

# Forging Ahead Amidst Challenges

Posted on



Anselm Perera, Founder and Managing Director, Mlesna.

The reputed and flourishing tea industry in Sri Lanka, both retail and export, has had a challenging year in 2020 with the onset of the pandemic. The bulk tea trade has been performing reasonably well. Anselm Perera, Founder, and Managing Director, Mlesna,

explained the extent to which the industry has been affected over the past year and how it is surviving and operating in the current environment.

By Udeshi Amarasinghe. Assisted by Jennifer Paldano Goonewardene. Photography Menaka Aravinda.

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**Can you give us an overview of the current situation of the tea industry?**

There was a 60 percent drop in value-added tea countrywide; and a 45 percent drop in the total consumer tea category, which remained at this percentage up to August 2020. By today, these numbers have increased somewhat; a 40 percent increase in the sale of value-added tea and a 25 percent increase in overall tea sales among consumers. Therefore, although 75 percent of tea sales are taking place in the retail market space, we have not witnessed a similar increase in our outlets.

On the other hand, the current situation is very positive for bulk tea traders because they buy and export in bulk. However, in the case of finished products, the prospects have not improved as yet. The local market demand has declined where sales have dipped not only in the exclusive stores but also in the supermarkets: retail tea.

Tea sales cannot be the same when consumers do not spend the same amount of money they used to before the pandemic. Everyone's on a reduced income, even we had to resort to that, and with less money to spend, people opt for lesser priced products, which is true in tea. Just a handful of quality-conscious customers continue patronizing the tea brands. But the quantity of purchase has declined; earlier, if consumers had bought two packs for a month, now they would limit it to a single package. Everyone's cutting down on expenditure.

The pandemic has impacted the industry across the board. All exporters have experienced a decrease in volume for value-added tea.

### **What has been the performance of Sri Lanka's tea in the markets abroad?**

It's the same story with our overseas clientele; sales have declined in places where we were selling gift items. Our tourist-centric gift products are virtually non-existent. There has been a marginal movement of such specialty gift products in the US and Canada. However, it's zero in Singapore, where we had an excellent tourist destination market. We have an entire shipment from March 2020 ready to be shipped to Singapore but have had to hold back upon their request; this unshipped tea container is of high value. It was a valuable order as the tourist season was picking up, and the customer had placed the order in December 2019 for shipment in March 2020.

While the tea's tourist markets are nonexistent, the consumer market operates at a lesser volume than before. Amidst the lockdowns and the pandemic, the regular monthly shipment to Europe had declined to one every three months, although now it has improved to one shipment every two months. However, the quantity exported has reduced, and all customers are asking for discounts. Even overseas markets are requesting discounts because people are buying discounted products. Sometimes in some of these areas, we have had to offer 20

percent discounts, distributed equally among the exporter and the importer; each taking on a reduction of ten percent, with this our margins dropped.

Within Sri Lanka, we have started promotions such as buy three and get one free, which has worked only to a certain extent. Customers bought gold plated porcelain gift items through this deal because customers were able to share. These deals improved our cash flow. The supermarkets also chose to offer discounts and deals. But the supermarket sales are not impressive as they buy stocks only to fill their shelves. Suppliers have too many returns from the supermarkets. Their handling of our products is inferior, so their quality has been severely affected when they are returned.

Most traditional markets continue to purchase tea; Russia and European markets continue to buy tea but in lesser quantities. Japan has also begun to buy despite intermittent closures. Bulk tea exporters have had regular orders from intermediate markets that resell. The high-end products purchased by customers have reduced. The pandemic and the regulations imposed have reduced the number of people seated at a table. For instance, my agent in Japan, who maintains tea salons where people have the opportunity to eat, drink, and purchase tea, has said that queues build-up, while fewer people sit down to consume tea. With such setbacks, consumers buy packed tea products only. And amid such issues and the second lockdown declared in Australia, sales dropped.

### **To what extent has the retail tea market been affected, and how has it impacted Mlesna?**

We will have to wait and see until the current situation demonstrates a hint of a return to normalcy. But in the meantime, every producer has suffered a downward trend in tea sales in the local retail market; all producers have reported a minimum of at least 40 percent drop in local retail sales. Even the lowest-priced tea producers have experienced a 40 percent drop in sales. January, February, and March of 2020 were good months for sales, which began to decline with April. Although certain foreign nationals in the country bought from our factories to be shipped abroad, they were minimal volumes, although such purchases were encouraging during the lockdown when we had no sales.

Although some supermarkets also purchased from us during this time, the quantities were low. Our sales dropped drastically. We have a large workforce in our specialty tea shops that we have had to support despite the lockdown and temporary closure.

We reopened our outlet at the airport, although the sales have not been impressive. Some days have gone by without a single customer, while sales on certain other days were well

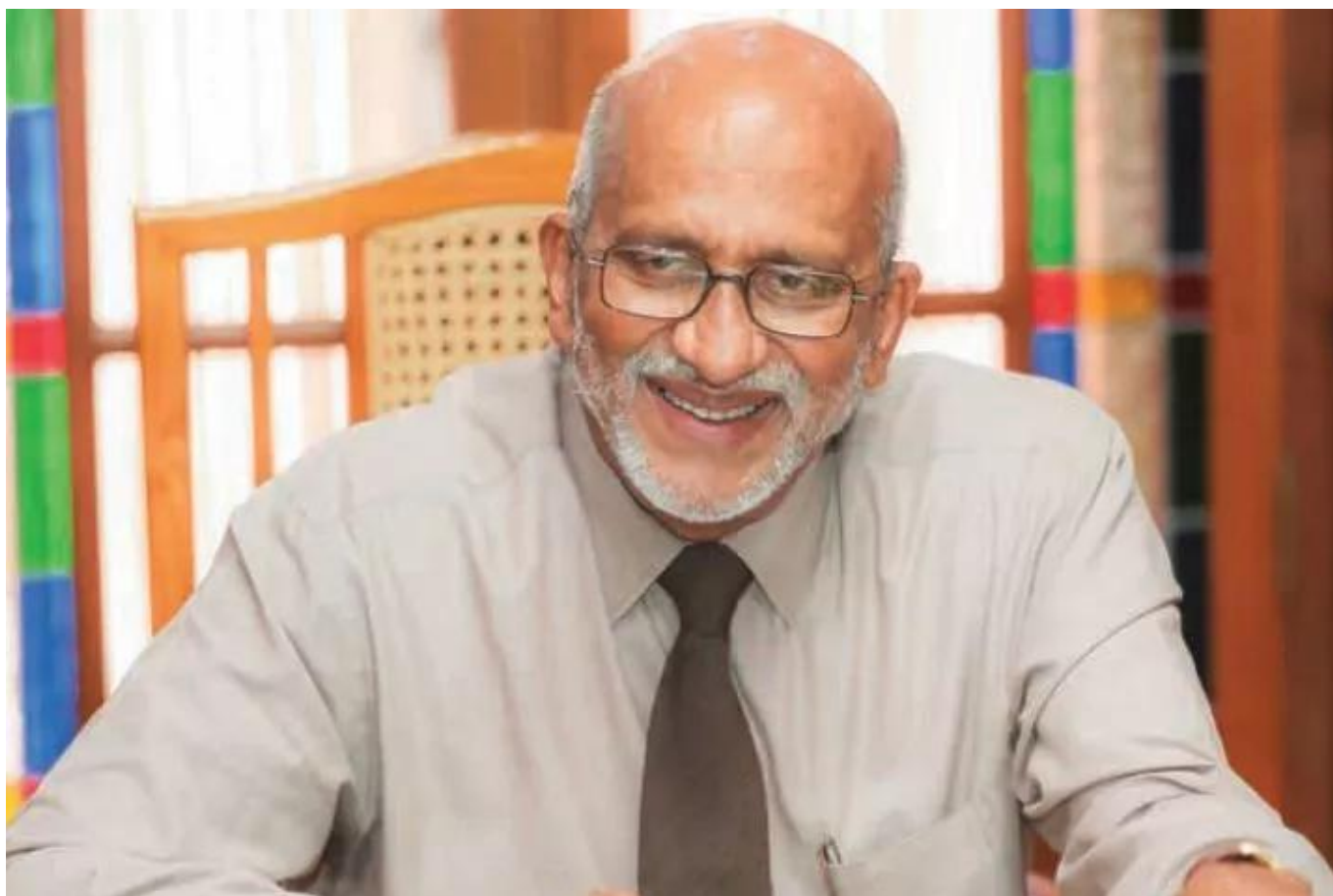
below sustainable levels. The specialty shops, which had good daily business in the past, have been reduced to zero earnings on some days with an unimpressive amount of business on other days. When people drop by for a meal at our Tea Centers in Kandy, St Clair's, and Bandarawela, they would also purchase tea for domestic consumption but not gift buying. The slump in sales is impacting all our other suppliers like the printers and box makers. My screen printer, who worked solely for my company for 37 years, had to be supported financially to survive for the first time. He began selling consumer items for survival. He had to send most of his staff home. The banks also disqualified us for the 25 million rupees discounted interest bank loan to top it all. They claimed that we have more assets than the loan's value; thus, our option has been to take overdrafts using our assets to support. We never recovered our overheads in 2020.

As for our rented sales outlets, only certain landlords offered discounts on rent. Some others had to close temporarily.

Long weekends gave us better sales in our Fortress and Castle outlets in the food business as customers have recognized us for our hygiene and quality in the food we serve. But that presence has not translated to an increase in the purchase of tea at these outlets.

Even during the civil war in Sri Lanka, people were still traveling when there were regular explosions in the country. My business survived from 1983 till the end of the war in 2009, not from tourists, but more because the local customers traveled frequently and purchased our products. Our retail business was sustained mainly by local clients who contributed 70 percent. Tourists made only a 30 percent contribution. This helpful retail business with local clients is not happening today.

The shop at Liberty Plaza is the oldest and the best as we still have a fair footfall of our people visiting the shop. Tourists primarily patronize our shop at Independence Arcade, but we face slumped retail sales in most other places. There have been days when the total earnings from an outlet were no more than a few hundred. There have been many days when sales have been zero. Our daily revenues together cannot even cover our overheads, utility costs, and salaries. Now for a year, all our costs have been covered with overdrafts. Customers fear to venture out shopping amid all the information they receive. With limited movement, our sales have been meager.



**How do you plan to operate your business in this new environment?**

We have to opt to make lower-priced products while ensuring that the same quality remains, while also forgoing on the fancy packing. Yet again, people are unwilling to accept changes to a product's image. The tea cost has not seen a reduction, although the dollar has gone up. In the meantime, the auction prices have increased, and including the production cost, every component that goes into packaging has gone up in price. In my 37 years of business, the most challenging year was 2020; 2019 Easter bombings impacted, so did the post 9/11 recession, but none to this extent. For the first time, we had to cut staff salaries. Sales values have never decreased to this level in our company's history.

Although value addition is the way forward, Sri Lanka cannot stop the bulk tea business in total. Many countries depend on bulk buying for consumer packagings, such as Russia, the UK, Germany, Holland, France, and the Middle East.

**How do you think the retail market for tea in Sri Lanka will recover going into the**

## **future?**

As of now, there's no immediate remedy to revive the local tea market until and unless tourism restarts and people begin to travel freely again. Many companies have opted for digital platforms to promote and improve sales, but the demand would only be for consumer items.

There could probably be a greater focus on health tea options, as the sale of herbal drinks and other Ayurveda-based medicinal products may have increased in sales due to the pandemic. We can also promote the consumption of tea without milk and sugar for healthy living.

We are hopeful about the future. With the reopening of the airport and the vaccine program in operation, we hope the pandemic will settle soon. We continue with our business, taking steps to further our sales and exports. We are confident that the situation will improve towards the end of 2021.