

Tea- Innovations and their Impact on Market Diversification and Firm Performance in the Sri Lankan Tea Industry

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Abstract:

Tea plays a vital role in Sri Lankan economy in terms of foreign exchange earnings (12%), employment generation (10% of the population) and GDP contribution (0.7%). However, the unit gain from tea exports in Sri Lanka (5.18 US\$/kg) is comparatively lower than that of some non-tea producing countries (e.g. Poland-10.65 US\$/kg and Germany-11.18 US\$/kg). The lack of incremental innovations (e.g. blending, bagging, packaging), radical innovations (e.g. tea-based confectionary and cosmetics) and market diversification (50% of tea is exported to only five destinations) are argued to be the main reasons for lower unit sales gains for Sri Lankan tea exporting firms. Therefore, the objectives of this study are 1) to examine impact of type of innovation (incremental and radical) towards firm performance, and 2) to identify the link between the type of innovation and market diversification. The study used data collected through a questionnaire survey conducted with 43 tea exporting firms, that are responsible for 60% of tea exports in Sri Lanka in 2019. Mann-Whitney U test and Generalized Linear Modeling were employed to analyze data. Results revealed a significant increase in the average sales gain of the firms which produced higher number of radical innovations (12.14 US\$) than those did not (6.18 US\$) ($U=21.5$, $p=0.00$). In terms of incremental innovations, although average sales gain of the firms producing higher number was higher compared to firms producing lower number, it was statistically not significant. Exporting through sales agents has a significant positive impact on producing incremental innovations ($\beta=1.23$, $p=0.03$), while supplying to non-traditional destinations ($\beta=1.37$, $p=0.002$) and number of export destinations positively impact on producing tea-based radical innovations ($\beta=0.03$, $p=0.006$). The study recommends to promote incremental innovations through sales agents and target new markets for tea-based radical innovations.

Keywords: Tea, Radical Innovations, Incremental Innovations, Market Diversification

JEL Codes: Q12, Q13, Q17