Cape Natural Tea Products and the U.S. Market: Rooibos Rebels Ready to Raid

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Cape Natural Tea Products was a young herbal products company based in South Africa. Rooibos tea was the strongest component of their product portfolio. In South Africa, rooibos was a commodity product and a direct competitor of coffee and tea. Antioxidants and other nutrients made rooibos a functional food. The American market developed interest in functional foods; however, the diverse opinions and knowledge of American consumers of functional foods made marketing difficult. Could the company benefit from the American market? With strong competition at home and marketing challenges abroad, what would be the best path of success for the company?

As the workshop facilitators sat in the small South African guesthouse, they were warmed by the fireplace on an unseasonably cool and wet spring morning; they awaited their guest, Dawie de Villiers. The purpose of Dawie’s visit was to discuss his presentation for Making Markets Matter, a workshop for agribusiness leaders of Southern Africa. Earlier that morning in the small university community of Stellenbosch, the facilitators had the deep red, aromatic rooibos (pronounced ROY boss) tea with their breakfast. They noticed that rooibos tea (or red bush, the English translation of the Afrikaans word) was positioned alongside the coffee and black tea. At one point, the breakfast conversation drifted to the uniqueness of rooibos tea, the alleged health benefits, and the potential in the U.S. market. Having arrived on time, Dawie, the general manager of Cape Natural Tea Products, settled into an overstuffed couch near the fire, and recounted the tale of rooibos tea and Cape Natural Tea Products (CNTP).

Dawie told of the development of the commercial use of rooibos, the governmental involvement in the industry, and the rise of CNTP. While the entire story intrigued the facilitators, they were interested particularly in a couple issues that Dawie pointed out: the commodification of rooibos tea, the dominance of Rooibos Ltd., the innovations of other rivals, and the potential for developing export markets. All the
while, they were keenly aware of the growing U.S. interest in functional foods like rooibos. As the story unfolded, they discovered that Dawie’s CNTP was a small but strong player in challenging markets at home and abroad. Dawie’s job was to find a path to success. Was the U.S. market as good as suggested? Could CNTP actually profit from this market?

The Rooibos Plant and History

Rooibos (*Aspalathus linearis, Fabaceae*) is indigenous to the Cedarberg Mountain Range near Cape Town, South Africa. Rooibos has a main stem with a smooth bark which divides near the soil surface into several equal offshoots followed by flimsy branches holding the thin, sharp leaves, which are about 0.39 in. (10mm) long. The plant grows to 1.6-6.6 ft. (0.5-2 m) tall. The genus *Aspalathus* is a legume and consists of over 200 species, which occur only in South Africa. Only rooibos, the *linearis* species, had economic value (SA-Tea).

The mountain-dwelling people of the Khoi-Khoi tribe were the first to use rooibos as a tea. Had it not been for these inhabitants in the Western Cape, rooibos would have remained simply an indigenous mountain bush. Initially, the tea was mostly a medicinal beverage until Benjamin Ginsberg, a Russian immigrant, realized the market potential of the “mountain tea.” In 1904, Ginsberg, a descendent of a tea-trading family in Europe, traded the tea from the people of the mountain and began selling it in South African markets (Hoegler, Rooibos Ltd., SA-Tea).

Ginsberg’s tea was processed by harvesting the rooibos branches and leaves, bruising them by hammering and then fermenting them. The final stage consisted of sun-drying the product in an open area. Other than mechanization, the process has not changed much from the way the Khoi-Khoi tribe processed the plant (de Villiers).

**Medicinal Wonder**

While the Khoi-Khoi people might not have made extensive health claims about rooibos, the Internet, health magazines, and people involved in the rooibos tea industry state that it has everything good in it from antioxidants to zinc. The tea purportedly mitigates infant colic, mild depression, and HIV infections. Many of these claims are unsubstantiated with little or no scientific evidence to support them.

However, some of the health claims have some basis in scientific research. According to Dr. Daneel Ferreira and others at the University of Orange Free State in South Africa, the tea contains over forty polyphenol compounds and flavonoids, which act as antioxidants (Noxon). Some reports suggested that rooibos has more polyphenols and flavonoids than black tea and even green tea (Nutraceuticalsworld.com). Rooibos also contains an assortment of minerals, including calcium, copper, fluoride, iron, magnesium, manganese, potassium, sodium, and zinc. Rooibos is naturally caffeine-free and is low in tannins (Noxon).
The Market for Rooibos Tea

Production, Sales, and Exports

Rooibos tea is the unofficial national beverage of South Africa (Hoegler). The market share of rooibos in the South African tea market grew from 12 percent in 1984 to 18 percent in 1999. Total (domestic and export) sales increased from 1,500 metric tons (mt) in 1997 to 6,150 mt in 1999. The domestic market absorbed 70-75 percent of the total production in the 1990s. From 1995 to 1999, the value of total domestic and export sales increased from 17 million to 65-70 million South African rands (R). In 1990, the total export market purchased 432 mt of rooibos. By 1999, the export market earned R20 million, which was about 30 percent of total sales, from 1,800 mt of rooibos. Of the R20 million from exports, about R3-4 million came from organic production (Wesgro 2000).

In the early days, the Rooibos Tea Board, the government tea marketing organization, marketed rooibos as a substitute for tea and coffee. Because South African consumers identified rooibos as a substitute for tea and coffee and not as an herbal tea with nutritional/medicinal value (de Villiers, Wesgro 2000), rooibos tea was a basic commodity with little value-added in the domestic market. However, abroad, the tea earned a price (and subsequently an earnings) premium because it was consumed as an herbal tea.

In 1999, Germany was the largest foreign consumer of rooibos tea, with 53.61 percent of South Africa’s exports (table 1). The Germans consumed 900 mt of rooibos compared with 22,000 mt of all teas. Japan was the second largest foreign consumer of rooibos tea, with 16.79 percent of exports. The Japanese consumed 310 mt of rooibos compared with 18,500 mt of all teas. While the proportions of rooibos to total tea consumption were small in Japan, consumption was growing, especially organic tea. The U.S. rooibos tea market was relatively new and small with only 22 mt (Wesgro 2000; Wesgro 2001). However, there was great potential for growth given the rise of functional foods in the United States.

The domestic market was a challenging market. For many years, the South African government maintained the Rooibos Tea Board. In 1993, a major reform in policy privatized the industry. The Rooibos Tea Board became the private firm, Rooibos Ltd. Various farmers began breaking away from Rooibos Ltd., still the major player in the industry, to form their own firms.

The Players

Rooibos Ltd.

Rooibos Ltd. handled about two-thirds (about 4,000 mt) of all the rooibos in South Africa. Rooibos Ltd. had a well-established marketing chain, and National Brands, a South African food firm handling many domestic brands, managed the brands of Rooibos Ltd. Eleven O’clock, Fresh Pak, and Five Roses Rooibos (in collaboration with Five Roses, a South African tea company) were three of the largest brands of rooibos tea in South Africa. Rooibos Ltd. owned and supplied Eleven O’clock and Fresh Pak, and was in a collaborative agreement with Five Roses for the export of Five Roses Rooibos. In the export, market Rooibos Ltd. supplied a number of firms with either bulk tea or the branded products. In 2001, Five Roses joined John Sommer, Inc. in Novato CA to sell Rooibos Ltd.’s tea in the United States (Rooibos Ltd.).
KhoiSan Tea Export/Import
According to Wesgro (2001), KhoiSan Tea was “leading the way as one of the most dynamic, innovative and successful role-players in the market” (p. 7). The German firm was the second largest exporter of rooibos and the only firm that produced, processed, and packed rooibos for retail all in-house. KhoiSan was one of the first firms to use and market organic rooibos. A “green wave,” the rise in the popularity of the green teas, was occurring in the tea industry. Unfermented rooibos tea was considered in this class of teas. KhoiSan was in the forefront of this market as the first exporter of the unfermented rooibos (Wesgro 2001).

Coetzee & Coetzee
Despite the size of Rooibos Ltd. several new rooibos tea firms developed. In 2001, nine new firms entered the market, reflecting the market opportunities still available for rooibos (de Villiers). Each new firm had the flexibility and creativity to become David to the Goliath, Rooibos Ltd. Coetzee & Coetzee Distributors was one of the firms that broke away from Rooibos Ltd. and had real potential. The firm, headed up by a father and son team, handled about 10 percent of the total tea production. Coetzee & Coetzee was interested in “social upliftment projects in underprivileged farming communities” (Coetzee & Coetzee, p1). Such efforts tended to attract those consumers interested in the fair trade movement.

Cape Natural Tea Products
In 1997, the South African media nicknamed CNTP the “Rooibos Rebels” (iafrica.com 2001). Through innovative technology and firm ownership, the firm was trying to become “the most trusted and dynamic source of quality herbs on the African continent” (Morien, p2). Despite its developing portfolio of herbal teas (devil’s claw, honey bush, hibiscus, and lemon grass), rooibos was the main business of CNTP.

CNTP handled about seven percent (400 mt) of rooibos tea each year. Nearly 70 percent of the rooibos tea was shipped abroad. Japan was CNTP’s biggest consumer. Whole Foods and HGB Central Market were CNTP’s two U.S. retail buyers. For the local market, CNTP sent 85 percent of its product to packers and brokers. The remaining 15 percent was under contract. CNTP had no brand of its own.

CNTP intentionally stayed small and agile to avoid direct competition in the domestic market; Rooibos Ltd. was simply too large to beat at home in the rooibos market. CNTP developed other herbal teas for local and export markets. CNTP grew and processed 100 mt of honey bush tea, a product that de Villiers and CNTP believed many South Africans would prefer to rooibos (de Villiers). Diversifying their portfolio to other products had increased the CNTP’s costs. They hoped that diversification would pay off in the long term by attracting new customers and helping the firm develop a reputation of broad product selection and quality (de Villiers).

In the sector report by Western Cape Investment and Trade Promotion Agency, CNTP received recognition for its quality: “Cape Natural Tea Products has made a name for itself with its ‘flavour burst’ cutting process to maximise flavour extraction and increase yield from 67% to 82%…” (Wesgro 2000, p.1). In 2000, rooibos tea produced with the FlavorBurst™ process was rated the best in the industry (Morien). The market for rooibos was not as sophisticated as the market for
coffee or black tea, in terms of complex taste profiles and grading. If similar standards were to become important in the rooibos market, CNTP would be a trendsetter in the industry because of its processing innovation. CNTP was the first rooibos company to follow HACCP to ensure food safety, and CNTP was all organic (Cape Natural Tea Products).

Private individuals and producers jointly owned CNTP, each group owning 50 percent of the firm. The ownership ensured supply because producers were under contract to supply CNTP first, and these producers had a financial stake in the firm so CNTP was naturally their first market. Rooibos production was highly variable; thus, ensuring supply, through contracting, was extremely important to maintaining good relations with buyers.

CNTP had another important source of supply and innovation through a partnership with the U.S. Agency for International Development (USAID) and the South African Agricultural Research Council (ARC). The collaborative effort was supporting rural/community development projects through research in and marketing of rooibos from the Wupperthal region and honey bush from Lang Kloof region.

Despite all of its success, CNTP was facing some challenges. The local market was challenging because of the big leader, new entrants, and the low returns to bulk sales. The firms were also competitive in the export market. In addition, several non-South African firms that were well established in the tea industry entered the rooibos tea industry. Rooibos had not been successfully grown outside of Southern Africa; the international competitors were interested in establishing contracts with farmers in the region and joint ventures with other South African firms.

The Western Cape Investment and Trade Promotion Agency reported, “An integrated global marketing drive based on scientific proof of health benefits together with innovative, value-added products could spell a bright future.” (Wesgro 2000, p2). How would this strategy work for the United States?

Exporting to the U.S. Market: The Case of Functional Foods

Changing Attitudes toward Health

“Let food be thy medicine and medicine be thy food.”

The advent and growth of functional foods and beverages (nutraceuticals, enhanced products, pharma foods, designer foods, etc.) was the realization of Hippocrates’ adage. Functional foods and beverages provided “health benefits that reach beyond basic nutrition.” (Gilbert, p. 20) The world of functional foods was exploding with opportunities to exploit. For example, 93 percent of U.S. consumers believed that there were foods that provided benefits beyond basic nutrition and might lower the risk of disease (IFIC). The interest in functional foods and beverages in the United States developed from the changing attitudes toward health, which ultimately related back to demographic changes that promoted these shifts.
Lisa Katic, with the International Food Information Council (IFIC), stated that “The movement toward HMOs [health maintenance organizations] means that consumers don’t have the close, long-term relationship with their physicians as they once did...Consumers are not getting as much personal care and satisfaction, and that’s leading them to do their own care and prevention.” (Wellner, p. 57) Anecdotal evidence like this was supported by a couple of facts: According to a 1997 survey by Prevention Magazine and the American Pharmaceutical Association, 70 percent of adults treated themselves with over-the-counter (OTC) drugs for a variety of minor ailments such as headaches, hay fever, etc. (Wellner). Self-medication was not limited to OTC drugs. New Hope Natural Media reported that nearly 70 percent of all U.S. consumers took some form of dietary supplement. As estimated by Nutrition Business International, Americans spent $22.6 billion on nutritional supplements (Beverage Industry).

The desire for self-maintenance of health possibly had a more fundamental origin, entitlement. Gilbert assessed that U.S. consumers, especially the middle class, had a sense of entitlement. This prompted U.S. consumers to want food that tasted good but filled a nutritional need, was convenient but high quality. Additionally the food had to be affordable. She described the U.S. market as living in the “Age of Entitlement” because it was “driven by [Baby] Boomers who feel they have earned ‘it’ and the [Generation] X’ers who feel they were born deserving ‘it’” (Gilbert, p.22).

**Functional Beverages**

The increased expectations that foods be high quality, convenient, nutritious, and inexpensive explained the size of the U.S. functional foods market, estimated at $76 billion in 1996 (Wellner). Within the functional foods market, the beverages segment was well positioned because of the convenience and the fact that beverages could serve as excellent carriers for supplements (herbs, vitamins, minerals, etc.). The functional beverage market is divided into four categories: meal replacement beverages (nutritional and diet mixes); lifestyle/wellness beverages (fruit- and/or milk-based drinks with infused herbs and/or nutrients); medicinal teas (green tea and rooibos); and isotonic beverages (sports drinks). The functional beverage market grew from $1.05 billion in May 1999 to $1.17 billion in May 2000 (Madley). The growth was reflected in the increase in the imports of herbs (and plant parts) used in many of these functional beverages (figure 1). John Bello, co-founder of South Beach Beverages, maker of SoBe, predicted that by 2005 the functional beverage market would reach $2 billion due to a cultural shift toward wellness through the use of herbs and other supplements.

In 1997, U.S. tea sales were about $320 million, with functional teas comprising $80 million. The United States imported over 5,000 mt of plant and plant parts for use in herbal teas at an estimated value of over $22 million in 1997. Imports increased in value 156 percent from 1994 to 1998 and 78 percent in volume (Wesgro 2001) (figure 1).

**Demographic Issues**

Billy Bishop, vice president of marketing for South Beach Beverages stated “the demographic is actually pretty wide...A lot of the younger folks tend to dig the package and will try it that way.
The more educated, older consumer will pick up the product because of the herbs that are in there.” (Howell, p. 29).

The differences between generations were more fundamental than packaging: Generation X and Echo Boom were interested in many of the functional foods because they wanted to be the first to try a new product (Beverage Industry). Some of the interest of the younger generations in these products was influenced by a current or desired active lifestyle. However, Abigail Rodgers, Vice President of Innovation at Minute Maid stated “‘aging baby boomers…are driving trends and have specific desires for health and beauty…” (Madley, p. 34). Baby Boomers, for example, were looking to maintain healthy and active lifestyles (Beverage Industry).

**Marketing Problems**

While the confluence of interests for functional foods by the three generations granted firms a larger market, the messages to which these generations would respond were different and sometimes conflicting. To attract the older Baby Boomers, the message needed to connect the functional food to traditional foods, not something new or high-tech. Boomers wanted to know that the functional food that they were consuming would lead to their long-term health. However, this was exactly the wrong message to send the younger generations, who were interested instant health benefits to support their lifestyles.

The weight of the interest in functional foods fell more heavily on the Baby Boomers: According to the IFIC study, 65 percent of people 55 and older used functional foods to target specific health concerns, compared with 49 percent of the 18-34 year-olds. Other demographic differences occurred along gender and educational lines. Thirty-nine percent of people with a high school education or less reported to have knowledge of the link between antioxidants and cancer versus 60 percent of college graduates. Fifty-three percent of woman reported knowledge of the antioxidant and cancer linkage as compared with 42 percent of men (IFIC). The diversity of opinions and knowledge of functional foods presented a substantial challenge in terms of the targeted segment and the correct message.

Not only was it important to get the marketing message correct, it had to be true. Leighton reported that the dietary supplements business reached $15 billion in a few short years. The market soon imploded because of increased worries over drug interactions, ingredient efficacy, news about fraudulent claims, etc. These problems could spread to the herbal tea market. Research existed on the pure tea products (green, black or oolong teas), but there was little on herbal or medicinal teas. Dr. Dave Ringer of the American Cancer Society stated, “While the various mixtures of herbs and teas may be beneficial, they are not proven (emphasis added).” (Moran, p. 1).

And the message had to be clear. Early entrants into the functional food world failed to realize that “while consumers are seeking functional nutrition, they perceive food as food, not as medicine”—despite Hippocrates (Leighton, p. 1). The early products presented detailed scientific information on the package. Leighton argued that the key to marketing functional foods was that
they “should be positioned not as therapeutics since consumers don’t want to eat from their medicine cabinets (p. 1)”

**The Green Tea Example**

A great deal of the buzz for functional beverages was for ready-to-drink (RTD)/shelf-stable products. The medicinal tea market, however, was a growing segment of the functional beverage market. According to an ACNeilson/SPIN survey, the medicinal tea segment was about nine percent of the functional beverage market. Meal replacement, lifestyle/wellness and isotonic beverages were 77, 14, and 0.5 percent of the functional beverage market (Madley). In terms of innovation, the hot beverage (medical tea) segment had the largest number of product introductions in 1998 and 1999 (Staab).

The green tea market had shown tremendous growth in the United States. Until a decade ago, green tea had not been a significant commodity on the tea/herbal tea market, “but when anecdotal evidence of traditional use in Asia led to scientific studies in the West, and research heralding the healing powers of green tea was published, sales began to increase and finally shot through the roof.” (Wesgro 2001, p. 18) From 1995 to 2000 the market value of green tea increased from $0.8 million to $5 million (Pearl). The growth of green tea was also associated with its flexibility in terms of use. Green tea was available alone (in tea bags or loose) or blended with other products and prepared for the RTD/shelf-stable forms.

**The Challenge**

What were Dawie and CNTP to do? The domestic market was difficult, but the U.S. market offered opportunities. If the market for green tea was any example, rooibos had the potential for significant growth in the United States. However, CNTP was not the only firm that could enter the U.S. market. While the U.S. opportunities looked good, there were some significant challenges and risks associated with marketing functional foods.

Another problem developed for the rooibos industry. A U.S. company received the trademark for Afrikaans word “rooibos.” While the industry was outraged, the South African government agreed to phase out the use of the name in export markets in the next five years and in domestic markets in the next 12 years (iafrica.com, 2002). In light of the challenges and opportunities, what would be the best strategy for CNTP?
Table 1. Top 10 Countries Importing Rooibos Tea in 1999

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<thead>
<tr>
<th>Country</th>
<th>Volumes (kg)</th>
<th>Percentage of Total Exports</th>
</tr>
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<tbody>
<tr>
<td>Germany</td>
<td>987,560</td>
<td>53.61</td>
</tr>
<tr>
<td>Japan</td>
<td>309,285</td>
<td>16.79</td>
</tr>
<tr>
<td>Netherlands</td>
<td>199,061</td>
<td>10.80</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>95,482</td>
<td>5.18</td>
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<tr>
<td>Malaysia</td>
<td>54,120</td>
<td>2.93</td>
</tr>
<tr>
<td>South Korea</td>
<td>40,060</td>
<td>2.17</td>
</tr>
<tr>
<td>Poland</td>
<td>34,000</td>
<td>1.85</td>
</tr>
<tr>
<td>United States</td>
<td>22,016</td>
<td>1.19</td>
</tr>
<tr>
<td>Colombia</td>
<td>12,792</td>
<td>0.69</td>
</tr>
<tr>
<td>China</td>
<td>11,960</td>
<td>0.65</td>
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</tbody>
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Figure 1. U.S. imports of plants and plant parts for use in herbal teas

Source: Wesgro 2001
References

Bello, J. “Top of Mind: We Have Seen Bev’s Future, and It is Us.” Brandweek. May 8, 2000, pp. 32.
Coetzee & Coetzee. http://www.coetzeeltd.co.za
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Endnotes

1 Rooibos in tea bags accounted for 80-85 percent of sales. The remaining tea was sold loose with an unknown, but presumably small proportion sold in a ready-to-drink (RTD) form, popular among youths (Wesgro 2000). de Villiers argued that the technology for the RTD product had some difficulty with crystallized settlements, therefore, reducing the desirability in the RTD form.

2 A movement was underfoot to add value to rooibos in the local market by blending rooibos tea with other flavors. The flavored teas contributed to the growth of the rooibos tea market; however, the contributions did not appear large at that point.

3 Nearly 80 percent of rooibos exported to Japan was used as medicinal soap. Rooibos was believed to have ingredients that promote healthy skin.

4 But who are these consumers? Demographers divide the U.S. population into five generations, but the three youngest generations are of particular interest here. Baby Boomers are the children of the post-war era, born from 1946 through 1964. The Boomers are the largest and the most influential generation. This generation is also approaching retirement. The following generation is Generation X or Baby Bust, born between 1965 and 1976. While a small generation, they are nutritionally aware. The Echo Boom or Millennial Generation were born from 1977 to the present and are the children of the Boomers and almost as large as the Boomers (Gilbert).

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