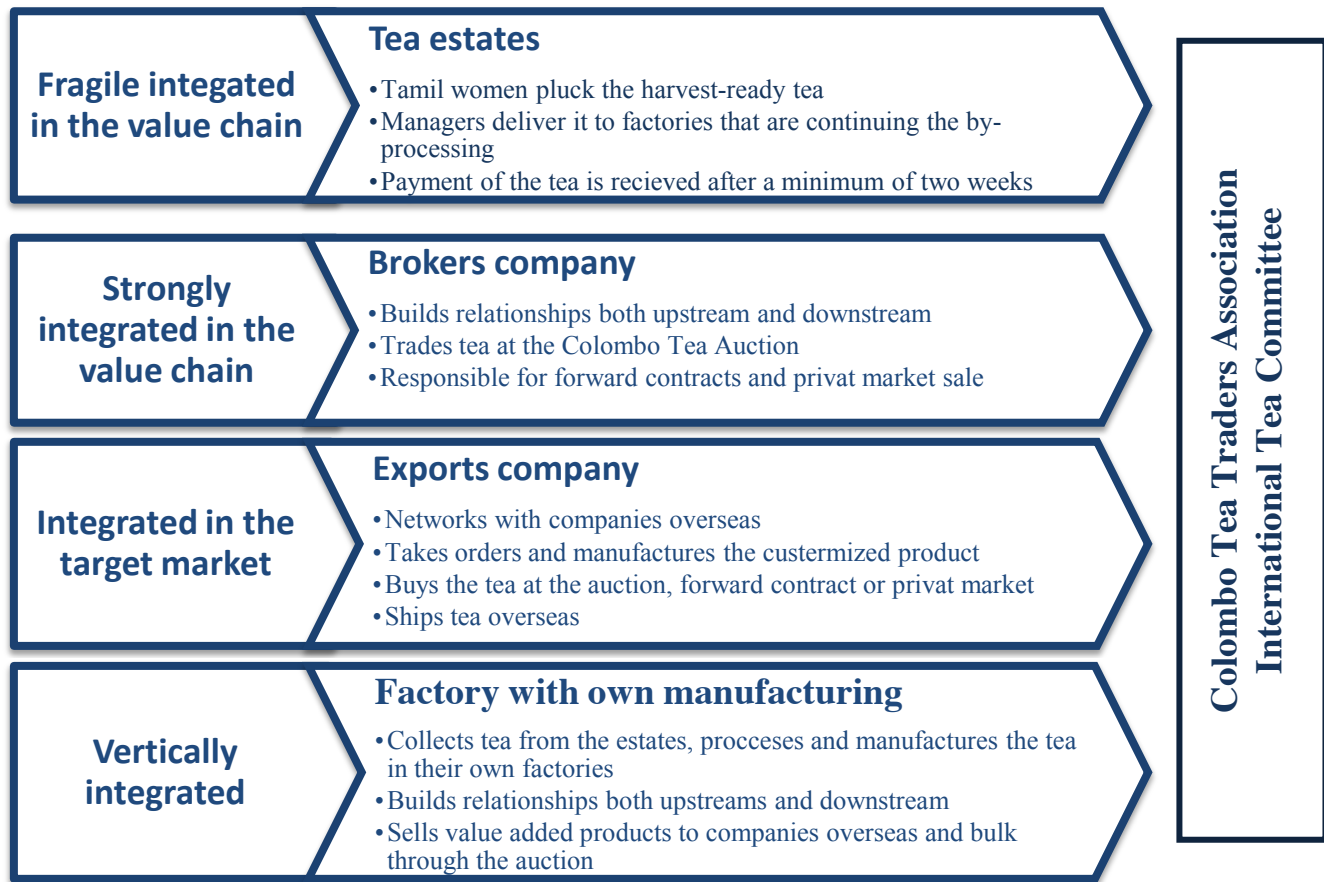


Figure 15. Identified positions between the elements along the value chain

6 Conclusion

Based on the above analysis, this section will present the conclusions made in this research by answering the research question presented in the introductory chapter. The conclusions are based upon the empirical findings, presented theories and the analysis in previous chapters. Furthermore, the researcher's own thoughts about the findings will be presented along with suggestions for further research that could be implemented in the field.

6.1 Emergence of Vertical Integration within the Value Chain

At an initial stage, before the emergence of vertical integration can strengthen the Sri Lankan tea producers' value chains, it is important to create an understanding of how the elements of the value chain works today. Researching how the emergence of vertical integration can strengthen Sri Lankan tea producers' value chains enabled a first conclusion. The tea industry in general characterized by the sales of merchandise with push-marketing, relatively long lead times in production and production processes that generate a relatively high percentage of consequence products. The empirical findings in this research correspond with this description.

The collected empirical data have been compared to the theory. Subsequently, the following linkages have been analyzed and are shown above in figure 15. The majority of tea, in most cases, gets traded worldwide and processor and transporter are distinguished since they are intermediary suppliers of services which confirm a lacked ownership of the raw material. The observed chains consisted of actors engaged in agriculture, independent contractors providing processing of raw material into tea and independents actors providing transportation and services to markets. Businesses were very small-scale, sole proprietorships with mainly a few employees but the end markets are global. Exports companies are highly integrated with the target market but choose not to share any information or prognostication with the tea estates. It makes the upstream actors poorly integrated and the tea estates are thus more focused on their own activities. Lumbini Tea Factory uses a compilation of all the activities along the chain and they are the owner of the raw material throughout all of the activities. This makes their business a clearly vertically integrated chain. This vertical integration demands a greater extent but is limited primarily by the governmental regulations of the industry.

6.1.1 Cooperation and coordination

Underlying issues that lead to this research was, "how can the emergence of vertical integration strengthen Sri Lankan tea producer value chains?" The biggest potential for improvement of the observed value chain would be by increased cooperation and coordination, both horizontal and vertical. Coordination could streamline the value chain and reduce costs but from the tea estates' perspective, for more vertical integration to make sense, there had to be a firm horizontal cooperation between actors in the first stage. It is also important to point out that to capture more value may not necessarily be at the expense of another link in the chain. Small- and medium sized enterprises was a limiting factor to creating economies of scale and considering the cost of required inputs for processing this would need to be in place. There are opportunities to increase the total surplus for the benefit of all value chain participants, which leads to the brokers companies' and its ability to enhance the horizontal integration within the value chain.

Brokers companies are identified as closely integrated with the target market, as well as the suppliers of the raw material. It shows that they are a strong integrating unit throughout the value chain, with the needed insight into the activities both upstream as well as downstream. One result that stood out was the impact that honesty and trust had as key elements in the competitive strategies of actors. Trust was a key condition for allowing credit and since cash flow was a big issue and liquidity often a limiting factor for the tea estates, being considered trustworthy had great significance when brokers cooperation a horizontal integration of the different activities. Brokers companies should therefore enable an informal integration where they are the linkage between estates and export. This kind of knowledge transfer should therefore be promoted in a developing country since it benefits all parts and could thereby be the motivation for reaching a horizontal integration.

Sri Lanka has important assets, which enable the country to face the challenges that arise from trends on the global markets. Among the assets are natural advantages for the production of high valued agro-based products and a traditional openness towards world markets. Value processing and customized products are sold to a wide market. But since there are recalcitrant units detected in the institutional environment of the companies, it creates a deficiency in the systemic competitiveness.

To overcome these challenges within the tea industry, the brokers companies will have to follow the downward spiral in price, quality and investment which also includes promoting the structural market transformation. The research has thereby shown the possibility to affect the value chain through business networks and a customer orientated strategy which can strengthen the value adding activities within Sri Lanka.

6.1.2 Strengthen Sri Lankan tea producers' value chains

It is the urban supply that drives society forward while the urban population creates a demand for agricultural products, this stimulates production and productivity. It is in the urban community as it creates greater economical awareness, which promotes enterprise progress. This creates opportunities for an intellectual and efficient development and coordination of the agribusiness. However, it has been identified that the development progress is weak, mainly since it in Sri Lanka differs about 10 kilometers between a high-tech city and a village without electricity. Fewer elements possess the required knowledge and even if they are prepared for a development of the value chains, there are still obstacles. Vertical integration of the industry can thereby ensure delivery or otherwise control the flow through the value chain to capture more value, achieve economies of scale, or ensuring access to information. Single-handed it would be hard to accomplish since the tea producers do not have the capacity or resources, as for example technological development is needed to enable more vertical value chains. However, together as a coordinated chain the actors could take advantage of strategic partnerships (figure 16.)

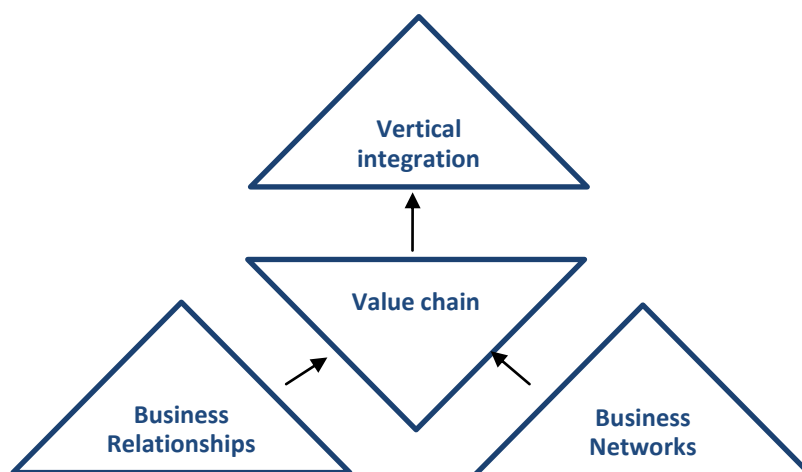


Figure 16. Emergence of Vertical Integration

Successful networks usually function because they do not solely rely on the present. Business relationships have proven significant in previous studies and in this context it is clear that the social and economic benefits would improve with the help of integration in the host served system. The networks are often relatively broad and vertical integration can extend over large areas. Revenues strengthened in relation to their reduced costs opens up new and major investments in the value chain. Therefore, downward investments should be done to ensure the value of investing in the other actors' activities. The valuable knowledge passed along both horizontal and vertical of the chain creates a competitive advantage worldwide which seems useful in strengthening the Sri Lankan tea producers'.

6.2 Recommendation

Over time, urbanization will increase and the community will accompany and support its development. Agriculture is the driving factor for a sustainable development, but it is mainly the cities that are the source of financial resources and professional opinions. The following has been identified; the agricultural sector in Sri Lanka is criticized for the low wages and intolerable working condition resulting in non-increasing number of jobs. In addition, demand for higher education globally and with higher education attracts job with academic criteria which enhance the attraction of improving the argo-based industry and finding new market shares.

We strongly encourage you to export value added Ceylon Tea, rather than in bulk form. Value addition is a great way to increase your earning (Sri Lanka Export Development Board, 2016).

Firstly, the lower part of the chain should be provided with downward investment done by the brokers companies', instead of monetary funds would they need material investments. Asia Siyaka Commodities monetarily supporting their suppliers on a monthly basis and it is shown that private investments are becoming more important for the competitiveness of the global industry and are an important driver for economic development. The direct capital is difficult to use correctly if the estates do not have the right knowledge and it is usually used for the short-term solutions rather than innovative developments.

This would be a possible project since actors downstream are already supporting the estates financially; it would therefore only be a different form of “instead of giving the poor a fish, consider giving them a fishing rod”. Another way would therefore be implies of outsourcing that are organized and monitored by successful companies, which are more likely to succeed than publicly induced project of estates’ organizations. This can be seen as a direct consequence of a merging of the brokers and the smallholders with very clear and strong economic interests. However, in some cases a tradeoff between economic success and empowerment of tea estates might be seen as rather paternalistic since they are clearly dominated by the brokers company. Figure 17 summarizes the basic cause-and-effect logic of broker companies’ procedures.

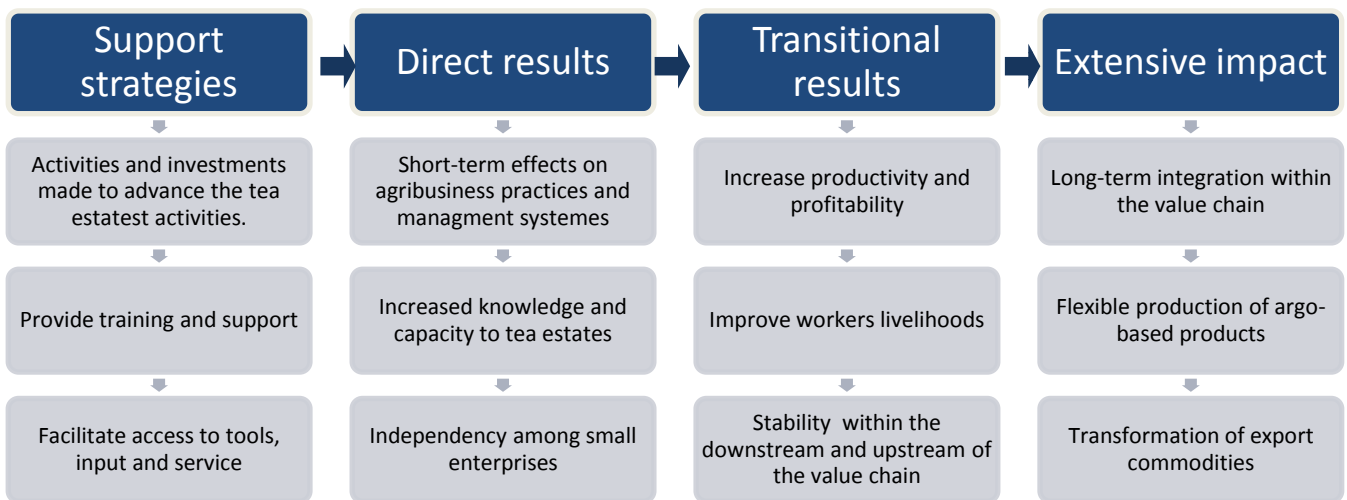


Figure 17. Summary of the basic cause-and-effect logic

Secondly, Sri Lanka has during the last year not been able to increase their oversea export of value added material. Thus, the dynamics is insufficient to meet the country’s development challenges and remains heavily vulnerable to external shocks because of the low levels of export diversification. Their remaining dependency on little value adding activities have been shown as the tea prices continuously increases.

A delicate diversification in the export sector may have a stronger impact on the Sri Lankan economy in the future, and further competitiveness of the manufacturing overseas can potentially lead to an increased rate of unemployment. Looking at the markets, there is a rather low penetration of the demanding OECD market, and they are restrained to limited quantities of bulk and few value-added products. The Sri Lankan target could therefore be the OECD markets since they, at this point, have little or no market shares. A following argument for that is the health trend; more and more people view tea as a healthy and good habit. Building a market share on a trend could be risky but since the main re-export from United Kingdom goes to European countries, there is a clear demand which can enable them to hold on to those market shares.

Thirdly, the empirical findings have identified the following; *number one* is the fact that it is too expensive to enter a new market; *number two* is the bureaucracy and the expensive paperwork. It is not rocket sciences, use the current market knowledge and organize it as others have done, just make sure it is well differentiated. Even when other countries within the agribusiness sell to a lower cost, Sri Lanka has to meet the competition as an integrated industry, this to enable a more efficient manufacturing and ensure that their high quality will grow strong on the market. The main focus should be on the quality of the Ceylon tea. By integrating this in their value chain, they might be able to sell their quantity to the customer, and the smoother manufacturing will create a good product to a good price. This advantage needs to be regulated by the Colombo Tea Traders who should open up for the integration and this possibility.

I would not say that the regulated system needs to be torn down. However, they need to consider the pros and cons of opening up for forward contract to more than 10 percent. Above all, they should be concerned about how safe these networks are with the loopholes. The Colombo Tea Traders Association might therefore be the key to this development since their regulation perhaps also could influence companies' possibility to choose how and where their activities can take place, as this would affect the local value adding positively. Authorized brokers interacting between tea estate and end customer through forward contracts could get a better structured manufacturing and holding of value adding activities within Sri Lanka. Thereby they could focus on more than just the greater economic loss, they can create strategic competitive advantages and add value to their value chain.

6.3 Tentative Contribution

Sri Lanka does not have the technology needed for cross-controlled efficacy. As technology evidently is somewhat weak within developing countries, it proves difficult to pass on the knowledge and thus justifying the construction of the network. The *tentative contribution* consists of the developed analytical model that can be applied when the researcher aims to analyze the extent of which small and medium-sized enterprises in developing countries can manage raw materials and how their involvement is affected. The networks can be comprised of companies, suppliers and other stakeholders.

Given that there are effective business relationships and business networks that allow most companies to have the ability to work together so they can benefit from each other's knowledge. Developing countries interacting with each other are tightening their society. It is all about helping each other out and being a part of that unique kind of connections and coordination. Trustworthy relationships is the key within the Sri Lankan culture and concerning this research's research object, it can then be integrated into the existing value chain to achieve an informal vertical integration. This integration can thus make that small companies with fundamentally low potential may constitute a larger share of the global market.

6.4 Reflection and Closing Words

Shortly after I got back to Sweden I received a text message:

“Congratulations on the newborn prince, have they announced his name yet?” I was just waking up, I had not even had breakfast and there I was trying to find the name of a prince to tell someone in Sri Lanka. This made me realize, they might be one of the world’s poorest people, with a great need of developing their inbound activities. But this is certain; they are active, careful and concerned with details, they build relationships in every act. Additionally, when the workday starts in Europe, they have already been working for a few hours, for the overseas companies, this means adding another 4.5 hours to international companies’ workday.

Further research opportunities could therefore be on how the global integration can be used to achieve global knowledge transfer about the value processing. Based on my reflections, our days will be extended and effective work can be achieved when someone else do our job while we are asleep. It is well known that developing countries make use of the labor force which also should be used by developing countries. It would possibly not prove cost effective in today’s society. However, in about ten years it might be a useful approach to a more equal society in many parts of the world. This subject is going to be important for the future development, especially for creating competitive advantages.

7 Source of references

- Aktinson, P., Hammaesley, M. (1994) *Ethnography and Participant Observation* London: SAGE
- Bryman, A., Bell, E. (2013) *Företagsekonomiska forskningsmetoder*. vol. 3. Stockholm: Liber
- Badersten, B. (2006). *Normativ metod: att studera det önskvärda*. Lund: Studentlitteratur
- Bair, J. Gibbon, P. and Ponte, S. (2008) Governing Global Value Chains: an Introduction. *Economy and Society* vol.37 no.3, pp. 315-338.
- Barros, A. C., Barbosa-Povoa, A. P., and E. Blanco, E. (2013) Selection of tailored practices for supply chain management. *Lisbon: International Journal of Operations and Production Management*. vol. 33 no.8 pp. 1040 - 1074
- Benton, W.C. Jr. (2009) *Purchasing and supply chain management*. no. 2 Irwin: McGraw-Hill
- Bitzer. V., Bijman. J. (2014) *Old Oranges in New Boxes? Strategic Partnerships between Emerging Estates and Agribusinesses in South Africa*. *Journal of Southern African Studies*, vol.40 no.1, pp. 167-183.
- Braga, T., Stebel, H. (2012) *Unilever Tea (A): Revitalizing Lipton's Supply Chain*. Switzerland: IMD
- Burress, M, Cook, M, and Klein, P (2008) 'The Clustering of Organizational Innovation: Developing Governance Models for Vertical Integration', *International Food & Agribusiness Management Review*, vol.11, no. 4, pp. 127-153
- Cassell C., Symon G. (2004) *Essential Guide to Qualitative Methods in Organizational Research*. London: SAGE Publications
- Coltrain, D., Barton, D. and Boland, M. (2000) *Value added: Opportunities and strategies*. Department of Agricultural Economics, Cooperative Extension Service. Kansas State University.
- Coase, R. (1937) The nature of the firm. *Economica*. vol.4, no. 16, pp. 386-405
- Denscombe M. (2009) *Forskningshandboken*. Lund: Studentlitteratur.
- Dunning J. H. (1988) *Explaining international production*. London: Allen & Unwin
- Elkington, J. (1994) Towards the Sustainable Corporation: Win-Win-Win Business Strategies for Sustainable Development, *California Management Review*, vol. 36, no. 2, pp. 90-100.
- Ellingsen, T., Paltseva, E. (2016) Confining the Coase Theorem: Contracting, Ownership, and Free-Riding, *Review of Economic Studies*, vol. 83, no. 2, pp. 547-586.
- Grant, D. B. (2006) *Fundamentals of logistics management*. Berkshire: McGraw-Hill Education

- Harrigan R. K. (2003) *Vertical Integration, outsourcing and Corporate Strategy*. Washington: Beard Books
- Kaplinsky, R., (2000) Globalization and unequalization: What can be learned from value chain analysis. *Journal of Development Studies*, vol. 37, no. 2, pp. 117-146
- Kaplinsky, R., Morris, M. (2002) *A Handbook for Value Chain Research*. Canada: Institute of development studies
- Kirzner, I.M. (1973) *Competition and Entrepreneurship* Chicago: The University and Chicago Press
- Kumar, N (1996) The Power of Trust in Manufacturer-Retailer Relationships, *Harvard Business Review*, vol. 74, no. 6, pp. 92-106.
- Lambert M. Douglas, Enz G. Matias (2012) *Managing and measuring value co-creation in business to business relationships*. USA: Taylor and Francis group
- March G. James (1991) Exploration and exploitation in organizational learning. *Organization Science*, vol. 2, no 1, pp.71-87
- Mitchell, J. Keane, J. and Coles, C. (2009) *Trading up: how a value chain approach can benefit the rural poor*. London: COPLA Global: Overseas Development Institute
- Lindahl, C. (2005) *Wealth of the Poor, Eliminating Poverty through Market and Private sector development*. Sida Studies no. 14, Stockholm: Edita Sverige AB
- Lindvall, Jan (2011) *Verksamhetsstyrning: från traditionell ekonomistyrning till modern verksamhetsstyrning*. vol. 2, Lund: Studentlitteratur
- Patel, R. and Davidson, B. (2011) *Forskningsmetodikens grunder: att planera, genomföra och rapportera en undersökning*. Lund: Studentlitteratur.
- Porter M.E. (1979) *How competitive forces shape strategy*. Source: Harvard Business Review
- Porter, M. E., (1998) *The Competitive Advantage of Nations, with a new introduction by the authors*.10 edition. New York: Palgrave
- Porter, M. E., (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press
- Porter, M. E. (1980) *Competitive strategy: Techniques for analyzing industries and competitors*. New York, Free Press.
- Rambocas, M., Meneses, R., Monteiro, C. and Quelhas Brito, P. (2015) Direct or indirect channel structures. Evaluating the impact of channel governance structure on export performance. *International Business Review*, vol. 24, pp. 124-132.
- Reenen, M., Panhuysen, S. and Weiligmann, B.(2010) *Tea Barometer*. Leiden: Tropical Commodity Coalition

- Ritossa C. M., Bulgacov S. (2009) Internationalization and Diversification Strategies of Agricultural Cooperatives: a Quantitative Research of the Agricultural Cooperatives in the State of Parana. *Brazilian Administration Review, Curitiba*, vol. 6, no. 3, art 2, pp. 187-212.
- Rowe, A. J., Mason, R. O., Dickel, K. E., Mann, R.B. and Mockler, R. J.(1994) *Strategic Management: a methodological approach*. 4 edition. Addison-Wesley: Reading Mass.
- Randøy, T, Oxelheim, L, and Stonehill, A (2001) Corporate Financial Strategies for Global Competitiveness. *European Management Journal*, vol. 19, pp. 659-669.
- Savitz, W. A., Weber, K. (2006). *The triple bottom line*. San Francisco: John Wiley and Sons
- Schmidt, G. L., Porteus, E. (2001), Sustaining technology leadership can require both cost competence and innovative competence. *Manufacturing and Service Operations Management*. vol. 2 no. 1, pp. 1-18.
- Stanton, J.V., Burkink, T. J. (2008), Improving small farmer participation in export marketing channels: Perceptions of US fresh produce importers, supply chain management. *An International Journal*; vol. 13 no: 3.
- Svensson, P-G., Starrin, B. (1996) *Kvalitativa studier i teori och praktik*. Lund: Studentlitteratur.
- Thompson, J. (1967) *Organizations in action*. New York: McGraw-hill
- Trost, J. (2008) *Att skriva uppsats med akribi*. Lund: Studentlitteratur.
- Williamson, O. (1981) The economics of organization: The transaction cost approach. *American journal of sociology*. vol. 87, no. 3 pp.548-577
- Yusuf, M., Trondsen, T. (2013) Improving Indonesia's competitiveness: innovation, value chains and cluster-bases for realizing the huge potential of marine and fisheries. *International Journal of Organizational Innovation*, vol. 6, no. 1, pp.111-118
- Yin, K.R. (2013) *Kvalitativ forskning från start till mål*. Lund: Studentlitteratur

7.1 Electronic sources

- AsiaSiyaka: <http://www.asiasiyaka.com/> (2016) [Online] Accessible:
<http://www.asiasiyaka.com/index.php/about-tea/about> [2016-04-01]
<http://www.asiasiyaka.com/images/Annual-Report.pdf> [2016-02-28]
- Central Intelligence Agency: <https://www.cia.gov/index.html> (2015) [Online] Accessible:
<https://www.cia.gov/library/publications/the-world-factbook/geos/ce.html> [2015-10-18]

CTTA: <http://www.colomboteatraders.nz.wb.gs/> (2016) [Online] Accessible:
<http://www.colomboteatraders.nz.wb.gs/about-ctta> (2016-05-01)

Department of Census and Statistics: <http://www.statistics.gov.lk/> (2015)[Online] Accessible:
<http://www.statistics.gov.lk/page.asp?page=Poverty> [2015-11-02]
<http://www.statistics.gov.lk/agriculture/index.htm> [2015-11-02]

Dilmah Tea: <http://www.dilmahtea.com/> (2016) [Online] Accessible:
<http://www.dilmahtea.com/dilmah-story/corporate-info-milestones> [2016-05-02]

Food and Agriculture Organization of the United Nations: <http://www.fao.org/home/en/> (2016)
[Online] Accessible: <http://www.fao.org/3/a-i4480e.pdf> [2016-03-24]

International Monetary Fund: <http://www.imf.org/external/index.htm> (2015) [Online]
Accessible: <http://www.imf.org/external/np/prsp/prsp.aspx> [2016-01-30]

Sri Lanka Export Development Board: <http://www.srilankabusiness.com/> (2016)[Online]
Accessible: <http://www.srilankabusiness.com/edb/strategic-plan.html> [2016-01-30]

Sri Lankan Tea Board: <http://www.pureceylontea.com/> (2015)[Online] Accessible:
<http://www.pureceylontea.com/index.php/features/history-of-ceylon-tea> [2015-10-19]

Sri Lanka Business: <http://www.srilankabusiness.com/> (2015)[Online] Accessible:
http://www.srilankabusiness.com/blog/ceylon_tea_exporters.html [2016-01-30]

Sustainable Agribusiness Initiative: <http://www.saiplatform.org/> (2015) [Online] Accessible:
http://www.saiplatform.org/uploads/Modules/Library/unilever-tea-a_revitalizing-liptons-supply-chain.pdf [2016-01-27]

United nation development program: <http://www.lk.undp.org/content/srilanka/en/home.html>
(2012) [Online] Accessible: <http://www.lk.undp.org/content/srilanka/en/home/post-2015/sdg-overview/goal-17.html> [2016-01-28]

Appendix 1- Interview guide

Management and organization

1. What product are you manufacturing / what service are you providing?
2. What inputs are required for this business? And what are the costs of the materials?
3. Are there any prior suppliers and how do you go about procurement of materials and inputs?
4. What is your production output – how much are you producing?
 - a. Per month/ year – are there any seasonal variations in production?
 - b. Lead-time – how much time does it take, in average, between purchase of materials and inputs and delivery to customer?

Business relationships

5. What is your most important business relationship?
6. How would you describe your relationship with your different suppliers?
 - a. What trading relationships are long-termed respectively short-termed?
 - b. Is there any uncertainty in supply – do you always get what you need?
7. What is your company's role in the business network?
 - a. Are you able to influence your position?
 - b. What is the current main challenge within the industry?
8. Do you collaborate with actors in the network and in what way do it benefitting your company?
9. What consumers are you targeting and how do you reach them?
10. What is the current demand for tea and how has it been changing the last five years?

Value adding production

11. Do you start producing when receiving a customer order or do you produce in anticipation of customer orders?
 - a. Are there any principal buyers? How do you receive customer orders?
 - b. How much of production is stocked and how much is delivered to customers?
12. Is your company focusing on commodities or value-added product?
13. Do you perceive any uncertainty in demand – do manage to sell what you produce?

Trading and exports

14. How the Colombo Tea Auction works and what is your roll in that activity?
15. How would you describe your relationship with your buyers?
 - a. Are the trading relationships long- or short-termed?
16. What are the trends in demand?
17. How big the market share is and how many actors are you competing with?
 - a. Do you have any competitive strategy?
 - b. How are you promoting yourself to the buyers?
 - c. What is the *price* per unit? *Sales* per month/year? What is the *profit*?

Technology and product development

18. Recently effort for improving the product or service and what are the major needs?
19. What governmental regulation are benefiting / creating obstacles for your business?

Appendix 2 – Export of Tea, countries of destination

SRI LANKA Exports of Tea showing Countries of Destination

Calendar Years	METRIC TONS					THOUSAND US DOLLARS				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
BLACK TEA										
United Kingdom	1,701	1,340	1,662	833	1,060	9,234	7,784	8,152	6,793	8,946
Cyprus	77	53	48	75	109	550	394	355	560	1,014
Denmark	119	130	151	179	231	1,047	1,289	1,751	2,176	1,893
Finland	577	298	941	1,240	2,221	3,164	2,044	5,028	7,934	12,334
France	821	857	881	870	1,077	3,646	4,342	4,037	4,819	6,855
Germany	5,416	6,132	5,556	6,557	6,246	22,731	29,359	23,912	31,527	30,978
Greece	1,875	2,556	1,071	765	663	7,117	9,594	3,915	3,129	2,887
Ireland (Republic)	1,303	2	1,469	10	2,058	8,151	59	9,984	97	17,114
Italy	1,443	1,580	1,690	1,376	1,512	7,096	7,522	7,567	7,296	8,039
Netherlands	2,657	2,556	1,991	2,253	3,003	13,410	13,871	11,594	14,095	17,767
Poland	2,421	2,457	2,402	2,778	2,599	15,321	14,631	12,752	15,750	16,088
Sweden	329	309	271	279	377	1,924	1,829	1,929	1,853	2,776
Russian Federation	44,338	48,539	46,650	45,683	43,555	193,163	217,942	205,342	233,691	222,498
Azerbaijan	9,832	11,970	10,590	10,776	11,153	40,934	52,449	44,663	49,758	52,998
Ukraine	7,054	7,890	7,778	8,749	6,358	35,716	40,954	40,315	49,616	35,250
Other CIS	4,516	3,329	3,775	3,507	4,274	22,909	16,303	20,005	21,524	26,295
Baltic States	791	647	618	696	674	6,376	5,600	5,281	6,080	6,483
Other Europe	3,454	3,945	4,121	4,866	5,287	14,955	17,154	17,791	22,537	24,526
Canada	754	736	603	567	677	4,648	4,115	3,952	4,728	5,106
USA	3,121	3,212	2,882	3,724	4,509	15,974	16,706	14,219	20,119	26,028
Chile	6,221	6,639	6,551	6,836	6,949	20,451	23,389	21,351	25,099	29,248
Other America	384	251	294	299	340	2,067	1,721	1,149	2,056	2,418
Bahrain	54	68	58	68	59	313	410	313	430	425
Kuwait	10,803	9,088	7,278	16,022	12,146	35,774	29,364	22,462	49,861	42,234
Muscat & Oman	24	15	24	32	50	147	116	111	152	265
Saudi Arabia	4,418	4,627	4,438	3,520	4,680	16,714	19,264	19,148	17,314	24,092
UAE	29,195	21,238	11,240	17,531	19,217	130,112	95,433	47,286	78,612	84,758
Yemen Arab Rep	79	69	76	118	169	344	302	323	530	744
China	1,370	2,434	3,025	4,145	4,763	5,923	10,777	13,184	19,590	24,095
Hong Kong	4,302	5,142	4,389	4,919	5,051	16,347	19,848	16,336	19,357	20,712
India	307	236	488	609	1,883	1,325	1,136	2,209	2,917	10,032
Iran	27,471	30,929	38,111	38,416	29,260	132,859	154,360	175,161	189,035	156,501
Iraq	13,558	22,596	23,464	22,267	24,442	49,983	81,508	83,269	86,365	89,068
Israel	1,627	1,511	1,404	1,481	1,965	7,537	7,128	6,373	6,874	9,979
Japan	10,280	11,527	9,535	8,821	8,977	48,536	54,979	47,708	46,689	48,050
Jordan	16,935	7,289	9,355	7,632	6,649	61,103	31,343	35,149	35,406	36,175
Malaysia	732	486	725	721	602	2,784	1,978	2,680	3,163	2,938
Lebanon	2,121	2,112	2,118	2,816	3,435	10,508	11,537	10,713	15,472	20,555
Pakistan	960	1,472	4,487	604	86	3,046	4,934	15,881	2,342	439
Singapore	402	473	599	565	607	1,971	2,756	3,635	3,813	4,398
Syria	26,141	28,755	24,712	21,059	12,849	113,790	124,330	103,701	93,764	59,750
Taiwan	1,571	1,989	1,850	2,152	2,901	5,114	7,139	6,704	8,606	11,092
Turkey	18,452	19,171	23,129	32,202	44,732	72,240	76,812	89,788	140,733	208,830
Other Asia	1,316	975	1,702	1,339	1,515	7,815	7,757	9,130	9,149	10,560
Egypt	1,273	2,364	3,633	2,017	2,813	5,839	8,783	13,185	8,362	12,076
Libya	10,803	7,403	16,281	6,521	12,425	34,486	23,276	50,359	21,165	44,166
South Africa	1,049	1,458	1,858	2,299	1,763	4,318	5,682	7,056	9,299	7,271
Tunisia	804	2,033	16	2	22	2,333	6,771	154	16	139
Other Africa	4,034	4,025	3,627	4,448	5,666	19,405	23,560	20,648	26,380	33,975
Australia	2,850	2,651	2,705	2,644	2,871	26,951	27,597	27,282	27,443	28,214
New Zealand	997	832	913	962	1,003	7,518	6,320	6,846	7,531	7,844
Other Oceania	453	375	364	349	352	1,743	1,653	1,580	1,387	1,798
Total Black	293,585	298,771	303,599	309,199	317,885	1,277,462	1,335,904	1,303,418	1,462,994	1,558,716
GREEN TEA										
United Kingdom	35	13	31	*	*	311	53	706	*	*
Germany	41	74	74	*	*	380	866	733	*	*
Russian Fed.	619	593	600	*	*	5,306	5,535	5,174	*	*
USA	129	133	68	*	*	1,741	1,279	781	*	*
Japan	3	7	5	*	*	39	33	82	*	*
Taiwan	64	99	86	*	*	485	792	746	*	*
Other Countries	1,907	1,581	1,577	*	*	13,793	13,532	13,056	*	*
Total Green	2,798	2,500	2,441	*	*	22,055	22,090	21,278	*	*
Total All Tea	296,383	301,271	306,040	309,199	317,885	1,299,517	1,357,994	1,324,696	1,462,994	1,558,716

Appendix 3 – Monthly average prices

TABLE F 2

MONTHLY AVERAGE PRICES of Tea Sold at Auctions in Producing Countries

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
CHITTAGONG													
All Tea Taka / Kg													
2011	190.16	175.16	109.97	181.97	161.40	170.00	158.21	169.70	169.01	149.22	137.35	149.80	158.22
2012	159.15	162.96	112.94	-	184.55	218.32	196.45	205.69	206.78	193.40	213.36	237.22	196.93
2013	284.05	234.26	188.92	274.98	273.00	278.83	237.88	229.04	189.86	184.99	204.82	190.92	224.49
2014	191.63	153.74	122.21	83.96	181.53	179.24	181.60	182.25	176.43	179.78	176.61	186.74	169.94
2015	183.32	173.03	147.68	-	205.72	197.29							
COLOMBO													
All Tea Rs / Kg													
2011	394.48	393.68	393.76	371.79	341.31	341.81	339.00	346.22	345.39	355.96	351.07	354.13	359.68
2012	348.03	349.87	371.10	412.05	390.08	384.15	396.65	404.77	419.58	409.76	405.97	424.34	391.47
2013	423.31	422.18	441.57	427.41	415.78	406.26	416.13	443.47	475.72	495.21	487.67	498.50	444.14
2014	510.00	481.29	469.43	463.59	477.47	465.95	456.89	453.99	438.55	447.21	436.78	442.21	461.35
2015	423.30	416.98	414.25	407.06	395.10	399.26							
JAKARTA													
All Tea US \$ c / Kg													
2011	204.01	205.50	204.44	194.71	189.04	188.47	197.39	200.32	200.03	195.56	192.54	186.21	196.70
2012	188.39	183.37	179.07	185.67	184.50	196.18	200.85	207.53	210.85	209.90	217.14	224.27	196.53
2013	230.26	230.47	218.49	214.00	195.13	186.99	185.59	185.43	187.73	177.93	176.02	177.86	198.01
2014	180.23	173.20	165.97	170.51	165.41	163.72	153.25	166.04	167.91	162.09	153.58	153.06	165.70
2015	155.81	153.43	147.65	141.85	141.72	149.20							
MOMBASA													
All Tea US \$ c / Kg													
2011	290.69	278.53	273.74	266.67	261.47	270.39	279.68	276.68	266.76	268.82	266.00	261.00	272.00
2012	263.43	263.87	273.31	278.44	279.88	288.43	298.84	308.29	303.43	297.00	304.66	307.67	288.00
2013	305.01	291.00	265.82	236.85	239.11	230.85	228.45	228.06	212.01	199.62	208.96	232.94	241.00
2014	256.41	223.79	209.07	206.35	196.24	190.74	209.13	202.66	189.21	191.35	190.24	187.92	203.00
2015	213.18	226.00	255.00	256.00	282.90	299.86							
LIMBE													
All Tea US \$ c / Kg													
2011	166.03	155.97	167.99	156.76	146.55	145.53	156.38	163.10	184.49	187.37	174.46	165.79	160.75
2012	167.90	165.65	168.31	173.93	156.66	160.89	182.17	202.06	204.39	202.42	192.57	187.24	170.26
2013	196.00	202.15	191.95	186.07	182.43	178.51	164.58	170.21	176.23	167.72	154.18	154.60	181.55
2014	162.38	151.15	141.47	138.89	138.93	138.29	137.37	136.17	142.96	143.43	143.63	123.60	142.89
2015	120.88	141.96	143.61	153.02	154.30	158.11							

Sources Chittagong - National Brokers Ltd.; Colombo - Forbes & Walker Tea Brokers Pvt. Ltd.; Jakarta - KPB Jakarta;
Mombasa - Africa Tea Brokers Ltd. & Tea Brokers East Africa; Limbe - Tea Brokers' Central Africa Ltd.

Appendix 4 – Quantities of tea sold

TABLE F5

QUANTITIES OF TEA SOLD at Auctions in Producing Countries

Calendar Years unless otherwise noted	METRIC TONS									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHITTAGONG (b)										
Leaf	47,340	43,296	48,072	47,179	50,606	48,538	46,175	50,540	50,966	55,767
Dust	6,818	6,738	8,073	8,772	8,765	7,025	8,150	8,953	9,547	11,355
Total	54,158	50,034	56,145	55,951	59,371	55,563	54,325	59,493	60,513	67,122
COLOMBO										
High-grown	61,038	56,729	52,539	61,803	57,998	71,312	72,578	67,863	70,312	69,922
Medium-grown	43,803	43,683	38,325	42,439	43,281	51,264	48,179	48,106	49,540	48,640
Low-grown	168,214	165,499	151,134	160,623	170,493	195,214	195,303	202,670	209,415	213,102
Total	273,055	265,911	241,998	264,865	271,772	317,790	316,060	318,639	329,267	331,664
JAKARTA	36,971	35,227	42,357	40,538	39,372	38,499	32,775	31,955	33,049	26,289
MOMBASA										
Burundi	5,901	4,402	4,510	4,684	4,491	5,768	6,939	8,316	8,407	9,204
Congo, DRC	1,064	1,090	880	799	429	470	336	240	199	165
Ethiopia	93	-	-	-	-	-	-	-	-	-
Kenya	236,158	219,271	262,313	227,645	204,054	259,050	247,280	234,381	295,017	301,406
Madagascar	300	309	320	185	220	199	219	199	159	120
Malawi	1,669	1,373	1,979	2,085	1,282	2,299	2,976	1,996	288	1,279
Mozambique	1,603	487	1,357	156	1,344	2,016	1,612	2,340	2,326	2,993
Rwanda	11,493	10,676	15,251	12,912	13,636	16,008	17,291	16,788	16,176	16,795
Tanzania	14,300	11,590	15,915	11,916	10,249	11,458	9,373	8,665	6,527	6,802
Uganda	34,014	32,406	41,736	42,495	43,644	50,877	47,876	48,619	55,062	51,483
Zambia	238	47	46	11	-	-	-	-	-	-
Total	306,833	281,651	344,307	302,888	279,349	348,145	333,902	321,544	384,161	390,247
LIMBE	11,925	17,372	17,609	14,960	17,295	15,801	13,252	12,472	9,594	9,019

Sources Chittagong - National Brokers' Ltd.; Colombo - Forbes & Walker Tea Brokers Pvt. Ltd.; Jakarta - KPB Jakarta;
Mombasa - Africa Tea Brokers Ltd.; Limbe - Tea Brokers' Central Africa Ltd.

Appendix 5 – Exchange rates 2015

EXCHANGE RATES

for Selected Countries

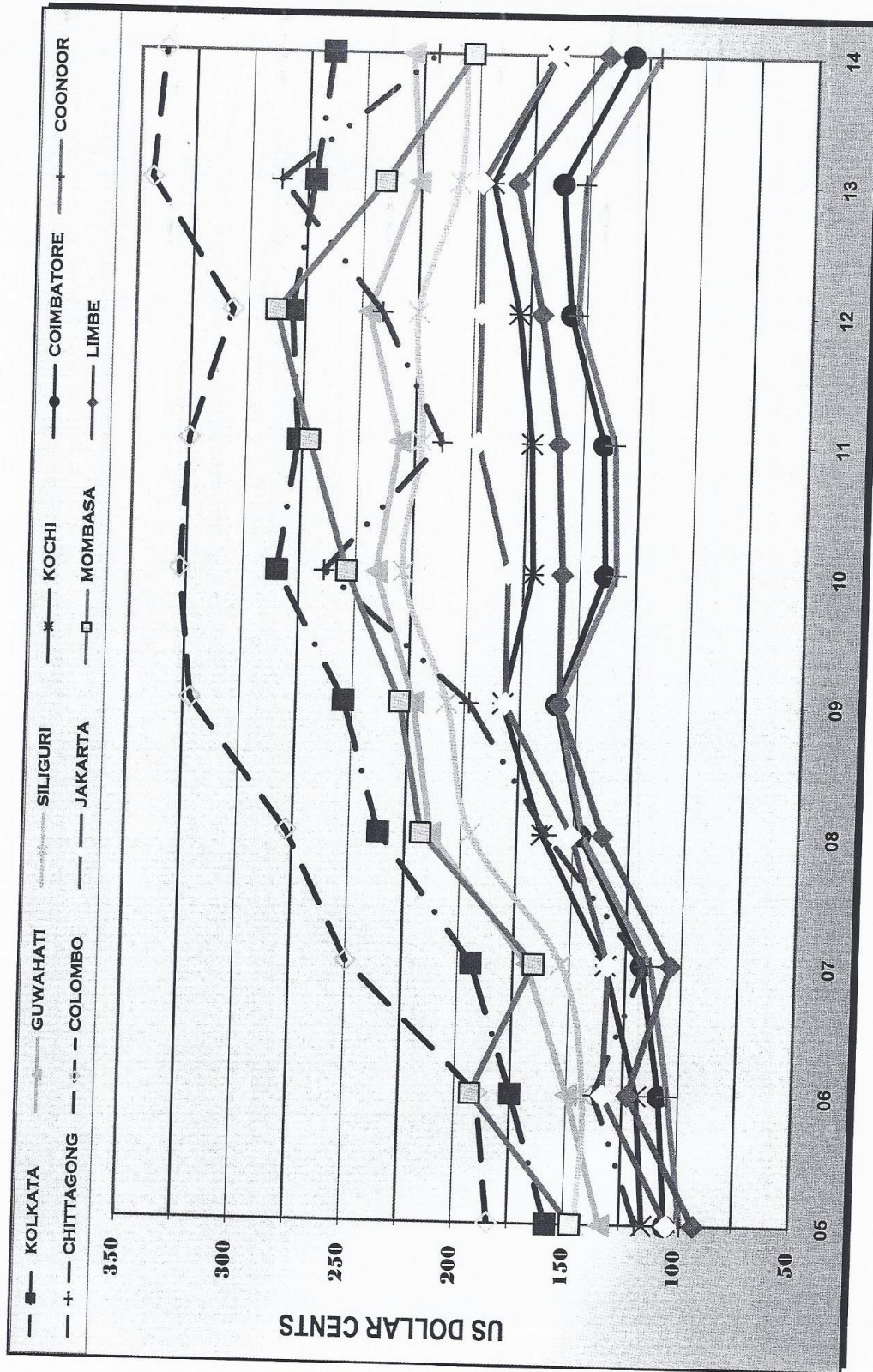
Source: International Monetary Fund, International Financial Statistics.

	Currency	PER US DOLLAR									
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<i>Producers/Exporters</i>											
India	Rupee	44.1000	45.31	41.35	43.51	48.41	45.73	46.67	53.47	58.60	61.03
Bangladesh	Taka	64.3275	68.93	68.87	68.60	69.04	69.65	74.15	81.87	78.10	77.64
Sri Lanka	Rupee	100.4981	103.91	110.63	108.33	114.94	113.07	110.57	127.60	129.07	130.56
Indonesia	Rupiah	9704.7417	9,159.32	9,143.36	9,698.53	10,389.94	9,090.43	8,770.43	9,386.63	10461.24	11865.21
China	Yuan	8.1943	7.97	7.61	6.95	6.83	6.77	6.46	6.31	6.20	6.14
Iran	Rial	8963.9589	9,170.94	9,281.15	9,428.53	9,864.30	10,254.18	10,616.31	12,175.55	18414.45	25941.66
Turkey	Lira	1.3436	1.43	1.30	1.30	1.55	1.50	1.68	1.80	1.90	2.19
Vietnam	Dong	15,859.00	15,994.25	16,105.13	16,302.25	17,065.08	18,612.92	20,509.75	20,828.00	20933.42	21148.00
Burundi	Francs	1081.5772	1,028.43	1,081.87	1,185.73	1,230.18	1,230.75	1,261.07	1,442.51	1555.09	1546.69
Cameroon	Francs	527.4681	522.89	479.27	447.81	472.19	495.28	471.87	510.53	494.04	494.42
Kenya	Shilling	75.5541	72.10	67.32	69.18	77.35	79.23	88.81	84.53	86.12	87.92
Malawi	Kwacha	118.4197	136.01	139.96	140.52	141.17	150.49	156.00	249.11	364.41	424.90
Mauritius	Rupee	29.4962	31.71	31.31	28.45	31.96	30.78	28.71	30.05	30.70	30.62
Rwanda	Franc	555.9360	551.71	546.96	546.85	568.28	583.13	600.31	614.30	646.64	681.86
Tanzania	Shilling	1128.9342	1,251.90	1,245.04	1,196.31	1,320.31	1,409.27	1,572.12	1,583.00	1600.44	1654.01
Uganda	Shilling	1780.6658	1,831.45	1,723.49	1,720.70	2,030.31	2,177.56	2,522.75	2,504.56	2586.89	2599.79
Zimbabwe	Dollar	22.36	164.36	9,675.78	6.72						
Argentina	Peso Arg.	2.9037	3.05	3.10	3.14	3.71	3.90	4.11	4.54	5.46	8.08
Brazil	Real	5.0071	2.18	1.95	1.83	2.00	1.76	1.67	1.95	2.16	2.35
Pap.N.Guinea	Kina	3.1019		2.97	2.70	2.76	2.72	2.37	2.08	2.24	2.46
<i>Importers</i>											
Denmark	Kroner	5.9969	5.95	5.44	5.10	5.36	5.62	5.37	5.79	5.62	5.61
Poland	Zloty	3.2355	3.10								
Russian Fed.	Rouble	28.2844	27.19	25.58	24.85	31.74	30.37	29.38	30.84	31.84	38.38
Sweden	Kroner	7.4731	7.38	6.76	6.59	0.72	7.21	6.49	6.78	6.51	6.86
Switzerland	Franc	1.2452	1.25	1.20	1.08	1.08	1.04	0.89	0.94	0.93	0.92
U. Kingdom (a)	Sterling	1.8182	1.85	2.00	1.85	1.56	0.65	0.62	0.63	0.64	0.61
European Union	Euro	0.8041	0.80	0.73	0.68	0.72	0.76	0.72	0.78	0.75	0.75
Canada	Dollar	1.2118	1.13	1.07	1.07	1.14	1.03	0.99	1.00	1.03	1.11
Chile	Peso	560.0901	530.29	522.46	522.46	560.86	510.25	483.67	486.47	495.27	570.35
Afghanistan	Afghanis	49.4759	49.93	49.96	50.25	50.23	46.45	46.75	50.92	55.38	57.25
Japan	Yen	110.2182	116.30	117.75	103.36	93.57	87.78	79.81	79.71	97.60	105.94
Jordan	Dinar	0.7090	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Kuwait	Dinar	0.2920	0.29	0.28	0.27	0.29	0.29	0.28	0.28	0.28	0.28
Malaysia	Ringgit	3.7871	3.67	3.44	3.34	3.52	3.22	3.06	3.09	3.15	3.27
Pakistan	Rupee	59.5145	60.27	60.74	70.41	81.71	85.19	86.34	93.40	101.63	101.10
Saudi Arabia	Riyal	3.7471	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Syria	Pound	11.2250	11.23	11.23	11.23	11.23	11.23	11.23	11.23	11.23	11.23
UAE	Dirham	3.6725	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
Algeria	Dinar	73.2763	72.65	69.29	64.58	72.65	74.39	72.94	77.54	79.37	80.58
Egypt	Pound	5.7788	5.73	5.70	5.43	5.54	5.62	5.93	6.06	6.87	7.08
Libya	Dinar	1.3084	1.31	1.26	1.22	1.25	1.27	1.22	1.26	1.27	1.27
Morocco	Dirham	8.8650	8.80	8.19	7.77	8.06	8.42	8.09	8.63	8.41	8.41
South Africa	Rand	6.3593	6.77	7.05	8.26	8.47	7.32	7.26	8.21	9.66	10.85
Australia	Dollar	1.3095	1.33	1.20	1.19	1.28	1.09	0.97	0.97	1.04	1.11
New Zealand	Dollar	1.4203	1.54	1.36	1.42	1.60	1.39	1.27	1.23	1.22	1.21

(a) Exchange Rates relate to US Dollar per Currency.

Appendix 7- Annual average prices

ANNUAL AVERAGE PRICES IN US\$ CTS. - CONVERTED AT EX. RATES SHOWN ON PG. 63



Appendix 8 - Annual quantities sold at auctions

ANNUAL QUANTITIES SOLD AT AUCTIONS - In M Tons

