

# Developing Tea Market through Analyzing the Value Chain of Vietnam Tea Industry

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## Abstract

Nowadays, the international trade in agricultural products is very well-organized, largely controlled by multinational supermarket chains. Because of increased consumer knowledge, the supermarket's demand for quality of agricultural products, which are based on the consumer needs in developed countries, is more and more high-required and becoming a technical barrier of many developing countries considering agricultural exports as a lever for economic development. Tea is identified as a major export product of Vietnam by the government. Tea production is an economic sector in the production development for rural agricultural area in the mountainous midland where tea is as a strategic product for export, helps to earn foreign currency for the country, and create employment for huge workforce. Moreover, the tea industry which is also one of the potential industries would increase a quantity (low tea yields), a quality (due to low quality of tea) and a selling price when the tea quality increases, the type of tea is increasing, then the price increases. Because tea plays the important role as one of Vietnam's important export agricultural products, it is definitely necessary for research investment to develop policies and solutions for developing the value chain of tea and increasing the added value of tea, particularly in intense competition of the world tea market where the demand for this product is decreasing due to the global economic crisis, and the number of suppliers participating in the tea market is increasing and becoming more and more professional. This article confirms that the development of tea export market of Vietnam is a right direction. The article shows that enhancing the value chain of tea industry is one of the factors promoting the development of the Vietnam tea market during the period of international integration. The paper, thence, proposes some solutions to develop the tea market Vietnam in the future.

**Keywords:** Tea Industry, Market Development, Value Chain, Tea Value Chain, Vietnam

## Introduction

The tea industry is attracting a large number of laborers in the northern mountainous region, the area are in difficult economic development. Tea is also a plant, a revenue source for poverty reduction in many localities. Especially there are the midlands, almost the whole village, the whole commune grows tea, and the income from tea makes up more than 50% of their total income. Income from tea is the main source of subsistence for tea farmers. In the tea areas, the

hills cover over 90%. This is one of the most important indicators for the environment, while the country is striving for 45% of forest cover.

For the tea industry to continue to bring into full play the strength of one of Vietnam's important export agricultural products, The investment in research aim to develop policies and solutions for tea value chain development and enhance value added of the tea industry to be a necessary requirement, especially in the context of competition in the world tea market is becoming more severe, on the one hand, because demand for this product is reduced due to economic crisis, on the other hand, Because the number of suppliers involved in the tea market increases and becomes more and more professional.

## **Research Methods**

### **Analysis methods according to Value chain**

The purpose of this approach is to research specific issues at different stages in the chain, issues in connection and income distribution between different stages in order to propose solutions to Increase value added for Vietnamese tea products. Participants in the value chain such as producers, collectors, processors and exporters will be described and analyzed in detail in the value chain according to the following criteria:

- Common characteristics of agent which involved in the value chain
- The main product line, the distribution rate according to different channels
- Activities at key stages in the value chain

These analyzes are very important as the basis for identifying the main channels for different tea products (tea for export, for domestic consumption) and thus to determine the added value of tea products in each stage.

In the value chain approach, the research team will derive from the "market" it means to start the research from the last stages of each chain and then follow the next steps by the processors, traders and finally, the tea producers.

### **Method of calculating and analyzing value added according to the value chain**

From the analysis of the efficiency of each step in the value chain, which will be help to calculate and identify the value added for each stage in the chain to assess the current level of VAT formation of each Subject which participate in the chain. A step-by-step approach in the value chain also helps to identify problems that exist at every stage that are preventing to improve VAT for this stages and hence there are suggestion for the policy to enhance the added value of tea products in Vietnam as well as for each segment depending on the capacity and advantages of each segment...

### **Field survey in localities**

Select the area to study: field surveys will be conducted for different agent in the tea value chain in the three main tea producing provinces of Vietnam: Phu Tho, Thai Nguyen and Lam Dong. In particular, in Phu Tho will focus on black tea channel to export, Thai Nguyen will focus on green tea channel to serve the domestic market and Lam Dong will focus on specialty tea channel.

Choose a tea grower: Surveyed 120 tea growing farmers in Thai Nguyen, Phu Tho and Lam Dong. Tea growing households in addition to the distribution by province are also divided into different groups according to the consumption channel: the producers sign the contract directly with the factories (foreign and domestic factories) and free sales households.

Select the objects for processing, consumption of tea: survey 12 objects for processing, tea consumption; consisting of 4 enterprises, 2 cooperatives processing and selling tea in Thai Nguyen, 4 enterprises in Phu Tho and 2 enterprises in Lam Dong. The main contents are to

understand the operation of enterprises, processing technology, main market, difficulties of enterprises, policies to increase product prices, reduce production costs.

Dry tea processing households: survey 50 households in two provinces to be Thai Nguyen and Phu Tho. The main focus of the survey is on household activities, technology, production costs, selling prices, customer assessments, raw materials, difficulties and potential for quality improvement.

Dry tea collectors: survey 10 households in two provinces of Thai Nguyen, Phu Tho. The content of the survey on their activities, purchase price, selling price, cost spent, market collectors, market sell.

Fresh tea collectors: survey 10 households in two provinces of Thai Nguyen, Phu Tho. The content is similar to the dry tea collectors but focuses on improving the quality of raw tea, the difficulties of collecting fresh tea.

Select retailers / shops: survey 30 tea business households; Including: 14 households in Thai Nguyen 16 households in Hanoi. Households selected are identified as retail tea households, regardless of whether they sell more or less

Select Tea Consumers: Survey 100 random tea consumers in Hanoi. The objects are those who use tea products, regardless of the type of tea. Including all kinds of tea with foreign brands (Lipton, Dilmad...)

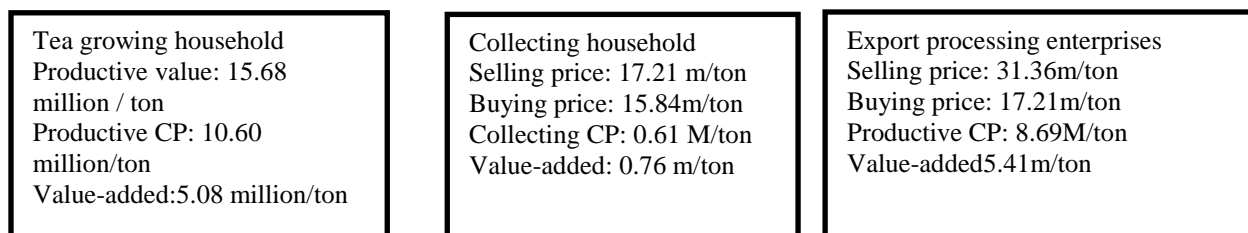
## Research Results and Discussion

Black tea and green tea are two traditional products of the tea industry in Vietnam and by 2017, the structure of tea products is mainly based on these two products (62% of black tea, 36% of green tea) and 2% are other types of tea). Therefore, the study promotes to select three major chains in the Vietnamese tea industry to carry out a survey on the status of added value, including black tea, green tea and O Long tea which is Representing the recent line of specialty tea. The provinces of Phu Tho, Thai Nguyen and Lam Dong respectively were chosen as the case study points for these product chains and combined with other secondary information to generalize the product chain on the market all over the country.

### The value chain of black tea

Value -added chain of export black tea is quite diversified, but this study does not separate the processing and export. Therefore, the main agent in the chain are only tea growers (both contracted workers and free tea farmers), fresh tea collectors for processing companies and tea export processing companies.

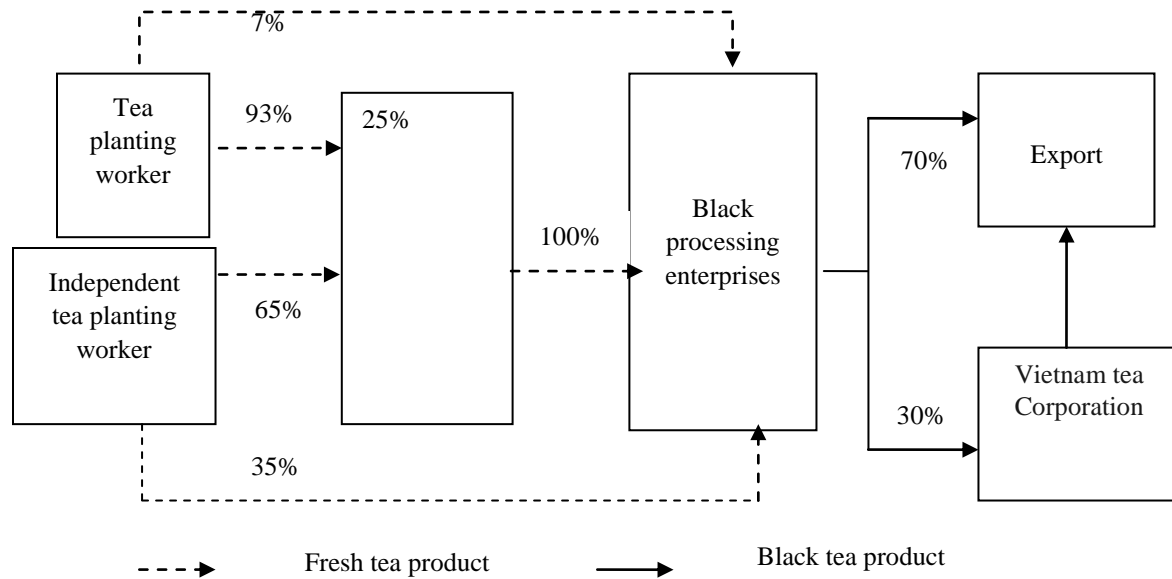
The diagram of the GT value chain for black tea is synthesized as follows:



**Figure 1** The diagram of the GT value chain for black tea

Tea planting for black tea processing has been developed in many localities throughout the country but this research will select research sites in Phu Tho and Lam Dong (more concentrated

in Phu Tho province) to do typical.



**Figure 2** Black tea products chain

**Value chain of the green tea industry**

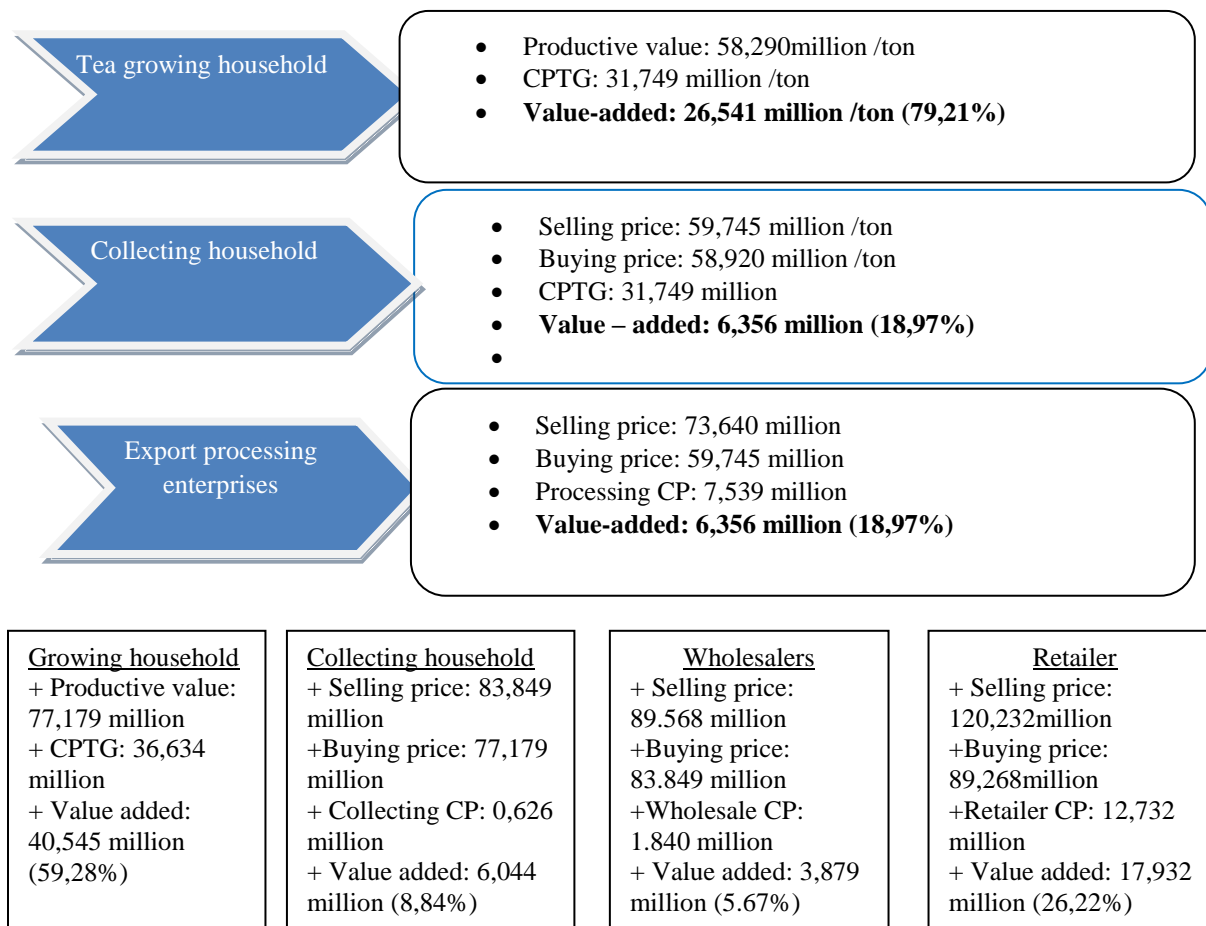
The green tea industry consists of two main value-added chain: (1) Value-added chain of enterprises participate in processing and export, and (2) Value-added chain of the tea industry for free consumption by farmers. wholesale, retail.

1) Value chain of green tea has participation of enterprises

The characteristics of enterprises participate in processing and consumpt green tea in this value chain to be the input tea of these enterprises are dried tea buds which is processed from traditional tea technology of tea farmers in local.

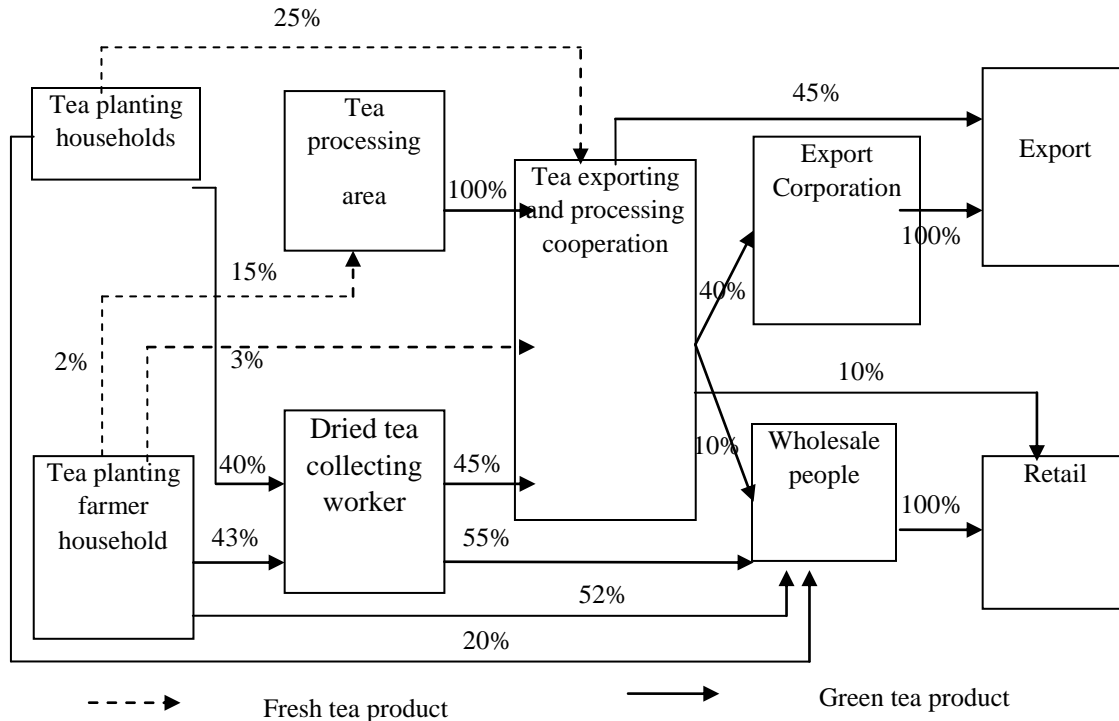
The diagram of the Value -added chain of Thai Nguyen green tea products is as follows:

2) Value chain of consumption tea industry through wholesale and retail



**Figure 3** Value chain of the green tea industry

The value added of this value chain is much higher than the tea value chain which has participation of enterprises. In this chain, the value added is largely made from productive households and teafiring, accounting for nearly 60% of the total value added. This is suitable for this commodity because it is mainly consumed domestically so the requirements are not too strict on quality as well as food safety, design and therefore the large investment with enterprises will not be effective as Household tissue in this segment if only focus on the common green tea products. However, when switching to processing specialty products, targeting high-end markets, it is the enterprises with large investments, modern production lines and clean and safe production processes. take the absolute advantage.



**Figure 4** Green product chain

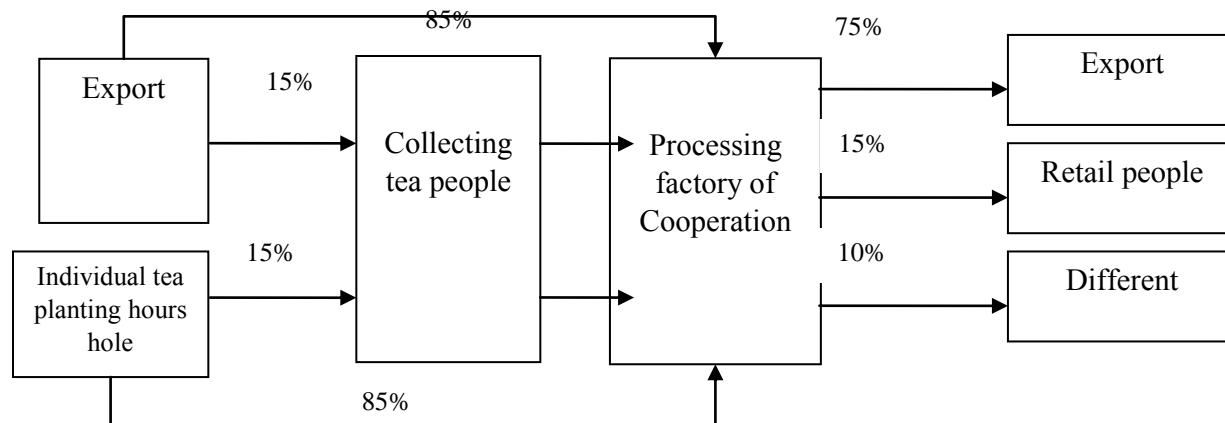
(3) O long tea production organization in Lam Dong province, there is only a few production enterprises, due to the strict requirements of the process from growers to processors and consumers.

The diagram of the added value chain of O Long tea is as follows:

<p>Tea growing house hole                  Productive value:                  25,71million / ton                  Productive CP: 15,43                  million/ton                  Value-added:10,28                  million/ton</p>	<p>Collecting house hole                  Selling price: 30 m/ton                  Buying price:                  25,71m/ton                  Collecting CP: 1,752                  M/ton                  Value-added: 1,698                  m/ton</p>	<p>Export processing enterprises                  Selling price: 72,15m/ton                  Buying price: 30 m/ton                  Productive CP: 6,3 M/ton                  Value-added: 35,850 m/ton</p>
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**Figure 5** The added value chain of O Long tea

According to the above calculation, value added value of the value chain is generated mainly from two stages of tea plantation costing 10.28 million dong / one ton of O Long tea (21.13%) and processing and exporting enterprises tea cost of 35.85 million VND per ton of O Long tea (73.66%). Collection only generated very little VAT-1,698 million / 1 ton of O Long tea (5.21%). In fact, the figures may be higher than the surveyed figures given that the actual prices of the actual products can be higher even at the time of sale, while the counterparties did not declare the prices correctly. of his.



**Figure 6** O long tea chain

Some traders collect low quality tea to export to the small quota to China on the one hand, so that people can take up the tea tree, affect the quality of tea plants on the other hand heavy. Mentioned on the trademark of Vietnam tea. Difficult export, low prices will affect the price of tea and make it difficult to improve the value of enterprises as well as tea growers.

The majority of enterprises do not have the conditions to support or invest in tea material areas, except for a number of former state-owned enterprises, which are heavily invested in tea. Stabilize supply of raw materials both in terms of output and quality. Lack of production and quality of raw materials will undoubtedly reduce the value and thereby reduce the added value of tea products.

## Conclusion

the analysis shows that there is still room for improvement of added value for tea processing enterprises if possible to implement solutions such as the organization of green tea production, high quality, link building Tightly between tea growers and enterprises in order to stabilize supply and demand of tea materials, develop areas of tea raw materials, update processing technology, promote marketing.

Although Vietnam's tea industry in recent years has developed strongly and has achieved many results, it is still necessary to continue to strengthen the reform process vigorously to enhance the value of tea products in general. Policies should focus on addressing a number of key issues, including institutions, investments, credit, planning and capacity building, that can change the entire tea sector.

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