

### **Hayleys PLC (B4):**

### **Mabroc Kelani Valley Teas: Creating “The World’s Ethical Tea Brand”**

06/2009-5601

This case was written by Mark Hunter, Adjunct Professor, and Luk Van Wassenhove, Professor of Operations Management, the Henry Ford Chaired Professor of Manufacturing, and Academic Director of INSEAD Social Innovation Centre. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Opinions, facts and commentary not attributed to Hayleys PLC or its employees are the sole responsibility of the authors.

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According to Kavi Seneviratne, management of Kelani Valley Plantations PLC (KVPL) believed that “the full value of Ceylon tea has not been captured.” They also believed that to support their sustainability strategy, they would have to get more value to support these initiatives (See Exhibit 1 for selected financial data on KVPL).

Inasmuch as Ceylon tea was already selling at a minimum 30% premium over tea from other producing countries<sup>1</sup> at commodity auctions, greater value could not be captured at the commodity level. Therefore a premium brand and control of the value chain from plantation to export markets was required. That insight led KVPL to establish a strategic alliance with Mabroc Teas, a Sri Lankan branded tea exporter, through the acquisition of a substantial equity interest. Seneviratne commented: “It would have taken us a long period to develop what Mabroc were doing.” The joint KVPL/Mabroc Teas team engaged Ravi Fernando, Director of Corporate Branding and Strategic Sustainability for the Sri Lankan multinational MAS Holdings, as a consultant.

Fernando proposed two key ideas. The first came from comparing teas to wines: “You don’t blend wines from two different countries. But that’s what multinationals were doing with teas, making blends focused on price. I said, ‘Let’s do the opposite, and sell ‘single garden’ teas,’ from a unique origin.” The second concept, he said, was to use the brand as a platform to position it as “the world’s ethical tea brand”.

The initial response at KVPL, recalled Fernando, was that Unilever, whose Lipton tea brand was the world’s largest seller, would bury the new brand. Their concern was reasonable – Lipton had begun sustainable agricultural and social practices on plantations in Kenya as early as 1997.<sup>2</sup> However, Fernando argued that KVPL could apply far higher standards to its product on certain points than any multinational could attain: “They source from thousands of suppliers. They can never have the control [over practices and products] that we can. None of them can take this position away from us.”

## Defining Purity

The starting point would be purity – including the environment where the product was grown and the product itself. Seneviratne elaborated: “We give the guarantee of purity from the time you pluck the leaf, to the factory floor, till it goes to the exporter.” The “single garden” concept of teas grown on only one plantation, unlike the blends sold by global brands, reinforced the image of purity. It also drew attention to the unique flavour attributes of teas from specific estates, not unlike the differences among wines grown on different soils and at different altitudes.

To turn purity into the foundation for an international brand, KVPL sought international certification of its environmental practices. KVPL’s food manufacturing systems were certified ISO 22000:2005. Land management practices for 13 different estates and food quality procedures at the firm’s tea processing centre were certified by SGS, a private organisation based in Switzerland that calls itself “the world’s leading inspection, verification,

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1 In 2008, the average auction price in Colombo was US\$3.06/kg; the nearest competitor on the world market sold for US\$2.33/kg. Source: Sri Lanka Tea Board, Ministry of Plantation Industries, presentation in Colombo, October 20, 2008.

2 See [http://www.ecoagriculture.org/case\\_study.php?id=39](http://www.ecoagriculture.org/case_study.php?id=39) for a case study of Unilever in Kenya.

testing and certification company.”<sup>3</sup> KVPL also obtained Hazard Analysis and Critical Control Points (HACCP) certification, which accredits systems that focus on preventing physical, chemical and biological hazards rather than on finished product inspections. HACCP certification is mandatory for a range of food products in the US but is not required for tea. GLOBALGAP, “a private sector body that sets voluntary standards for the certification of agricultural products around the globe,”<sup>4</sup> certified that KVPL followed practices designed to reduce environmental impacts and took “a responsible approach to worker health and safety.” (For a summary of the positioning strategy, see Exhibit 2).

## Checking Compliance with International Ethical Standards

KVPL’s General Manager for Business Development, Suteash Balasubramaniam, and Fernando focused on the ten principles of the United Nations Global Compact as the basis for the new brand’s ethical platform. The Compact encourages businesses to voluntarily align policies and practices with the ten “universally accepted principles.” (See Exhibit 3). Although the principles had not yet been formally endorsed by KVPL, the company consciously practised at least some of its elements, like the right of workers or suppliers to collective bargaining and no bribe-paying. Fernando believed that “very few tea companies could come after us” to compete on these grounds. Balasubramaniam added: “We wanted to be sure we could comply.”

Executives contacted all estate managers to ask if they could endorse the principles. (For an overview of the extent, population and production of the estates, see Exhibit 4). Previous experience had shown that if plantation managers lost interest in a programme it would fail. Seneviratne observed: “If you are not committed, outside people can give the money but nothing rolls. A workshop brought together the estate managers to discuss the Global Compact, during which Balasubramaniam said: “They realised we were complying.” Other workshops began to identify best practices. Seneviratne recalled:

*“We had six or eight workshops, got everyone to come up and say what they were doing, then the group picked the best. Then we had small workgroups and picked the common themes and got structured by drivers. So a lot of managers and executives had ownership because key ideas and initiatives were theirs.”*

## Attending to the Needs of Families

KVPL had been seeking to meet a broad range of workers’ needs in ways that made them more productive as well as loyal. Healthcare was a key focus, partly because women represented 55% of KVPL’s workers, and “If the child is sick, the mother won’t come to work,” explained a manager. The firm invested in upgrading existing dispensaries and training staff to professional levels, while inviting workers to join committees to manage the

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3 See [http://www.sgs.com/clients/certified\\_clients.htm](http://www.sgs.com/clients/certified_clients.htm).

4 The organisation declares: “GLOBALGAP serves as a practical manual for Good Agricultural Practice (G.A.P.) anywhere in the world. The basis is an equal partnership of agricultural producers and retailers who wish to establish efficient certification standards and procedures.”

facilities.<sup>5</sup> Compared to colonial-era facilities, the results were dramatic. On the Pedro Estates, staff tracked the health signs of 1,380 workers and 5,764 dependents on a near-daily basis. They had reduced infant mortality nearly to zero by moving home births into the clinic, with backup from the national health service. The firm also partnered with the International Resources for the Improvement of Sight (IRIS) foundation to train 254 managers and staff in screening techniques for eye disease – mainly cataracts – a common problem among older and retired plantation workers. IRIS subsidised the surgeries,<sup>6</sup> of which there were 327 in 2007.<sup>7</sup>



Women harvesting tea  
Photo: Mark Hunter

### **Building “A Home for Every Plantation Worker”**

Meanwhile, KVPL revamped and revitalised a programme that since 1992 had sought to upgrade the quality of life for plantation workers, in particular by improving their living quarters. In 2007, on the advice of Fernando, the programme was given a new name that was also a key commitment: “A Home for Every Plantation Worker.” Seneviratne explained:

*“Home ownership is very important in this culture. In the barracks, the whole family lives in two rooms. If you talk loudly, the neighbours can hear, and if the neighbour isn’t clean, it’s your problem. If you have ownership, the mentality changes – saving, living a better life, upgrading yourself. Their basic needs are looked after better and their social status goes up.”*

To build homes, workers were given a loan and land grant from the state, facilitated by the company and repaid from wages. Legal ownership of the land would pass to the homeowner

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5 Health Centre director, Pradeep K. Pendera, and public health midwife, D.P.D. Pathmakanthi, were the key personnel. Both were sent for masters-level public health training in Colombo with support from the state and Kelani Valley Plantations in 2004. On a recent visit, their clinic was visibly well-organised (including thousands of detailed patient records), well-equipped (including adequate facilities for childbirth and certain surgeries) and clean.

6 See [http://irisasia.org/sri\\_intro.htm](http://irisasia.org/sri_intro.htm) for a description of the programmes. IRIS reported spending US\$369,000 on its Sri Lanka programmes in 2008 and US\$335,000 in 2007; it did not specify what share of those funds was spent on the partnership with DPL.

7 Kelani Valley Plantations PLC, Annual Report 2007, p. 11

after 15 years of residency. In 2007, no fewer than 858 land grants were approved, 14% of the total since the programme began.<sup>8</sup>

## Partnering with the UN

Ravi Fernando now approached the United Nations with a proposal for conveying the Global Compact to all customers of Mabroc Kelani Valley teas by putting a leaflet inside each packet and using the programme's logo on the outside. The leaflet would include the ten Global Compact principles, the product's pledge of purity, and information on the "A Home for Every Plantation Worker" programme (See Exhibit 5). A share of revenues from tea sales would be pledged to the programme.

The UN accepted. Tanky Wickremeratne, Chairman of Hayleys PLC, Bandula Jayasekera, Executive Chairman of Mabroc Teas, and Ravi Fernando were invited to New York on March 19, 2007 to launch Mabroc Kelani Valley Plantations' "Ethical Tea Brand of the World". Georg Kell, Executive Director of the Global Compact Office, called KVPL's campaign "of global significance," adding that it "breaks new ground for us in many different ways. It is social marketing and ethical marketing, but combined with implementation." Subsequently, KVPL set up a centre at Pedro Estate where visitors could review its environmental and social initiatives and sample six different single garden teas. The centre was named after one of those teas: "The Lovers Leap Ethical Tea Boutique".

Lipton was moving in a similar direction. Its parent company, Unilever, declared in 2007:

*"Integrating social, economic and environmental considerations sits at the heart of many of our brand strategies. A great demonstration of this was the decision to source all of our teas from sustainable, ethical sources. To support this significant change, we asked the Rainforest Alliance [a prominent non-governmental organisation] to start auditing our tea suppliers to have all [Lipton brands] sold in Western Europe certified by 2010 and all Lipton tea bags sold globally by 2015."*<sup>9</sup>

Fernando believed that KVPL should not change its strategy because of Lipton:

*"Using channels directly via internet to consumers,<sup>10</sup> trade fairs, talking to the media and NGOs, you have people putting your message across. In the Czech Republic, Tesco took our stuff. They'd been following our press conferences and the media. Some other chains are changing their practices to get socially responsible suppliers, guaranteeing purity. Some of them may join their strategy with ours."*

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8 Kelani Valley Plantations PLC, Annual Report 2007, p. 11.

9 Unilever Annual Review 2007, p. 14.

10 See <http://www.ethicaltea.org/>. Among other features, the site offers visitors the opportunity to contribute to the "A Home for Every Plantation Worker" project by sponsoring a house.

**Exhibit 1**  
*Selected Financial Data for KPVL*

**Table 1: Summary of results, 2008 (in Rs. Thousands)**

Turnover	3,108,571
Profit before tax	300,276
Market cap.	1,615,000
Production/tea, 000s kg	6,752
Production/rubber, 000s kg	4,116
Turnover/tea	1,966
Turnover/rubber	1,091
Gross Profit/tea	89
Gross Profit/rubber	349
ROCE	11,2 %

**Table 2: Turnover and profit after tax (in Rs. Millions)**

Year	Turnover	Profit After Tax
2004	1 740	201
2005	1 918	152
2006	2 330	256
2007	2 828	410
2008	3 109	279

**Exhibit 2**  
*The Mabroc Kelani Valley Ethical Tea Positioning Strategy*



**Exhibit 3**  
*The Global Compact's Ten Principles*

**Human Rights:**

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: Make sure that they are not complicit in human rights abuses.

**Labour Standards:**

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: The elimination of all forms of forced and compulsory labour;
- Principle 5: The effective abolition of child labour; and
- Principle 6: The elimination of discrimination in respect of employment and occupation.

**Environment:**

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: Undertake initiatives to promote greater environmental responsibility; and
- Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

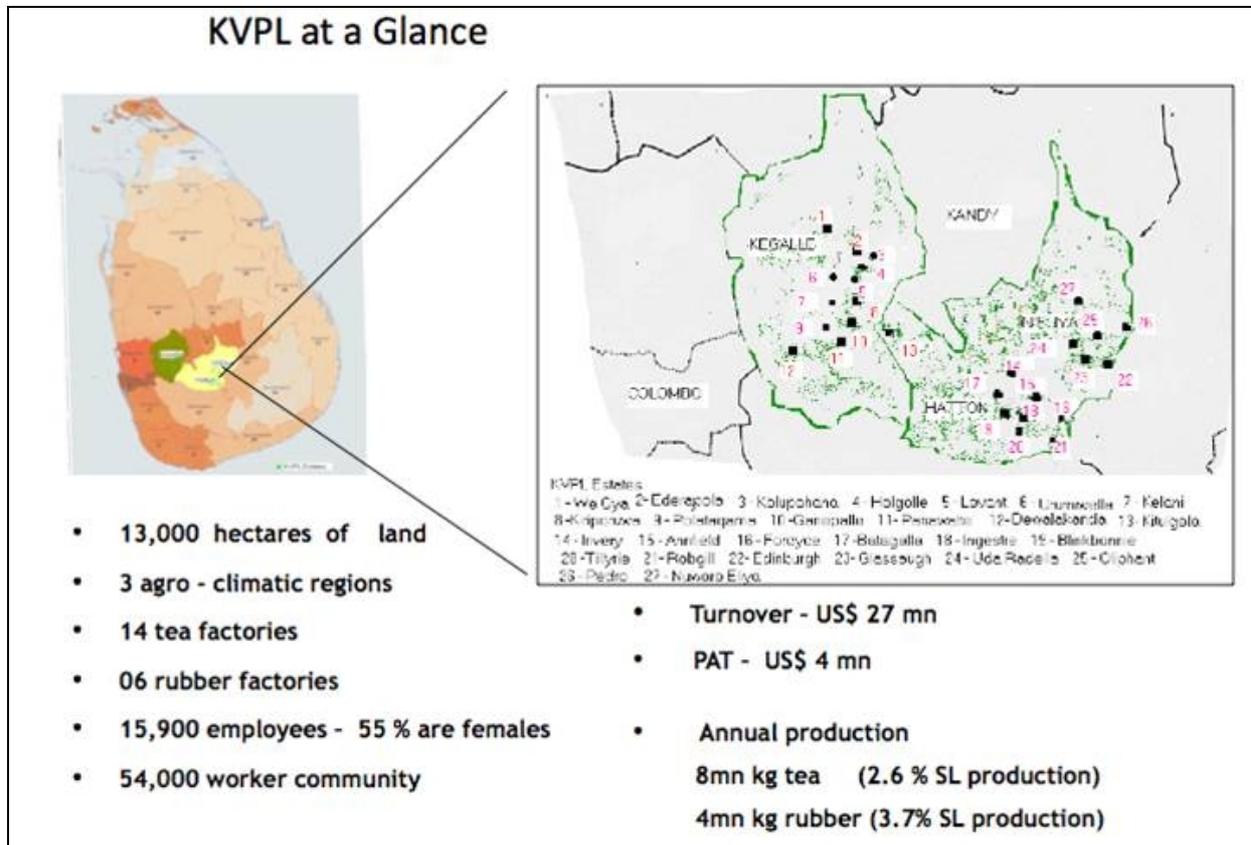
**Anti-Corruption:**

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: United Nations.

**Exhibit 4**

*KVPL's Human, Economic and Geographic Territory*



**Exhibit 5**

*Packaging the Ethical Tea and Single Garden Concepts*

## The Ethical Tea Brand of the World -Product Range

<p><b>PURE CEYLON TEA</b></p> <p><b>PURE CEYLON TEA</b></p> <p>Pure Ceylon Tea is produced from the best teas of Sri Lanka. The Single Garden and the Valley range teas are manufactured in factories recognized for their certified manufacturing processes. All our factories use advanced quality control methods and have received approval from international food quality certification systems - HACCP, ISO 22000 &amp; ISO 14001. Product certification for food safety is not limited to the EU &amp; other international standards. We also comply with the EU &amp; other international standards for agricultural chemicals in tea.</p> <p>Our quality processes are enhanced by in-house quality and food safety measures (ability backed by certificates) qualified to international Register of Certified Auditors (RCQA) for Food Safety management Systems.</p> <p>We adopt the best agricultural practices, going beyond recommended industry standards and use environmentally friendly pest management practices, to bring you the best Ceylon Tea in the market.</p>	<p><b>PURE CEYLON TEA</b></p> <p><b>MABROC</b></p> <p><b>HUMAN RIGHTS</b></p> <p><b>Principle 1</b> Business should respect and protect the protection of International human rights within their sphere of influence and control.</p> <p><b>Principle 2</b> Business must ensure compliance in human rights abuses.</p> <p><b>LABOUR</b></p> <p><b>Principle 3</b> Business should ensure the protection of workers and the effective recognition of the right to collective bargaining.</p> <p><b>Principle 4</b> The elimination of all forms of forced and compulsory labour.</p> <p><b>Principle 5</b> The effective abolition of child labour, and</p> <p><b>Principle 6</b> The elimination of all forms of discrimination in respect of employment and remuneration.</p> <p><b>ENVIRONMENT</b></p> <p><b>Principle 7</b> Business should support a precautionary approach to environmental challenges.</p> <p><b>Principle 8</b> Businesses should strive to promote greater environmental responsibility, and</p> <p><b>Principle 9</b> Encourage the development and adoption of environmentally friendly technologies.</p> <p><b>ANTI-CORRUPTION</b></p> <p><b>Principle 10</b> Business should work to prevent bribery in all its forms, including solicitor and bribery.</p>	<p><b>A HOME FOR EVERY PLANTATION WORKER</b></p> <p><b>Principle 11</b> Business should support a precautionary approach to environmental challenges.</p> <p><b>Principle 12</b> Businesses should strive to promote greater environmental responsibility, and</p> <p><b>Principle 13</b> Encourage the development and adoption of environmentally friendly technologies.</p> <p><b>Principle 14</b> Business should work to prevent bribery in all its forms, including solicitor and bribery.</p> <ul style="list-style-type: none"> <li>• The programme helps build homes for the workers.</li> <li>• Each family is provided through continued pre-school, child support and medical facilities to enhance their quality of life.</li> <li>• The programme empowers each employee through Estate Worker Cooperatives and improves their individual value to the community.</li> <li>• The ultimate goal is a contented family life for all at Mahara Valley plantations.</li> </ul> <p>Pure Ceylon Tea provided in Sri Lanka by Mahara Tea Co. (Pvt) Ltd.</p>
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**Exhibit 6**  
*Corporate Responsibility Practices at KVPL*

Environment	Social/community	Certification	Awards	Partners
<ul style="list-style-type: none"> <li>&gt; Biological water treatment</li> <li>&gt; Wood fired curing for tea leaves (renewable stands)</li> <li>&gt; Hydropower (from rivers and falls)</li> <li>&gt; Forest management to preserve green cover</li> </ul>	<ul style="list-style-type: none"> <li>&gt; “A Home for Every Plantation Worker” (see above)</li> <li>&gt;Empowering youth: pottery and sewing classes, bridal &amp; beauty care</li> <li>&gt;gender awareness</li> <li>&gt;talent building programme: musical shows, sports meets</li> <li>&gt; Worker training</li> <li>&gt; Healthcare: alcoholism prevention, nutrition, child development, immunisation, birth, dental and eye care.</li> <li>&gt; Micro-finance</li> <li>&gt; Insurance</li> <li>&gt; Worker/Union participation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; ISO 22000:2005</li> <li>&gt; TASF-SGS Product Certification</li> <li>&gt; HACCP</li> <li>&gt; GlobalGAP</li> </ul>	<ul style="list-style-type: none"> <li>&gt; National Business Excellence Award (SL Natl. Chamber of Commerce)</li> </ul>	<ul style="list-style-type: none"> <li>SL govt, IRIS (eye care), UN Global Compact, Unilever SL (for dental care), Deutsche Bank SL (child development), WUSC (World University Services of Canada), Red Cross, PHDT (Plantation Human Development Trust)</li> </ul>

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