

OF VALUE ADDITION IN TEA:
SRI LANKA'S REGIONAL PLANTATION COMPANIES

BY

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Abstract

Declining profits in the Regional Tea Plantation Companies is a major concern to the growth and sustainability of the tea industry. Escalating cost of production attributes mainly to the irregular wage increases and the high cost of fertilizers. RPC's have placed too much emphasis on production since privatization of the companies in 1992. Their concentration has been in their traditional mode of marketing being the auctions, which resulted in RPCs declining in profits and adverse competitiveness in the industry.

Statistics depict that the only way to generate extra profits for the manufacturers would be to add value and differentiate their product, thereby gaining a true competitive price for their product. Whilst statistics prove that exporters make a mark up of 35-40% on the FOB by exporting value added tea, RPC's are deprived of this additional revenue.

This research was mainly focused on finding out the reasons behind the slow progress towards value addition in the RPC sector. Value additions give a different dimension to the RPC sector to generate additional revenue. Primary data collections were done with eight out of a total of 20 Regional Plantation Companies through conducting unstructured questionnaires and in depth interviews. Analysing of the primary data was qualitative in nature whilst secondary data was obtained from the Tea Board, Ministry of Plantation and other sources connected to the industry.

The results indicated that the delay in the value addition process in the RPC sector mainly contributed to the lack of marketing, and the inability gain access to direct customers. As such, RPC sector being the manufacturers have failed to optimize their profits unlike the exporters. Global competition and the relatively slow growth in economies in recent years would drive companies to manage their value chains effectively. They could add value through their value chain and deriving extra margins. Research results also confirmed that by adding value to the tea, RPC's can generate additional profits, increase brand image, generate employment, and increase foreign exchange earnings. It would also contribute to the uplifting of plantation worker status. Results also depicted the importance of higher-level management's strategic management skills, entrepreneurial skills and as to how their thinking towards value addition would certainly demonstrate positive results.

