

**BUSINESS
CASE
FOR
TEA**



TEA CONNEXIONS

BUSINESS CASE FOR TEA

Tea is Hot! Entrepreneur Magazines' 'The Hot List' named tea as one of the hottest trends and business ideas for 2006

The U.S. Tea Market is a rapidly growing industry with 2005 sales estimated at \$6 billion and forecasted to reach \$10 billion in 2010

-Tea is 'Hot Report', 5th Edition, Sage Group International

Sales of specialty tea are forecasted to top \$1.2 billion in 2006

-Tea is 'Hot Report', 5th Edition, Sage Group International

Specialty tea will represent the fastest growing segment of the tea industry over the next decade.

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

The specialty tea market is growing, and will have a lasting financial impact on entrepreneurs that get involved. Timing is essential. With any upward trend, the first to get involved profit the most.

-Sanjay Gupta, Founder, President/CEO, Tea Connexions

- On average, approximately 519 million pounds of tea are imported into the United States each year.
- Americans consume about 1.42 million pounds of tea each day.
- In North America five out of six North Americans drink tea consuming about one cup of tea per day.
- The average North American consumes 1.76 pounds of tea each year.
- American tea industry wholesale purchases increased more than 100% in the past ten years.

You should start a tea business because the market for tea is growing. This is a fact. The information used to cite this information has been derived from the following credible third party sources: Sage Group, Tea Council of Canada, Tea Council of USA, Tea Council of UK, US and Canadian Trade Statistics.

A. The Sales Potential of Specialty Teas

The market for specialty teas is growing and will eventually dominate tea sales.

By 2010, it is projected that ***specialty estate, specialty flavored, green, oolong, organic, and herbal tea*** will account for 75% of the tea market share.

The statistics below demonstrate the sales growth potential of specialty estate, specialty flavored, and green teas. These categories of tea are identified as the fastest growing segment of the specialty tea industry, and projected to be the most profitable.

Specialty Estate Teas

Definition: Higher quality long leaf teas with limited annual production, harvested using orthodox methods. Commonly unflavored black, green, oolong and white teas, from smaller tea producing regions or estates. Also referred to as "premium" tea.

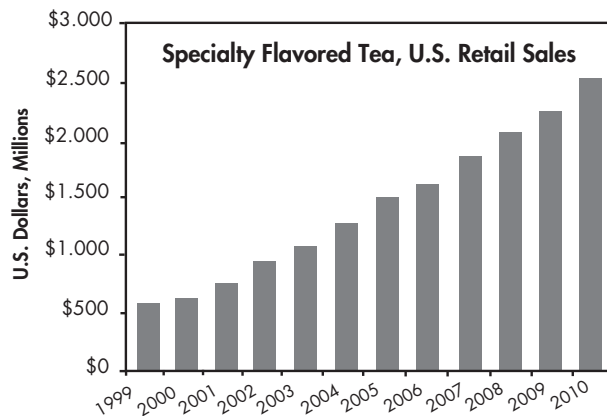




“These higher grades of unflavored/unscented estate teas will have sharp price increases as demand grows and supplies remain static. While there will be superb growth opportunities for orthodox tea estates started to support 21st century market conditions, there will be a gap between 2004 - 2010 as millions of tea aficionados demand premium tea grades and supplies are tight.” (US Tea is “Hot”)

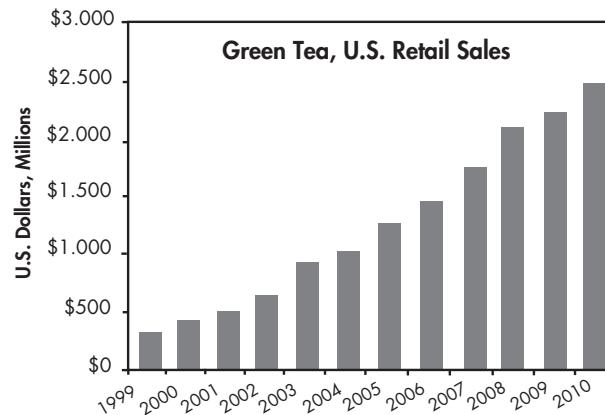
Specialty Flavored Tea

Definition: Commonly black, green, oolong and white teas, flavored using spices, flowers and herbs. Sales of Specialty Flavored tea in the United States was \$565 million in 1999. The market has since grown to an estimated \$1.04 billion in 2003, and anticipated to reach \$2.56 billion by 2010. Historical and future expected growth rates of Specialty Flavored tea sales ranges from 10%-20% per year. The Sage Group believes the Specialty Flavored tea sector represents the “hottest” business opportunity among all segments of the tea industry.



Green Tea

Definition: Any variety of *Camellia sinensis* that undergoes a multi-step process of pan-firing (or steaming), rolling and drying after harvesting. Little oxidization occurs with green tea, leaving most of the healthy polyphenols intact. The Green tea market has grown at a rate of 28%-35% over the past couple of years, and is expected to experience continued growth between 14%-28% per year for the next decade. Sales of green tea in the United States were \$298 million in 1999, grown to an estimated \$836.7 million in 2003, and predicted go grow to \$2.48 billion by 2010. Part of this growth is attributed to the consistent media coverage on the health promoting properties of green tea.



"We believe affirmatively that green tea will eventually outsell black tea in all forms and types in the U.S.A. with the exception of food service iced tea." (U.S. Tea is "Hot")

B. What Industry Insiders Are Saying About This Growth Potential

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

Ten years ago, no one would have dreamed that consumers would pay \$4.00 for a cup of specialty coffee. Today, specialty coffee counts for a third of total coffee sales and an even larger percentage of the profits. According to Simrany the trend to specialty tea is following on the heels of a similar expansion in the coffee industry. Simrany believes that specialty tea will represent the fastest growing segment of the tea industry over the next decade. According to him this segment has the capability of doubling its volume over the next five years and might grow at an even faster pace.

Sage Group International LLC, Publishers of the US Tea is "Hot" Report

According to Sage a glut of lower grade commercial grade tea is being overshadowed by increased demand for higher-end specialty teas. In Sages view, the greatest contributing factor to the tea industry's growth has been news coverage of tea's health benefits. Baby boomers are the most receptive group to specialty teas. According to Sage, "for many of these two-income, stressed out families, tea represents more than a commodity beverage; it is an affordable way to relax and revitalize while learning about other cultures." Sage researchers believe that "millions of American households will shift to tea as their preferred daily beverage choice during the next three years."

Bill Waddington, Owner of Tea Source

Waddington believes that Americans are susceptible to food trends. He believes the wave towards tea "will have a longer-lasting impact (than coffee or cigars) because it is the only one that is good for you-it is the only truly luxury gourmet food in the world that has lasting effects on the health of the consumer and that is also of remarkable value."

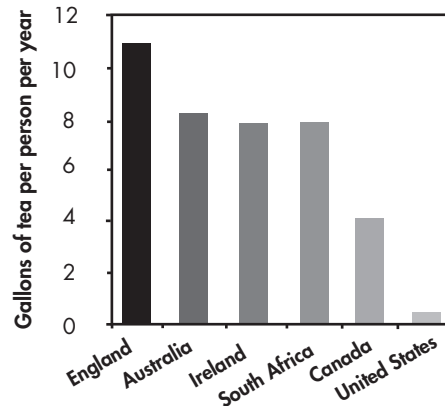


C. Six Reasons Specialty Tea Demand Is Growing

1) World Demand for Tea

Tea is the second-most widely consumed beverage in the world, next only to water. The average consumer in England drinks over 10x the quantity of tea in a year than the average American. Rapid growth in the U.S. tea industry is partially a result of the Americans playing catch-up with the rest of the world in terms of per-capita tea consumption.

Yearly Per Capita Tea Consumption



2) Consumer Preferences

With the rapid growth in the specialty tea industry, consumers are becoming more knowledgeable about quality and grades of tea. A growing number of tea connoisseurs are emerging, with tastes that are sophisticated and refined. They are seeking the highest quality rare and exotic teas, organic growing conditions, and other specialized qualities. This group can be compared to wine connoisseurs in that they are willing to pay top dollar for their teas of preference.

“U.S. specialty wine and coffee consumer profiles are similar to that of the specialty tea aficionado. One must only look at the growth of the specialty wine and coffee businesses (shops and brands) over the last thirty years across America to consider the possibility that specialty tea has more than a remote chance of becoming intrinsic to mainstream population groups. The twenty first century specialty tea consumer is searching for definable, superior quality – peak flavor, leaf purity, pinnacle freshness – and connoisseur level knowledge from retailers.” (U.S. Tea is “Hot”)

3) Scientifically Proven Health Benefits

Not only is tea soothing and delicious, but it is healthy too. In fact, the American Health Foundation recommends we consume 5 - 6 cups daily. According to the U.S. Department of Agriculture, green tea exhibits more powerful anti-oxidant bio-activity than the 22 fruits and vegetables that it was tested against. Some studies indicate that green tea is as much as 50x more potent than Vitamin E as an antioxidant. Tea contains 1/3 less caffeine than coffee or cola, helps reduce fatigue, maintain mental alertness, stabilizes fluid levels, and is fat free and calorie free.

The antioxidants in tea help prevent cancers of the mouth, stomach, pancreas, lungs, esophagus, colon, breast and prostate. Tea's flavanoids prevent heart disease by reducing blood clotting, lowering blood pressure and lowering cholesterol.



A study conducted by Harvard University researchers found that those who consumed one or more cups of black tea per day had more than a 40 percent lower risk of having a heart attack compared to non-tea drinkers. Tea is a rare source of natural fluoride which inhibits growth of the oral bacteria and enzymes responsible for dental plaque. Tea is also a rich source of manganese, necessary for healthy bones, and of potassium which regulates the heartbeat. Other valuable vitamins and minerals found in tea include vitamins B1, B2, B6, folic acid, and calcium.

4) Powerful Demographic Trends

Over 76 million U.S. baby boomers are looking for products that will help them live longer and feel healthier. There are many reasons why baby boomers are the most receptive group to specialty teas. According to Sage, "for many of these two income, stressed out families, tea represents more than a commodity beverage; it is an affordable way to relax and revitalize while learning about other cultures. Millions of American households will shift to tea as their preferred daily beverage choice during the next three years."

In the U.S, the 50+ age group numbers 76 million and growing. Every eight seconds another person turns 50. This makes mature consumers the fastest growing segment of the population. By 2010 the 50+ segment in the US will grow by 21 million while the 18-34 age segment will grow by just five million. The mature market is sophisticated and has unprecedented buying power. The number of baby boomers and seniors on the Internet grew by 18.4% in 2001, making them the fastest growing Internet population. The spending habits of older Americans make them one of the most desired markets in the world today. (Excerpt from "Baby Boomers"; Euromonitor International, June 2003)

5) A New Generation of Tea Drinkers

Owners of coffee shops are reporting that younger customers are consuming chai latte in record numbers. In some shops, chai latte sales account for up to 30% of hot beverage revenues. Many coffee shop operators report that chai tea has strong acceptance in college and university towns, because younger consumers are always more open to new products.

Chai is a newer drink with an element of hand-preparedness that puts it on the same level as espresso and latte. Chai is a gourmet beverage with a new kind of pizzazz. **The growing popularity of chai among younger people will build a natural market for other specialty teas among this market segment.** With tea's numerous flavors, colors and aromas, hot beverages can be created with much more "personality" than coffee, which will attract even greater attention from young tea drinkers.

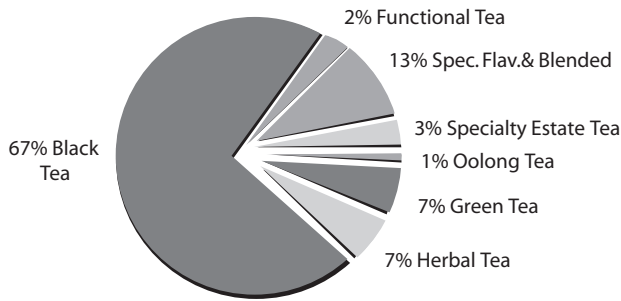
Further, Generation "X" consumers are more likely to choose healthy alternatives than were their parents. For example, the rate of young cigarette smokers was much higher 20 years ago than it is today. **Young people are making healthier lifestyle choices, and the health benefits of tea will make it a natural preference over coffee for this younger group over the coming decades.**



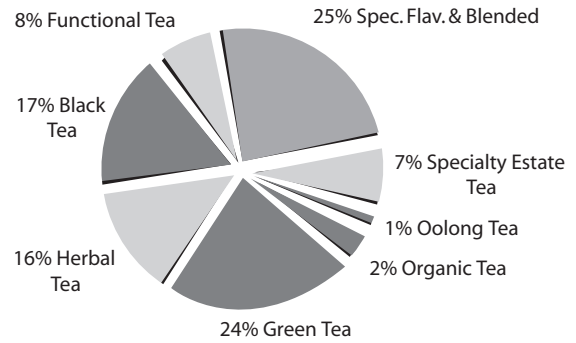
6) Change in U.S. Tea Industry Composition

Coffee and black teas are predicted to lose market share to the specialty tea sector because of the substitution effect. In 1999, Black tea held the highest market share among tea groups at 67%. All others combined accounted for the other 33% as shown on the pie chart. By 2010 it is expected that the tea industry will have shifted as illustrated on the accompanying pie chart. This type of change is known as industry cannibalization, and what it means is a significant opportunity for Members of the Tea Connexions Buying Group.

Tea Market Composition in 1999



Tea Market Composition in 2010



Bottom line, the specialty tea market is growing, and will have a lasting financial impact on entrepreneurs that get involved. Timing is essential. With any upward trend, the first to get involved profit the most.

