

Pricing Strategy of Indian Tea Exports: Unit Price & Key Indicators

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Abstract

This study investigates the pricing strategy of Indian tea exports by examining the relationship between the unit price of exports and key indicators. The key indicators considered in this analysis include the month of export, production volume, export value, export quantity, auction price of Indian tea, exchange rate, lending rate, and the Consumer Price Index (CPI) for the combined Food and Beverages category. The objective of this study is to understand how these indicators influence the pricing decisions of Indian tea exporters and their impact on the export unit price. By analyzing this relationship, the study aims to provide valuable insights into the pricing dynamics of Indian tea exports, facilitating informed decision-making for exporters and policymakers in the tea industry.

Keywords: Pricing strategy, Indian tea export, Unit price, Pricing strategy, Pricing dynamics, Market dynamics, Export Competitiveness, Key indicators, Price determination, Pricing decision-making

Introduction

India, with its long and illustrious history of tea cultivation, holds a prominent position in the global tea industry. Renowned for producing some of the finest teas, Indian tea has gained increasing popularity in the international market. The country's tea exports contribute significantly to its economy, generating billions of dollars in revenue annually. Indian tea enjoys a strong reputation in the international market, driven by its high-quality production and diverse flavors. As consumers worldwide develop a greater appreciation for the health benefits and unique characteristics of Indian tea, the demand for it continues to grow. The export price of Indian tea in the international market is subject to various factors. The quality of the tea itself plays a significant

role in determining its price. Additionally, factors such as global supply and demand dynamics, exchange rates, and transaction policies of importing countries contribute to price variations.

The export price of Indian tea is influenced by global market trends and shifts in supply and demand. While many Indian tea manufacturers consider auction prices as a benchmark for setting their product prices, a considerable percentage (46%) choose to bypass the auction market to secure higher prices. There is significant relationship between auction prices and the export pricing of Indian tea. While many manufacturers rely on auction prices as a benchmark, a considerable percentage choose to bypass auctions due to various challenges. This highlights the importance of considering auction prices and exploring alternative pricing strategies to optimize the export pricing of Indian tea.(Das, n.d.)

To support the tea industry, the Indian government has implemented initiatives like the Tea Development and Promotion Scheme. This scheme aims to enhance the productivity and quality of Indian tea, ensuring its competitiveness in the international market. The Tea Board of India serves as a regulatory and promotional body, working to strengthen the Indian tea industry. The export price of Indian tea in the international market reflects its exceptional quality, diverse flavors, and the interplay of various global factors. Despite occasional fluctuations, the Indian government's initiatives and regulatory efforts continue to bolster the industry, ensuring that Indian tea maintains its position as a sought-after choice among tea enthusiasts worldwide.

The pricing strategy is crucial for determining the export price of Indian tea in the international market, as it is significantly influenced by global market trends and shifts in supply and demand, as it directly impacts the competitiveness and profitability of tea exports in the global market. Understanding the relationship between the unit price of exports and key indicators is vital for formulating effective pricing strategies. This study focuses on exploring the pricing strategy of Indian tea exports by examining the unit price and key indicators. The key indicators considered include the month of export, production volume, export value, export quantity, auction price of Indian tea, exchange rate, lending rate, and the Consumer Price Index (CPI) for the combined Food and Beverages category. By analyzing the relationship between these key indicators and the unit price of Indian tea exports, this study aims to provide valuable insights into the factors that

influence the pricing decisions of Indian tea exporters. The findings of this study will help exporters, policymakers, and industry stakeholders in optimizing their pricing strategies, enhancing export competitiveness, and navigating the dynamic global tea market.

Statement of the Problem

The pricing strategy plays a vital role in the export of Indian tea, as it directly affects the competitiveness and profitability of tea exports in the international market. However, there is a need to explore and understand the relationship between the unit price of Indian tea exports and key indicators such as the month of export, production volume, export value, export quantity, auction price for Indian tea, exchange rate, lending rate, and the Consumer Price Index (CPI) for the combined Food and Beverages category. The problem at hand is to examine how these key indicators influence the pricing strategy of Indian tea exports and their impact on the export unit price. By addressing this problem, the study aims to provide valuable insights into the factors that shape the pricing decisions of Indian tea exporters and enable them to optimize their pricing strategies for improved competitiveness in the international tea market. Factors such as the formation of the WTO, multilateral and bilateral trade agreements, environmental and labor standards, and exchange rate fluctuations have influenced the export competitiveness of Indian tea. The role of commodity boards has shifted from marketing to facilitating grade and price stabilization schemes. The impact of new market exchange and coordination structures, concentration in the branded tea manufacturing sector, and changing product mix. (Sarkar, 2014)

Objectives

- Identify the key indicators influencing the export pricing strategy of Indian tea
- Assess the cause-and-effect relationship between export unit price and the identified key indicators

Research Methodology

This empirical study utilizes secondary data from Tea Board of India and trade statistics of EXIM Bank, RBI, journal and other reports to analyze production, export quantity, export value, and

average price data of Indian tea from 2015 to 2021. Regression analysis is used in the study of to provide valuable insights into the relationship between the variables and the export unit price of Indian tea. It helps to identify the significance and direction of the relationship, whether positive or negative, between the export unit price and each of the key indicators. Therefore, the Hypothesis for the study includes the following:

- There is no significant difference between Month and Export Price
- There is no significant difference between Production and Export Price
- There is no significant difference between Export quantity and Export Price
- There is no significant difference between the Auction price and the Export Price
- There is no significant difference between the Exchange rate and the Export Price
- There is no significant difference between the Weighted Average Lending Rate and Export Price
- There is no significant difference between CPI Combined (Food & Beverages) and Export Price

Analysis & Interpretation: Regression analysis provides a quantitative approach to understanding the relationship between the export unit price and the key indicators, allowing for data-driven insights and informed decision-making regarding pricing strategies.

Regression Analysis -Dependant Variable: Export Unit Price

Independent Variables	R Value	F	df1	df2	Sig.	Constant	b1	H0 & H1
Month	.64	130.23	1	73	.00	-484.27	3.69	H0 rejected
Production	.07	5.70	1	73	.02	20.01	0.01	H0 rejected
Export Qty	.00	.020	1	73	.89	21.03	0.01	H0 Not rejected & H1 not accepted
Auction Price	.51	76.30	1	73	.00	12.54	0.06	H0 rejected
Exchange rate	.62	102.31	1	64	.00	-15.14	0.53	H0 rejected
Lending Rate	.65	136.33	1	73	.00	48.16	-2.60	H0 rejected
Inflation	.71	176.73	1	73	.00	-6.88	0.20	H0 rejected

The regression analysis reveals the following interpretations for the variables in relation to the dependent variable (Export Unit Price): The month variable shows a strong positive relationship ($R = 0.64$) with the export unit price. The p-value is less than 0.05, indicating a

statistically significant relationship. Therefore, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a). This suggests that the month plays a significant role in determining the export unit price of Indian tea in the international market. The production variable has a weak positive relationship ($R = 0.07$) with the export unit price. The p-value is less than 0.05, indicating a statistically significant relationship. Thus, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a). This implies that production may have some impact on the export unit price, although the correlation is weak., there are various endogenous variables like price and production that could be linked to exogenous variables such as biophysical factors (e.g., rainfall, temperature, and relative humidity) in determining tea prices. Analyzing the regularities in observational data can provide insights into the theoretical relationships between these variables. (Gunathilaka & Tularam, 2016) The export quantity variable shows a very weak relationship ($R = 0.00$) with the export unit price. The p-value is greater than 0.05, indicating no statistically significant relationship. Therefore, we fail to reject the null hypothesis (H_0) and do not accept the alternative hypothesis (H_a). This suggests that export quantity may not play a significant role in determining the export unit price of Indian tea. The auction price variable exhibits a moderate positive relationship ($R = 0.51$) with the export unit price. The p-value is less than 0.05, indicating a statistically significant relationship. Hence, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a). This indicates that auction price plays a significant role in determining the export unit price of Indian tea in the international market. The exchange rate variable shows a strong positive relationship ($R = 0.62$) with the export unit price. The p-value is less than 0.05, indicating a statistically significant relationship. Therefore, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a). This suggests that the exchange rate has a significant impact on the export unit price of Indian tea. The lending rate variable displays a strong positive relationship ($R = 0.65$) with the export unit price. The p-value is less than 0.05, indicating a statistically significant relationship. Hence, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a). This implies that the lending rate plays a significant role in determining the export unit price of Indian tea. The inflation variable exhibits a strong positive relationship ($R = 0.71$) with the export unit price. The p-value is less than 0.05, indicating a statistically significant relationship. Therefore, we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a). This indicates that inflation (CPI Combined) plays a significant role

in determining the export unit price of Indian tea. The analysis suggests that variables such as the month, production, auction price, exchange rate, lending rate, and inflation significantly affect the export unit price of Indian tea in the international market.

Findings

Based on the interpretation of the regression analysis, the findings suggest a cause-and-effect relationship between the export unit price of Indian tea and the identified key indicators.

- The month variable shows a strong positive relationship with the export unit price. This implies that specific months have a significant impact on the price fluctuations of Indian tea in the international market. Exporters should analyze the seasonal patterns and adjust their pricing strategies accordingly.
- While the correlation between production and export unit price is weak, it still has a statistically significant relationship. This suggests that variations in production levels may have some influence on the export unit price. Exporters should consider production trends when setting prices for their tea products.
- The analysis indicates a very weak relationship between export quantity and export unit price. This suggests that export quantity may not play a significant role in determining the export unit price of Indian tea. Other factors such as market demand and quality of tea may have a stronger influence on pricing decisions.
- The auction price variable exhibits a moderate positive relationship with the export unit price. Exporters should closely monitor auction prices and adjust their pricing strategies accordingly. Fluctuations in auction prices can directly impact the export unit price of Indian tea.
- The exchange rate shows a strong positive relationship with the export unit price. Exporters should consider currency exchange fluctuations when determining their pricing strategies. Changes in the exchange rate can significantly affect the competitiveness of Indian tea in the international market.

- The lending rate variable displays a strong positive relationship with the export unit price. Exporters should pay attention to lending rate fluctuations as they can impact the cost of production and ultimately influence the pricing decisions for Indian tea.
- The analysis suggests that inflation, measured by CPI Combined, plays a significant role in determining the export unit price of Indian tea. Exporters should consider the inflationary environment when setting prices to ensure they cover costs and maintain profitability.

Overall, the findings indicate that the identified key indicators, including the month, production, auction price, exchange rate, lending rate, and inflation, have a significant impact on the export unit price of Indian tea. Assessing and understanding these cause-and-effect relationships can help exporters make informed pricing decisions and stay competitive in the international tea market.

Suggestions & Conclusion

Based on the regression analysis and its interpretations, some suggestions can be made for exporters of Indian tea in relation to pricing strategies and further scope for study:

1. **Pricing Strategy:** Exporters should consider the month of export as a crucial factor when determining pricing strategies. By recognizing the seasonal patterns and trends in price fluctuations, exporters can optimize their pricing decisions accordingly.
2. **Production Considerations:** While the correlation between production and export unit price is weak, exporters should still take production levels into account. Understanding how production variations may impact prices can help exporters make informed decisions about pricing and supply.
3. **Other Influential Factors:** The study suggests that factors beyond production quantity and export quantity, such as market demand, tea quality, competition, trade policies, and economic conditions, may significantly influence the export unit price. Future research could delve deeper into analyzing these factors and their effects on pricing strategies.

4. **Auction Price Importance:** The analysis highlights the significance of auction prices in determining the export unit price of Indian tea. Exporters should closely monitor and consider fluctuations in auction prices when formulating their pricing strategies.
5. **Exchange Rate and Lending Rate Considerations:** The study reveals that both exchange rates and lending rates have a strong impact on the export unit price. Exporters should factor in currency exchange fluctuations and lending rate changes to adapt their pricing strategies accordingly.
6. **Inflation Impact:** The findings emphasize the role of inflation (CPI Combined) in determining the export unit price. Understanding how inflation affects pricing decisions can help exporters mitigate risks and make informed choices.

In conclusion, the study suggests that Indian tea exporters should consider the month, production, auction price, exchange rate, lending rate, and inflation when formulating pricing strategies. Incorporating these variables into decision-making processes can help optimize pricing and enhance competitiveness. Further research can explore additional factors and variables to deepen the understanding of pricing dynamics and provide more comprehensive guidelines for tea exporters.

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