

World Green Tea Conference Shizuoka, Japan

Presentation by
Joseph P. Simrany, President
Tea Association of the USA, Inc.
November 2-4, 2007

Session 1

Session 1
World Green Tea Association

Consumption & Distribution of Green Tea in the USA
November 2-4, 2007

Joseph P. Simrany, President
Tea Association of the USA, Inc.

Title Slide

Before I begin my presentation I would like to extend my gratitude to each of the organizers of the World Green Tea Association for inviting me to this very important meeting. I am honored to have been asked to participate and pleased to share with you some of the very good news that is happening in the United States of America about the increasing popularity of Green Tea.

Slide 2

Green Tea in the United States is rapidly gaining in popularity. It has grown from little more than 3 or 4% of total tea imports as few as 15 years ago to as much as 18 to 20% of total imports today. And this is occurring in a country that historically has favored Black teas by a wide margin.

The most popular beverage in the United States has always been soft drinks in particular colas. Per capita consumption of soft drinks in America is about 60 gallons per person (270 liters). Coffee follows next at 15 gallons or 68 liters and tea falls into about 6th position at only 6 gallons per person or only 27 liters per person per year.

Relative to other countries tea has long been considered underdeveloped in the United States. Green Tea, in particular, has been underappreciated by most consumers. The reason for this lies in the appeal of the more popular beverage options; Soft drinks and coffee for example.

To understand why these two beverages, for example, have become so popular will help us understand what we need to do to capture a larger share of the beverage market for tea. While some of these strategies are already in place there is not necessarily a complete understanding as to why they are working or even that they are in place. Consequently, a review of these strategies and tactics is crucial to a continuation of the progress that has already been made in the United States and the possible extension of those marketing activities to other countries. We will conduct this review in Session 2 but first let's review the current trends for Green Tea in the United States.

Slide 3

At one point in time Green Tea was very popular in the United States. As you can see in the 10 year period from 1910-1919 Green Tea accounted for 42.8 % of all tea consumed. Over the next 3 decades Green Tea fell out of favor in the United States and was solidly replaced by Black Tea. Green It fell to its lowest share position in the 1960's accounting for less than 2% of all tea consumed. Tea climbed back over the next three decades but it still represented only 5 or 6 percent of the total tea consumed in the United States. However, over the last 7 years Green Tea has gained enormous popularity growing to 32 million 618 thousand pounds accounting for nearly 15% of total tea consumption.

Slide 4

Ever since the USA started to concentrate on the health benefits of tea, Green Tea has started to show dramatic real growth (in pounds and kilograms). During the most current period, Green Tea now represents over 17% share of all tea consumed and shows absolutely no sign of slowing up. While it is difficult to accurately track the dollar value of these sales, conservative estimates place it in excess of \$300,000 in 2006 up 50% over the last three years.

Slide 5

The leading importers of Green Tea into the United States are listed on this slide. China is clearly in the lead accounting for almost 65% of all Green Tea imported into the United States. And they are enjoying some serious growth with their total Green Tea imports up 36.4 % over the same period last year.

Japan is a distant second accounting for 4.0% of all Green Tea consumed within the United States but the rate of growth is faster than any of the other Producing

Country suppliers at +39.7%. Of course we must look at any single set of figures with a great deal of caution as anyone who is in the tea business knows of the year to year fluctuations that commonly occur.

It is important to note that several other producing countries have entered into the Green Tea market attracted by the superior growth trends that they have seen. In addition to the countries noted on this slide, Argentina and Indonesia are also producing ever increasing amounts for importation into the USA.

Slide 6

So what is driving Green Tea consumption in the United States? First and foremost, it is the promise of health benefits. Many of the scientific studies conducted over the past two decades have focused on the health benefits of Green Tea. The reason why the scientists have chosen to focus on Green as opposed to other kinds of tea has less to do with the absence of health benefits in other forms of tea as the ease of tracking the healthy components in Green Tea. It is far more difficult to isolate the healthy components (catechins) in Green tea than to track those (flavonoids and thearubigins) in Black Tea.

As a consequence the media has generated far more publicity for Green Tea than for other forms. This has "forced" tea packers and tea retailers to expand distribution and to come out with new varieties in a never ending array of blends and flavor variations including Ready to Drink (RTD) forms.

Also contributing to the popularity of Green Tea is a growing appreciation for Specialty Tea. It is also a theory of mine that it is far easier for consumers to think that something that they have not been commonly consuming is good for them as opposed to believing that something they have always consumed (Black Tea) is good for them.

Distribution has risen to nearly 100% with Green Tea available in most retail outlets, in vending machines, in all tearooms and over the Internet. To appeal to more consumers who are not use to the taste of Green Tea, many new entries have been blended with various fruit juices, herbal ingredients and several new energy blends have also been added.

Slide 7

Sales revenue is up over 1500% for Green Tea over the last ten years from approximately \$200,000 in annual sales to well over \$300,000,000 in annual sales in 2006. This is primarily due to the tremendous amount of publicity that has been generated touting the health benefits of Green Tea.

The Tea Council of the USA just held another Scientific Symposium in Washington DC last month to generate more publicity. That event alone generated over 100,000,000 positive consumer impressions and that number is likely to continue to grow over the coming months.

Slide 8

We observe that Green Tea is experiencing resurgence in popularity driven primarily by the promise of health benefits. Initially, Green Tea was only in limited distribution confined mostly to Asian communities in major metropolitan areas. We also observe that Green Tea met with a considerable amount of consumer resistance despite the promise of health benefits because the taste was very different from the Black Tea that they were used to.

Slide 9

Early resistance to the taste of Green Tea was overcome through educational efforts relative to proper preparation techniques. Most consumers, we found, didn't like the way that Green Tea tasted because they were making it the same way that they made Black Tea with boiling water and with steep times of 3 to 5 minutes. The resulting beverage was quite bitter, cloudy in appearance with many grassy notes. In effect they were making soup as opposed to tea.

Most of the packers corrected this problem by putting detailed preparation guidelines on their packages and, in some cases, learning themselves that the preparation needs were very different for the two types of tea.

Other consumers resisted drinking Green Tea because they felt the flavor profile was too subtle for their taste buds. In many respects they were right because many of these consumers were used to the heavy flavors of Black Tea and even coffee.

To address this concern, many creative packers began to introduce entries that consisted of creative blends of Green Tea mixed with various fruit flavors that appealed to the American palette. Some packers were so successful with this strategy that their Green Tea entries quickly grew in importance relative to their other offerings.

For some packers of Green Tea, the new found popularity of this specialty product allowed them to increase the overall profitability of tea by enabling them to sell this popular product in smaller packaging sizes and at higher price points than they were able to establish for their Black Tea brands.

Over the years, too many packers relied heavily on low prices to attract consumers to tea. This constrained profitability and made it difficult to promote

tea on any other basis than price. Of course this is a vicious cycle that demanded even further price discounts to generate more sales to a point where the category took on a commodity status and consumers viewed it as a staple product that she should keep in the household but it mattered little as to which brand she stocked as they all tended to taste the same anyway. This is a self fulfilling prophecy as the only way that manufacturers could increase their profitability was to reduce their costs which often led to downgrading the quality of the blend.

As Green Tea came onto the scene it allowed the packers to break out of this cycle as it represented something out of the ordinary, something that consumers were willing to pay more money for as it represented a value to them. It was not only a pleasurable beverage to consume but the promise of health benefits was also there.

Slide 10

The prospects for continued growth of Green Tea are excellent. Sales show no sign of slowing down in recent months and in fact appear to be speeding up. True, distribution throughout the United States is nearly at 100% but consumers appear to be drinking increased quantities somewhat to the detriment of Black Tea consumption.

At some point, this will slow down especially as the scientific community and subsequently the media, learns more about the health benefits of Black Tea (which are likely very similar to those contained in Green Tea). However, Green Tea was out their first and the perception that it contains more health benefits than other forms of tea will be extremely hard to change.

Green tea also enjoys other advantages in that it is perceived that the caffeine level of Green Tea is lower than for Black Tea. While this is true if the tea is prepared correctly, with water below the boiling point and steeped for relatively short periods of time, the level of caffeine in the leaf is nearly identical for other kinds of tea grown in the same region. Regardless, it is the perception that is important and that perception will continue to prompt increased sales amongst consumers looking to reduce their ingestion of caffeine.

Given the long term trends at work within the United States it is very likely that Green Tea will enjoy a favorable environment for growth for many years to come.

That is dependent, of course, on the availability of good tasting product being available within the marketplace from quality origins such as Japan.

Slide 11

The reasons for the continued growth and popularity are immediately obvious based on our previous discussion and include:

The growing awareness of the health benefits of tea, especially Green Tea. Nearly every week we learn of a new study that discovers yet another positive health benefit of consuming tea. While most of the studies have focused on the antioxidant content of tea, several have centered on the anti-bacterial aspects of tea, or the ability of tea to improve the immune function, or to increase the metabolic action of the body resulting in weight control. Also the power of tea to contribute to strong bones, control diabetes, increase fertility, protect against the harmful effects of the sun, and the latest research suggests that it may even inhibit the onset of Alzheimer's disease, Parkinson's disease and even Muscular Dystrophy.

Another strong reason for long term optimism is the likelihood that the Tea Association of the USA will be successful in its attempt to win a government sanctioned health claim for tea. We are very close to achieving that goal and it will likely have a dramatic effect on the consumption of tea not only in the United States but throughout the world. Just think of the effect that will have on the price you get for your tea. Soon tea will become a very sought after and valuable commodity. While it will not likely ever be used as a form of currency again, it will steadily increase in value as consumers view it not only as a source of health benefits but as a pleasurable beverage that both relaxes and invigorates.

The aging population base within the United States and in many other parts of the world as well will also contribute to the continued growth of tea. Ironically, as we age we become more aware of our mortality and we start to take actions designed to promote longevity. While we would all be better off if we had adopted those healthy habits at a young age that is simply human nature.

One note of caution here is that we must be careful not to turn tea into a medicine by continuing to emphasize the fact that it tastes good, refreshes, relaxes and quenches our thirst.

The other factors contributing to continuing growth include the ever expanding availability of Green Tea in a wide array of outlets including Tea salons, The Internet, and yes – even in supermarkets.

Also, the ever broadening demographics which include not only traditional (older female) consumers but also an ever increasing number of men and children of all ages is contributing to the continuing popularity.

I am personally proud to report these results to you as I know that Japan produces some of the finest Green Teas in the world. Now if there were only some way to get you to part with more of your finer teas to help introduce a new

breed of American consumers to exactly what premium quality Green Tea is supposed to taste like.

Thank you for your attention and for inviting me here and for allowing me to visit the country that defines what Green Tea is all about. I am truly honored to be invited to contribute to this conference.