

TEA INDUSTRY IN SRI LANKA AND THE ROLE OF DILMAH TEA

A FAMILY BUSINESS

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THIS study investigates the Ceylon Tea Industry and its current trends. The paper also observes the role of a premier family managed value added tea manufacturing and exporting company in Sri Lanka (Ceylon). The author has two objectives: to assess the importance of tea to the Ceylon (Sri Lankan)

economy and to determine the role of the Ceylon Tea Services Limited (Dilmah Tea), the largest tea bag exporter in Sri Lanka, in the concurrent Sri Lankan Tea industry. Traditionally, Ceylon tea has been shipped in bulk form and since 1980s, more emphasis has been placed on manufacture and export of value added tea. Today value added tea exports have been a major strength of the Ceylon tea industry. Tea traders in Sri Lanka during the early 1980s were very concerned about the quality of tea which was sold as Ceylon Tea but it was a blend of tea from other sources. To remove this problem, some pioneering tea traders in Sri Lanka initiated value added tea industry and Ceylon Tea Services is one among them.

Key words: Ceylon tea industry, value added tea, family managed business, case study.

Introduction

In this study, the author has investigated the history of Ceylon Tea Industry and its current trends. The paper also observes the role of a family managed value added tea manufacturing and exporting company in Sri Lanka. The author has two objectives: to assess the importance of tea to the Ceylon (Sri Lankan) economy and to determine the role of the Ceylon Tea Services Limited (Dilmah Tea), the largest tea bag exporter in Sri Lanka, in the concurrent Sri Lankan Tea Industry. The paper is organised as follows: the first section of the paper is devoted to a discussion of Sri Lanka and its tea industry, detailing how tea became the major export crop in colonial Sri Lanka. A subsection reviews the changes that have occurred in the tea industry with special reference to the government trade reforms during post-colonial Sri Lanka. It also discusses briefly the importance of tea industry, and the value added tea export industry to the Sri Lankan economy. The second section of the paper introduces the subject organization through a discussion of its parent company, the MJF Group. It discusses the main business activity of the MJF Group, the manufacture and export of tea together with its integrated operations. The third section provides background information of the subject organization. It discusses the nature of the company's core activities and contemporary situation in terms of performance data.

Sri Lanka and the Tea Industry

Sri Lanka (called Ceylon until 1972) is a small tropical island in the Indian Ocean. The island is strategically located at the cross roads of both east and west sea routes and is considered the gateway to South Asia. For centuries, Sri Lanka has been famous for its beauty, gems, spices, and tea. The country's strategic position in the Indian Ocean and its natural resources have made it a prey to foreign invaders.

The main reasons for the foreign invasion, particularly those of the Europeans were the interest in buying spices and in controlling neighbouring India. Europeans made great efforts to improve primary agricultural crops, especially tea and rubber. Until independence in 1948, Sri Lanka was mainly an agricultural country. By 1948, the most important export crops were tea (65%), rubber (13%), and coconut products (19%), (Bailey, 1952). Even though a small country, during 1940s Sri Lanka produced one-fifth of the world's tea and 7% of the world's rubber. Athukorala and Rajapatirana (2000, p.553) also support this fact when they opine, "At the time it gained independence in 1948, Sri Lanka was a prime example of an export economy dependent on a limited range of agricultural commodities". During the colonial era, the agricultural exports in Sri Lanka were heavily concentrated on tea, while rubber was the second most important export crop. The industrial sector was not an important part of the country's economy.

The Early Era of Ceylon Tea Industry

The British rulers brought more economical, political, cultural, and social changes to Sri Lanka than any of the other foreigners. The British took special measures to develop agriculture, especially the coffee industry. Tea

cultivation remained a minor activity because the British paid little attention to tea. By the early 1870s, however, the coffee industry had reached the peak of its prosperity.

When coffee lost its commercial value as an export crop, the colonial administrators made special efforts to improve tea cultivation. By the time tea began to boom, labour supply had become a real problem and the colonial rulers' solution was to import labour from south India. The British constructed a significant road and rail system to facilitate the plantations. Soon tea appeared as the main commercial crop and the entire local economy shifted to the new crop within a short period. Beginning around 1870, tea became Sri Lanka's major export and the island became world famous for its tea. The majority of the tea plantations was owned by foreigners. They took great efforts in maintaining the place of Ceylon tea in the world market. Dilmah Online Service continues...

Finally, at the Paris Exposition of 1900, visitors to the Sri Lanka Pavilion discovered replica tea factories and the "five-o'clock tea" that became so fashionable. As a contemporary chronicler put it, "The charming colonial house with bright shutters, the deliciousness of the beverage, the beauty of the Singhalese people - living statues of bronze wrapped in shimmering white loin-cloths- everything contributes to the success of this delightful stand at Trocadero..." The promotional policy was so effective that by the end of the 19th century, the word "tea" was no longer associated with China, but with Ceylon. The island's prosperity sparked covetousness on the part of British companies and London brokers, who wanted to acquire their own plantations and cut out the middlemen. This marked a turning point in the saga of tea-pioneers, which gave way to merchants whose name or label would soon become more important than the country in which the tea was grown (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

As such, the tea industry in Sri Lanka rose to its heights during the British colonial era and tea became the major export commodity, and it gave rise to a number of multinational tea companies that operated in Sri Lanka.

Post Colonial Sri Lankan Economy and the Tea Industry

The contemporary economic situation in Sri Lanka is very favorable for both agricultural and industrial sectors. According to the United Nations statistics, Sri Lanka had had the highest levels of education and human development in South Asia. According to the World Development Report and Human Development Report (<http://www.boisrilanka.org/boihome/wkforce.htm>, July 08, 2000). Sri Lanka possesses far better social economic indicators than its nearest neighbor India as illustrated in Table 1. After independence, Sri Lanka had several governments, representing different political parties, with remarkably different trade policies. One of the main concerns of these governments was the foreign trade policy. During the three decades from the 1950s to the 1980s, Sri Lankan economy underwent major policy changes from import-substitution to export-oriented industrialisation. Athukorala and Rajapathirana (2000, p.544) explain the government policy reforms thus:

During the first decade after independence in 1948, Sri Lanka (called Ceylon until 1972) continued to be an open-trading nation with only relatively minor trade or exchange rate restrictions and liberal domestic policies. From the late 1950s on, a combination of change in political leadership and balance-of-payments difficulties led to the adoption of a state-led import-substitution industrialization strategy. Following a hesitant and mild liberalization attempt during 1968-70, the period from 1970 to 1977 saw further government intervention in the economy under the guise of creating a socialist society. By the mid-1970s, Sri Lankan economy was one of the most inward-oriented and regulated economies outside the communist block, characterized by stringent trade and exchange controls and by pervasive state interventions in all areas of economic activity. Widespread nationalization measures and threats, coupled with various economic controls, had effectively marginalized the private sector in the economy (2000, p.544).

Table 1: Comparative Social Economic Indicators

Factor	Sri Lanka	India
Human Development Index	0.665	0.382
Life Expectancy	71.2 years	59.7 years
Adult literacy rate	89.3%	49.8%

Mean years of schooling	7.2	2.4
Pupils completing primary school	97%	62%
Secondary Enrolment	74%	44%
Tertiary science enrolment	42%	-
GNP per capita	\$500	\$310
Real GDP (PPP)	\$2,650	\$1,150
Export per capita	\$143	\$22

Source: <http://www.boisrilanka.org/boihome/wkforce.htm>, July 08, 2000.

A very significant characteristic of the colonial export structure in Sri Lanka has been the heavy dependence on several primary commodities – the largest tea and the second largest rubber. Market-oriented policy reforms initiated in 1977 and sustained over the past two decades have however dramatically transformed this colonial export structure (Athukorala, 2000, p.92). In the mid 1970s, Sri Lanka attempted to achieve economic development through the expansion of import-substitution industries. The results were, however, contrary to expectations because of the heavy reliance on imported raw materials and capital goods. As Athukorala and Rajapathirana (2000, p.546) revealed:

The first round of reforms, which was carried out during 1977-79, included significant trade reform. Quantitative restrictions on imports were replaced with tariffs, and the tariff structure was revised to achieve greater uniformity; restrictions on foreign investment were reduced while new incentives for export-oriented foreign investment were provided under an attractive free trade zone (FTZ) scheme; financial reform was enacted, including adjusting interest rates to levels above the rate of inflation, opening the banking sector to foreign banks, and freeing credit markets to determine interest rates; limits were placed on public-sector participation in the economy; exchange rate realignment was carried out; and incentives for non-traditional exports were created.

The market-oriented policy reforms initiated during 1970s have resulted in dramatic changes in the export structure. The export structure is now heavily dependent on manufactured exports – mainly textiles and clothing. The traditional primary exports play a secondary role in the economy. In 1990 further enhancing the liberalisation reforms, the government initiated a set of new policy reforms. This included an ambitious privatization program, further tariff cuts and simplification of the tariff structure, removing exchange controls on current account transactions, and several important changes to the foreign-investment policy framework, all of which were in line with the increased outward orientation of the economy (Athukorala and Rajapathirana, 2000, p.546). As a result, the importance of tea as an export commodity has decreased during recent years and manufactured exports have increased during the twenty-year period from 1978 to 1998 (Athukorala, 2000).

Table 2: Export Structure of Sri Lanka, 1965-1998
(Percentage composition at current prices, two-year averages)

	1965-66	1976-77	1979-80	1984-85	1989-90	1997-98
<i>Primary Exports</i>	99.1	85.7	72.5	63.1	47.4	25.6
Tea	59.8	50.3	36.3	37.6	25.0	16.0
Rubber	17.2	16.4	15.5	8.0	4.7	1.3
Coconut Products	13.1	8.7	8.7	6.5	4.4	2.3
Other Primary Products ¹	9.0	10.3	12.0	11.0	13.3	6.0
<i>Manufacturing</i>	0.9	4.6	12.3	26.9	47.9	72.6
Food and Beverages	0.6	2.0	2.1	3.8	4.3	2.3
Textiles and Garments	-	1.8	8.4	21.1	33.1	48.5

Rubber Products	–	–	0.2	0.4	1.6	3.8
Ceramics	–	0.4	0.6	0.5	0.8	1.7
Leather and Footwear	–	0.1	0.2	0.2	0.6	3.9
Diamond and Jewelry	–	–	0.3	0.4	4.3	3.2
Machinery & Equipment	0.2	0.2	0.2	0.2	1.7	4.1
<i>Other Manufacturing</i> ²	–	–	0.3	0.3	1.5	5.1
Petroleum Products ³	0.0	9.7	15.2	10.0	4.7	1.8
Total⁴ (US\$ million)	393	645	1023	1401	1735	4687

Notes: ¹ Minor agricultural products and minerals.

² Mostly toys, sport goods, and plastic products.

³ Shipping and aviation fuel supplied by the state-owned Sri Lanka Petroleum Corporation.

⁴ Including re-exports.

- Zero or negligible.

Source: Athukorala, 2000, p.93.

As Table 2 illustrates, tea remained the major agricultural crop in Sri Lanka from 1965 to 1998. During the early 1980s, however, Sri Lanka faced tremendous political and ethnic problems mingled with declining prices for exports including tea. A civil war started in 1983, and battered tea production. Clad (1989, p.544) has reported that “Sri Lanka, once the proud leader among tea-exporting nations, now finds itself struggling hard to be in the running”. Since the late 1980s India has become the world’s largest tea exporter, followed by Sri Lanka, and then Kenya.

Similarly, the low prices for tea had bad effects on the economy. The two largest tea producers, Sri Lanka and India had to compete with some non-traditional tea exporters with lower prices. To redress this problem the tea exporting countries attempted to reach an export quota agreement in 1980. As a report in the Financial Times of London revealed:

The new attempt at establishing export quotas resulted from the continuing slump in world tea prices. Some countries increased production and exports in an attempt to cover rising costs and losses from falling prices, which further depressed market prices. Though the two largest tea exporters – India and Sri Lanka have production problems, yet the world tea exports are increasing because other nations filled the production gap. Traditional exporters such as India worry about increasing competition from China because of China’s lower prices (Anonymous, 1980, p.44).

The tea exporting countries had to seek new markets and develop innovative products such as tea bags. Meanwhile, the government of Sri Lanka took measures to encourage foreign investment in non-traditional export industries. Because of government policy reforms that granted significant incentives for foreign investment in non-traditional export industries, for the first time in the export history of Sri Lanka, since the 1990s textiles and clothing category overtook tea as the major export component. Meanwhile, during 1992 the tea industry suffered extensively from a severe drought and a 30% wage increase for public-sector workers in 1992 resulted in an increase in tea production cost.

For several years, Sri Lanka played a key role in the world market as the premier tea-exporting nation and then as the second biggest tea producing country. This predominant position received a setback in 1996 with Kenya forging ahead, albeit marginally in volume, but with the island continuing to keep the lead in terms of foreign exchange earnings (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

Table 3: Comparative Export Data - 1994 – 1998 (Rs ‘000)

Item	1994	1995	1996	1997	1998
Tea	20,964	24,638	33,747	42,151	49,867

Rubber	3,852	5,713	5,745	4,638	2,808
Coconut products	2,696	3,750	4,692	5,133	3,924
Garments	71,156	88,140	97,768	125,113	148,920

Source: Department of Census and Statistics, Government of Sri Lanka.

It was however expected that because 50% of Sri Lankan tea exports were in pre-packed form, Sri Lanka could stay in a favorable position in terms of foreign exchange earnings. This became a reality when “Influenced partly by the drought conditions in Kenya, Sri Lanka re-emerged in 1997 to claim the number one position (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>). In Sri Lanka, tea ranks as the major agricultural export crop. Table 3 depicts the major agricultural exports for the period 1994-1998. Tea has been second only to garment exports in these years. Tea has been a vital industry in Sri Lanka providing employment opportunities with high levels of facilities to a significant number of people. According to Sri Lanka Tea Board:

The tea sector in Sri Lanka has always been a vital component of her economy. It is also the country’s largest employer providing employment both directly and indirectly to over one million people. It also contributes a significant amount to Government revenue and to the gross domestic product (<http://www.lanka.net/teaboard/index2.html> (<http://www.lanka.net/teaboard/auction.html>, June 03, 2001).

In 1997, the Ceylon Tea Industry saw a remarkable increase in production, exports, prices and profitability. This can be largely attributed to the present government’s trade policy reforms. According to the Dilmah Online Service:

The two institutional changes that have transformed the tea scenario are the privatization of the estate sector and the current thrust from small-holders. At the macro-level, these developments complement each other by combining the principal features of the plantation system (close control of production and quality) with those of small farming, (flexibility, incentives and equity). As of December 1997, all of the 21 plantation management companies with tea interests have gone into private hands, while 235,000 small farmers on average holdings of 0.4 hectares (ha) have gradually extended their operations beyond the realm of tea into the wider arena of rural development (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

The year 1997, however, was not very favourable for Sri Lankan tea export industry. This was because of Russia’s decision to raise the import tariff on imported packaged tea from 10% to 20%. Russia is the world’s largest importer of bulk tea. It is a major destination for tea producers in India, Sri Lanka, and China (Anonymous, 1997, p.6). In 1991, about 95% of the tea imports in Russian were in bulk form and packed domestically. After 1991, this situation changed dramatically and about 75% of the tea imports to Russia were in pre-packaged form. Sri Lankan tea shipments to Russia are pre-packaged. As a report reveals:

Sri Lanka has profited most from the transformation of the Russian tea market since 1991. That year, Sri Lankan exports totalled just 5,000 tonnes. They rose to 28,000 tonnes in 1993, and in 1995 they were up to 40,000 tonnes. 38,000 tonnes of this tea was imported in branded packets; only 2,000 tonnes came in bulk. The Russian tea trade earns Sri Lanka about \$80m a year (Anonymous, 1997, p.6).

The Russian crisis had adverse impacts on the Ceylon Tea Industry resulting from heavy losses in the market. The economic problems in Russia brought about a significant reduction in tea prices as well as demand from Central Asia and the Ukraine. Despite these unfavourable conditions, however, Sri Lanka has been able to conquer her economic problems in many aspects in recent years. According to the Government of Sri Lanka (Department of Information, 2000) the country’s tea industry is growing:

Sri Lanka’s black tea production has increased significantly by 32% or 1,875,296 kgs in March this year, compared to March 1999 and the black tea production in March 2000 amounted to 32,293,243 kg, while the figure for March 1999 was recorded as 24,417,947 kg. The local black tea production has also risen during the period from January to March this year by 6% or 4,875,296 kg, compared to the same period in 1999.

Traditionally, Ceylon tea has been shipped in bulk form and since the 1980s more emphasis has been placed on the manufacture and export of value added tea. Now Sri Lanka has facilities to provide the most up-to-date tea

bagging and packing methods. Approximately 95% of the total production of Sri Lanka's tea is exported. In Sri Lanka, both private sector and public sector are engaged in tea manufacturing and exporting operations. The government of Sri Lanka is directly engaged in tea growing and trading through state authorities. In 1976, Sri Lanka Tea Board, which is a semi government statutory authority, was established with the objectives of promoting and developing the tea industry. Tea manufactured in Sri Lanka is sold through one of the following channels as approved by the Sri Lanka Tea Board:

- a) Colombo tea Auctions;
- b) London tea Auctions;
- c) Private sales;
- d) Forward contracts; and
- e) Direct sales.

The first tea auction in Colombo was held in 1883 and since then auctions have been held weekly. As per Sri Lanka Tea Board, "Today Colombo tea auction has entered into its second century and ranks as the world's largest tea auction center. Almost 95% of the country's tea production is marketed this way" (<http://www.lanka.net/teaboard/auction.html> June 04, 2001). A large number of private sector business enterprises are engaged in tea trading in Sri Lanka. While some private sector organizations are Sri Lankan owned companies, others are multinational companies. These tea-trading companies can be categorised as follows, as per Sri Lanka Tea Board:

- a) Tea
- b) Tea – Retail
- c) Tea – Wholesale
- d) Tea Bag Packers
- e) Tea Bag Suppliers
- f) Tea Blenders
- g) Tea Brokers
- h) Tea Exporters
- i) Tea Manufacturing Machinery and
- j) Tea Packers – Bulk, Packets, and Bags (<http://www.lanka.net/teaboard/auction.html>, June 04, 2001).

The subject organization of this research – Ceylon Tea Services Ltd. – belongs to the category of tea bag packers. Because of government policy reforms and satisfactory facilities available, the Ceylon Tea Industry is currently enjoying a very favourable export market situation. Similarly, Sri Lanka's emphasis on value-added tea products is very strong. About 50% of Ceylon tea exports are in value added form. Today value added tea exports have been a major strength of the Ceylon tea industry. Tea traders in Sri Lanka during the early 1980s were very concerned about the quality of tea that was sold as Ceylon Tea but was a blend of tea from other sources. To redress this problem, some pioneering tea traders in Sri Lanka initiated the value added tea industry and Ceylon Tea Services is among them. Dilmah Online reveals the consequences of the rise of big brands:

As brand names became more important than the origin of the tea, the decline of Ceylon tea began. Multinational brands which built up consumer loyalty over the years by using only Ceylon tea in their packs started moving to cheaper, more recent origins for tea. Most consumers did not notice the gradual and planned move away from Ceylon to inferior origins. Most consumers know Ceylon Tea as the finest in the world, and still think that their favourite brand contains Ceylon Tea whereas, in fact, Ceylon Tea has all but disappeared from retail shelves in traditional Ceylon Tea markets (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

Soon the modern pioneers of Sri Lankan tea industry sought to find a solution to this disgraceful situation. One such concerned tea businessman was Merrill J Fernando, the Founder of Dilmah Tea. Merrill J Fernando commented:

I realized all the activities in the tea trade were upside down. I couldn't understand the reason why a country which produces one of the world's finest teas could not market its own product. I observed how tea was exported as a raw material worldwide. How it was blended, branded, packaged and sold at a comparatively higher price (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

Another agonising factor under such situations was that the consumers had to pay a very high price for tea although the multinational companies bought Ceylon Tea at very low prices. Commenting on this issue the Dilmah Founder explained:

My concern lies in the fact that while our industry was suffering instability and the prices of our teas were below the cost of production at the same time, the consumers bore high prices. It was my wild dream – being the proprietor of my own brand of tea which I wanted to make sure will be the best Ceylon tea in history (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

Tired with the practices of foreign companies several Sri Lankans established their own tea business, which produced and exported tea all over the world. Fernando started his own tea business in 1954. As Fernando states while discussing his own experiences:

At that time I was contemplating on owning my own brand of tea, it was considered sacrilege as the industry was dominated by foreigners. There was nothing Sri Lankan about it. Thus steadily and slowly the business conducted by foreigners was transferred to local companies and local companies established themselves. However, what they eventually did was supply raw material or bulk tea, which never offered a future for our tea industry. In my own experience I have exported tea in raw material form to most of the renowned international tea brands worldwide through brokers/middle men in the country (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

Fernando turned himself into a very successful businessman within a few years and managed a competent and successful business. In 1974, Fernando introduced DILMAH Tea and his business flourished. According to his own version, “We achieved the status of being the fourth largest exporter from Sri Lanka, for bulk tea worldwide during that particular period and I competed with many multi nationals” (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>).

An era of renaissance for Ceylon Tea was born for the first time in 1980, when DILMAH was launched as pure Ceylon tea in Australia. At the time, some tea companies were marketing tea as Ceylon Tea (which may be or may not have been pure Ceylon tea) in Australia. Knowing the market situation for tea in Australia, Fernando decided to introduce pure Ceylon Tea to Australia. By applying the simple strategy of packaging tea right where it was grown, he initiated the value added tea concept in Sri Lanka and “saw cost benefits and a very significant advantage in offering fresh tea to consumers who had got accustomed to drinking ... old, blended tea” (<http://www.dilmahtea.com/press/bnw/merril-bnw.html>). The renaissance of Ceylon Tea was marked by the incorporation of Ceylon Tea Services Ltd. with the MJF Group to develop export markets for pre-packaged Pure Ceylon Tea, thus ensuring all value-added benefits would remain in Sri Lanka where they would be most needed. The next section is devoted to a discussion of the MJF Group.

The Parent Company: MJF Group

The subject organization, Ceylon Tea Services Ltd. is a public company within the MJF Group of Companies. The head office of the MJF Group is situated in Peliyagoda, near Colombo, the capital of Sri Lanka. The MJF Group is the largest manufacturer of pre-packaged teas in Sri Lanka. The MJF Group is Sri Lankan owned and managed and is a leading business enterprise that dominates the tea manufacturing and exporting industry. The company is currently engaged in a number of diversified business activities, which are horizontally and vertically integrated including:

- a) Manufacture and export of tea; in pre-packaged branded product form;
- b) Printing and packaging;
- c) Real estate;
- d) Agency representation of packaging machinery & material;
- e) Tea and rubber plantation management; and

f) Investment and private portfolio management.

The MJF Group's core business activity, manufacturing and exporting (marketing) tea in pre-packaged products, has earned the Group a reputation throughout the world as a high quality tea producer. The founder of the MJF Group, Merrill J. Fernando, developed his own brand name of tea "Dilmah" in 1974 naming it after his two sons, Dilhan and Malik. The Chairman of the Group, Merrill J. Fernando, believes his decision to develop his own brand of high quality tea has been well received by the consumers. For example, Dilmah holds 12% of the market share in Australia where it was launched initially and a substantial market share of 17.2% in New Zealand. Dilmah has proved to be Australia's fastest growing tea brand, subsequently Dilmah Tea is marketed in more than 90 countries around the world. It has a market share of 15% in the Baltic States, 12% in Ukraine and 5% in Russia. Taking another big step forward the family-owned brand ventured into the British market in 2001, becoming the first Sri Lankan brand to compete with multinational competitors. The British had introduced tea to their former colony, then known as Ceylon. Speaking at the launch of Dilmah in the UK, Mr. Fernando said, "I bring you the finest tea, fruit of the industry your ancestors gave us over a century ago" (<http://www.dilmahtea.com/core.htm>). As the Marketing Director revealed in 2001 "... we are this week launching Dilmah in the UK. Our tea will be at Safeway stores throughout Britain shortly and I am flying to London tomorrow for the official media launch on the 20th September" (email contacts).

The MJF Group is a fully integrated group of companies with strategic investments in tea gardens, printing, packaging and packing and, in several countries, their own distribution organization. The Group grows its own tea in Ceylon and packages tea using its own facilities. Since its early years, the Group has been very successful and year-by-year its tea export reached record levels. In 1997, the MJF Group acquired two of Sri Lanka's leading Plantation Groups, Elpitiya and Talawakelle. This acquisition has increased the overall employment of the Group to approximately 26,000 personnel. The forward and backward integration of business activities has given the Group the ability to offer its customers the opportunity to taste high quality and fresh tea. "Dilmah" has earned a name as the premier tea brand originating from tea growing countries. The Group has 10 companies located in Sri Lanka:

- a) Ceylon Tea Services Ltd.,
- b) MJF Exports Ltd.,
- c) MJF Teas Ltd.,
- d) MJF Plantations Ltd.,
- e) Dilmah Fine Teas & Herbs Ltd.,
- f) Package Care Ltd.,
- g) MJF Travel & Trucking Ltd.,
- h) Dilmah Properties Ltd.,
- i) City Properties Ltd., and
- j) Merrill J. Fernando & Sons Ltd.

MJF Group has a number of successful companies operating in overseas countries:

- a) Dilmah Australia Ltd.,
- b) Dilmah Poland Sp z o.o.,
- c) Dilmah Moscow Ltd.,
- d) Dilmah Ukraine Ltd.,
- e) Dilmah New Zealand Ltd.,
- f) Dilmah Central Asia Ltd., and
- g) Stanes MJF Teas Ltd.

The Group's production facility is of international standard and the largest in tea growing countries. The Group's investment in the tea business is in excess of Sri Lanka's Rs 6 billion/ US\$100 million. In the first six months of 2000, the Group's tea exports accounted for almost 50% of total teabags and almost 40% of all value

added tea from Sri Lanka. The companies in the MJF Group located in Sri Lanka are operated under three areas of specialty: tea; packaging; and, other businesses. The MJF Group exported 36% of the volume of teabags from Sri Lanka in 2001 and its sales in 2000 were Rs 1464451000.

Tea Companies of the Group

The Group has four tea companies, which are ISO 9002 certified, operating in different areas of specialty:

- a) Ceylon Tea Services Ltd.,
- b) MJF Exports Ltd.,
- c) MJF Teas Pvt Ltd., and
- d) MJF Plantations Ltd.

Ceylon Tea Services Ltd. is a public quoted company. It was the first Tea Company to be listed on the Colombo Stock Exchange. The core business activity of the company is exporting and marketing value-added tea. As the largest manufacturer and exporter of teabags in the tea growing countries, the company has earned a unique and challenging name for its tea. In 2000, the company's turnover was Sri Lankan Rs 1.4 billion/US\$ 0.2 billion and it has maintained a record as one of the best performing shares in the Colombo Stock Exchange. In 2000, the company's operations in Central Asia and India commenced. One of the Dilmah tea gardens is shown in Table 4.

Table 4: A Dilmah Tea Garden



Source: <http://www.dilmahtea.com/core.htm>

MJF Exports Ltd. is a well-established tea exporter with experience over five decades. The company has an excellent record of trading in blended and original garden teas in bulk form to blenders and packers worldwide.

MJF Teas (Pvt) Ltd. is a fully owned subsidiary of MJF Exports Ltd. and specialises in the development of the **DILMAH** brand and tea exports to Eastern Europe. About 95% of this company's turnover is attributed to packeted tea exports to the former CIS. A significant growth of business has been reported in the last few years.

MJF Plantations Ltd. is the plantations division of the MJF Group. To ensure that Dilmah gives its customers the opportunity of tasting the best teas in the world, the Group grows its own tea.

Ceylon Tea Services Ltd. (Dilmah Tea)

Ceylon Tea Services Ltd., which is the largest exporter of teabags from Sri Lanka, was incorporated in 1981 with the express purpose of providing high quality garden fresh tea using its own brand name, "Dilmah", to its customers throughout the world. The Company (referred to as Dilmah) pioneered the value-addition of tea at origin, in Sri Lanka. Tea had long been Sri Lanka's biggest and most important export, becoming the largest foreign exchange earner and the provider of employment to millions of people. However, as already discussed in the previous section, until recently Sri Lanka was merely a supplier of raw material as bulk tea to blenders and packers overseas. Ceylon Tea Services Ltd. was incorporated with the objective of developing an export market

for pre-packaged Pure Ceylon Tea, thus ensuring all value-added benefits remain in the country where they are most needed.

Table 5: Dilmah Tea Factory



Source: <http://www.dilmahtea.com/core.htm>

Dilmah operates a purpose built factory equipped with the most modern machinery, including a line of 10 IMA C2000 tea-bagging machines, which is the largest installation outside Europe (Table 5). The MJF Group's integrated business activities which include growing tea, tea bagging, packaging, printing, exporting and marketing are all engaged in the assurance of the quality of Dilmah product. Dilmah has now developed into a premium tea brand like other market dominant brands such as IBM, Pizza Hut, and McDonalds. Dilmah's first target market was Australia and the brand was launched in Australia during the early 1980s. Dilmah Pure Ceylon tea is now considered the finest tea on the market in Australia (Annual Report 1998/99, p.7).

The company's major markets are Australia, New Zealand, Russia, the United Arab Emirates and Poland, where the company is directly involved in the marketing and distribution of Dilmah Tea. Since Dilmah Tea is freshly packed at source and unblended, it is far superior to most other brands that contain a blend of teas from different origins. As well as being widely available at retail level, Dilmah offers a wide selection of Food Service products and is the exclusive supplier of tea to McDonalds restaurants in 21 countries. The company also supplies Dilmah to 17 airlines including Qantas Airlines. Singapore Airlines recently discarded their old product and adopted Dilmah, recognising its high quality. In the Russian market, Dilmah had a name as the second most popular brand till 1997. The employee's population at the head office of the Ceylon Tea Services Ltd. in 2000 was 210.

The United States of America was going to be the company's new millennium's second market since MJF Group partnered with Celestial Seasonings Inc., Colorado, in April 2000 to introduce Dilmah Tea to the USA. The company was looking forward to bringing something truly different to its customers. The situation, however, suddenly changed due to strategic changes in Celestial Seasonings Inc. Dilmah's Director of Operations explained the situation "... unfortunately they have been bought out by another company, Heinz Foods, who have put all their JV's on hold - hence our plans to work with Celestial are on hold and we are making alternate arrangements for the US market" (email contacts).

Table 6: Total Sales (Ceylon Tea Service Ltd.): 1991-99

Year	Sales (Rs 000')
1991	237,102
1992	324,023
1993	310,995
1994	372,812
1995	399,852

1996	465,371
1997	1,078,027
1998	1,071,402
1999	1,192,939
2000	1,464,451

Source: Company Annual Reports.

Ceylon Tea Services Ltd. is a rapidly developing enterprise. From 1991 to 2000 Dilmah saw an enormous increase in demand for its products (Table 6). During this period, new products were introduced and new markets were identified. As a result, sales grew more than six-fold. The company also packs private label teas for several supermarkets in Australia such as Safeway, Woolworths and Coles and almost all House Brands in New Zealand. Employees believe that the success of the Company is linked to the dedication of Fernando, who has been actively engaged in the tea industry for forty-eight years (discussions with employees). According to Dilmah marketing information, Fernando is considered the most experienced active tea taster in the world today. The company relies on the latest technology to ensure quality of its products to be a market leader. As the Tea Consultant explained “We export tea and market our own production. Our business is centred on packaging and marketing our own brand for exports. We have markets all over the world. We use the latest technology to ensure quality of its products. We are an ISO 9002 certified company” (interviews).

Table 7: Employee Population: 1991-1999

Year	Employees
1991	283
1992	302
1993	330
1994	350
1995	314
1996	410
1997	450
1998	371
1999	466
2000	210

Source: Company Annual Reports.

With increasing production and new markets, the organization's employee population also increased significantly. By the end of March 1991, the total employment was 283 and this number had increased to 466 in 1999 because of an increase in the casual labour force (Table 7). Dilmah relies on casual workers heavily to meet urgent contracts. Tables 8 to 14 illustrate some selected financial performance indicators of the Ceylon Tea Services Ltd. for the five-year period 1996-2000.

Table 8: Turnover and Net Profit

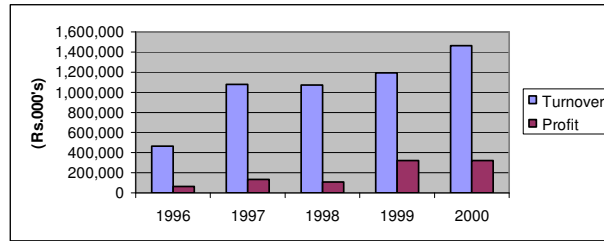
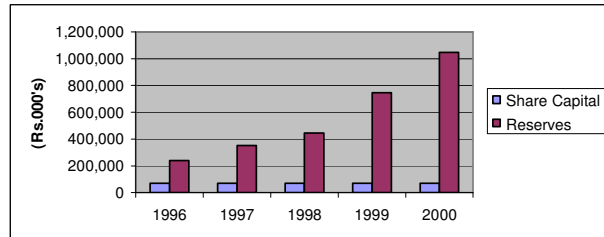
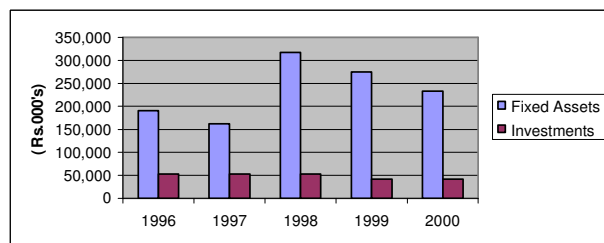


Table 9: Shareholders Funds



Source: Company Annual Reports.

Table 10: Fixed Assets and Investments



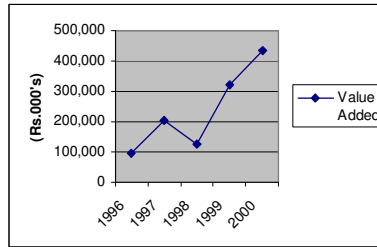
Source: Company Annual Reports.

As shown in Table 8 during the five-year period, 1996-2000 turnover and profit have increased significantly. During the financial year 1999/2000, the company recorded its highest turnover. This was an improvement of 22% on the previous year's turnover. The company's ability to develop quality products and its continuous search for new markets has resulted in increased sales. As shown in Table 9, the amount of undistributed profits has increased five-fold during that period.

Thus, although the share capital has remained unchanged during the period, shareholders' residual interest in assets has been increasing. As shown in Table 10, there has been a significant increase in fixed assets value in 1998 and the company's fixed assets and investments have been slightly changing during the period concerned. This expansion program was completed by 1998 and there was no significant investment in fixed assets after that. This has been due to the parent company's decision to invest in diversified businesses.

As depicted in Table 11, the amount of value added by the company has increased significantly since 1998. As the chart shows, in 1998 there has been a remarkable decline in the value added by the company. This was mainly due to the loss of Russian markets in 1998. As a result of penetrating into new markets and a higher effort of marketing, the company had been able to increase its sales significantly during 1999 and 2000 resulting in an increase in the value added. Earning per share ratio is an indicator of the relationship between share prices and earnings.

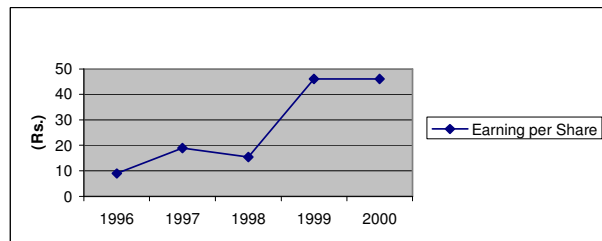
Table 11: Value Added



Source: Company Annual Reports.

As can be seen in Table 12, except for 1998, there has been a significant increase in earnings per share over the period concerned. In 1999, there was an increase of 198.45% in earnings per ordinary share. This amount has marginally reduced in 2000 representing a decrease of 0.28% on the previous corresponding period.

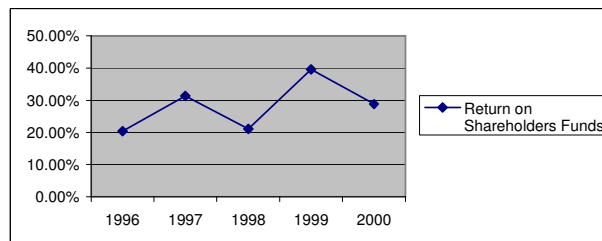
Table 12: Earning Per Share



Source: Company Annual Reports.

Return on Shareholders' Funds is a measure of the ultimate profitability of shareholders' investment. As shown in Table 13, this ratio has been changing over the period concerned. In 1998, there was a decrease of 32.28% on the previous years figure. In 1999, however, the ratio had increased by 87.98%, which was significant. In 2000, return on shareholders' funds declined by 27.17% on the previous corresponding period.

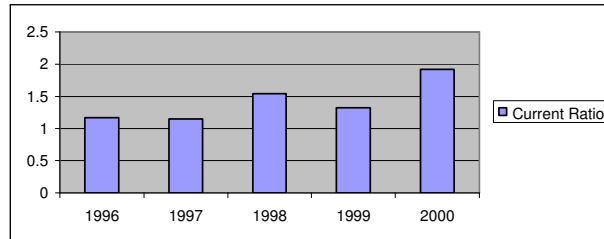
Table 13: Return on Shareholders Funds



Source: Company Annual Reports.

The Current Ratio is current assets divided by current liabilities. This ratio measures an entity's ability to meet its current liabilities on time and ensures the availability of funds for current operations. As shown in Table 14 the current ratios for Dilmah have remained under 2 for the period discussed. There is acceptance that this ratio for industrial companies should exceed 2:1.

Table 14: Current Ratio



Source: Company Annual Reports.

Unlike some other organizations in Sri Lanka, the Ceylon Tea Services Ltd. has an important management style shaped by the top-level managers' constant vigilance and dedication. A form of bureaucracy runs most organizations in Sri Lanka, both the private and public sector. Formal hierarchical authority has a predominant place in many Sri Lankan organizations.

The company's operations prove, that even with a lower current ratio, it has been operating successfully. In contrast, the management style of the Company is primarily entrepreneurial with high levels of owner-manager control and a high level of employee commitment. Since the beginning of the operations of the company, the founder of the Group has been actively involved in every aspect of its operations. The founder and his two sons hold the majority of the responsibilities for the well-being of the company. The founder's dedication, care, interest and competence have created a unique culture in the organization. Following the founder, his two sons and the workforce are fully committed to their roles in the company. They all work as a group of family members to achieve a common goal.

The Company is primarily designed as a functional organization. The prevalent organization structure facilitates the organization in communication and problem solving. The strategic decisions and the majority of day-to-day decisions are made at the top level with some participation from middle and line management. The Chairman has a tremendous influence on strategic decision-making. He is actively engaged in policy decisions. The Director of Marketing explained the Chairman's involvement in policy setting, "Whilst I report to the Chairman, he does get involved in setting policy and direction, I would work within guidelines agreed between us, and direct my department accordingly" (Williams & Herath, 2002, p.74). There is, however, team based decision making in problem solving, which is of profound importance to company operations.

The organization's management information system is fully integrated and computerised allowing easy access to the relevant performance data by the managers. Initially, the organizational accounting system was not computerised. With the rapid development in sales and other integrated activities, the management recognised the need for a computerised system for quick and easy information processing. Accordingly, in 1997 the company installed a fully integrated computerised information system facilitating the informational needs of the managers.

The role of the Ceylon Tea Services Limited as a world leader in value added tea market is very important to Sri Lankan economy. The company's concern for providing 100% pure Sri Lankan tea and its marketing strategies have been important elements of the company's success. A marketing led company, Dilmah considers marketing the core of its success. The company's integrated facilities are very influential for its effective and efficient operations. Similarly, Dilmah manufacturers are often cited as a firm which has achieved strong performance in pursuit of both financial and social responsibility goals despite the diverse ethnicity group actors and their cultures existed in the company. The company has been successful in controlling both inter and intra cultural relations which affect its control strategies.

Since its inception, the family company has involved with charities in Sri Lanka, Australia and around the world showing the importance of its founder's notion of sharing profits with less fortunate. The founder of Dilmah has set an example to other businessmen in Sri Lanka by establishing a charitable organization, "**The Merrill J. Fernando Charitable Foundation**" with the purpose of helping the less fortunate. Since 1998, this foundation has been providing numerous community activities. The Foundation is expected to support the community with building hospitals, orphanages, schools, and homes for the elderly in rural areas where inadequate facilities exist. Fernando has plans to donate about a third of his wealth for his charitable foundation.

Summary

The paper discussed the tea industry in Sri Lanka, both its history and its current situation. It surveyed the prevalent economic conditions in Sri Lanka, especially the government's trade policy reforms and their impacts on the tea industry. It also discussed the role of Ceylon Tea Services Limited as a leading value added tea manufacturer and exporter and the nature and activities of its parent company, the MJF Group. The paper also revealed some important aspects of financial and social performance of Ceylon Tea Services Limited.

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