

Kawakawa Tea

**A new health product
for Singapore**



Southeast Asia
Centre of Asia-Pacific
Excellence

Executive Summary

This project provides an analysis of the potential for introducing New Zealand kawakawa herbal tea into the Singapore market. Singaporean consumers are increasingly choosing healthier food and beverage (F&B) products, which in conjunction with Singapore's large middle/upper class population, presents an opportunity for a new premium, health-based New Zealand product.

New Zealand has a strong reputation for being 'clean and green', and for producing high quality, trustworthy, premium health foods. A natural resource that remains relatively untapped for F&B markets is New Zealand's native plants, many of which have health benefits. Plants such as kawakawa (*Macropiper excelsum*), horopito (*Pseudowintera colorata*), and mānuka (*Leptospermum scoparium*) have distinctive flavours and important health benefits.

Commercialising the plants as premium herbal teas offers an opportunity to increase and diversify New Zealand's F&B exports into Southeast Asia. We recommend beginning with kawakawa herbal tea, because of the plant's wide-reaching health benefits. Other plant-based teas could then be marketed once a brand is established in market.

We suggest that dual distribution channels could be used to reach consumers in Singapore. Business-to-business (B2B) collaboration, through partnerships with health-themed and New Zealand-connected F&B outlets, could be used to streamline distribution to targeted consumers. The business-to-consumer (B2C) strategy could use eCommerce to reach a wider range of consumers.

New Zealand herbal tea has the potential to be a highly profitable business because of the low initial capital investment needed to bring the product to market, the strong brand story, and the dual revenue streams from B2B and B2C distribution strategies. This model may be adapted to develop strategies for launching other plant-based products into Southeast Asian markets.



Background

Why Singapore?

As Southeast Asia's economic giant, Singapore boasts a high-income economy with the highest GDP per capita in ASEAN, the fourth largest GDP per capita in the world, and one of the world's lowest unemployment rates. Singapore's success can be attributed to its free-market economy, low corporate taxes, few capital restrictions, and pro-foreign-owned business laws.

Singapore's stable economy and politics means it ranks as the world's most competitive economy, the second most open economy, and the second in ease of doing business in the world. Their free-trade agreements with multiple nations and central geographic location have attracted some of the biggest businesses around the world, making the city-state the business hub that it is today.

Singapore's Relationship with New Zealand

New Zealand and Singapore have a strong trading partnership that goes back to November 2000 when the Closer Economic Partnership was signed. Since then the relationship between the two countries has steadily strengthened, culminating in the Enhanced Closer Economic Partnership Agreement signed in May 2019. These trade agreements provide opportunities for New Zealand businesses to enter the Singapore market.

Singapore is already New Zealand's largest trading partner in the ASEAN region. The two nations had approximately NZ\$4.9 billion in trade and NZ\$5.1 billion in two-way direct investment in 2018. The similarities between Singapore and New Zealand in terms of political values, zero tolerance for bribery, strong business laws, and regulations make it the best location for New Zealand businesses wanting to enter Southeast Asian markets.

Singapore's Food & Beverages Market

Food and beverages (F&B) play an important role in the lives of Singaporeans and make up 7% of all consumption expenditure.¹ It is expected that consumer expenditure on F&B will continue to increase by 5% annually. Singaporeans' average purchasing power is higher than that of its neighbours, which gives premium, high-priced New Zealand products a chance to succeed in the market.

Singapore relies heavily on imports for F&B due to the resource and space limitations on domestic food production, so this market is extremely open to foreign businesses. No import tariffs or excise taxes exist for F&B, except for alcohol and tobacco. The only charge on these imports is mandatory GST. Singapore's cultural and ethnic diversity means Singaporeans are open and willing to try foreign products.

Consumer Health Trends

Globally, as consumer knowledge about the importance of diet increases, the demand for 'healthy' and 'natural' foods has surged. A 2018 Food and Health survey showed that 7 in 10 consumers were willing to give up a familiar product for one that did not contain artificial ingredients.² This global trend is prevalent in Singapore, where the 2016 Nielsen Global Health and Ingredient-Sentiment Survey showed that one of the top diets was low/no sugar and that 54% of the respondents wanted more 'all-natural' products.³

Singapore's Tea Industry

Singapore has a large market for tea, with strong demand for drinks such as Teh Tarik (a popular hot milk tea) and traditional Chinese teas. The current retail sales value of tea is expected to rise by 2%,⁴ and there has been a surge of interest in 'functional drinks', such as herbal teas that have health benefits. This demand has resulted in a 1.7% increase in the volume of herbal drinks sold and a 2.5% increase in the value of fruit/herbal teas in 2018/2019.

Kawakawa Herbal Tea: A Business Proposal

The Provenance Story

New Zealand has a unique variety of indigenous herbs and plants due to its geographical isolation. Many of these plants occur naturally nowhere else in the world, and for many centuries, Māori made practical and effective use of these healing herbs to treat illnesses. Long before Europeans settled in New Zealand, Māori recognised the medicinal properties of more than 200 native plants.

In particular, kawakawa (*Macropiper excelsum*), mānuka (*Leptospermum scoparium*) and horopito (*Pseudowintera colorata*) played an important part in their traditional medicine, or rongoā.⁵ Kawakawa is the most valuable natural medicine in rongoā because of its vast health benefits, such as improving circulation; reducing cramping, inflammation and irritation; and healing stomach pain.⁶ Kawakawa is distinctive for its unique minty peppery taste, and it is caffeine-free.

The Value Proposition

The value proposition for kawakawa herbal tea is to create a functional F&B product that will help customers with mild health conditions such as inflammation, stomach pain, and diarrhoea. The product's health benefits, its rich history in traditional Māori culture and medicine, and New Zealand's 'clean and green' image will help position the product as a premium artisanal tea.

We suggest that kawakawa tea would be a good choice for the first product launched into the Singapore market, as it will stand out from existing competitors. Although New Zealand mānuka honey has raised the profile of mānuka in Southeast Asian markets, kawakawa tea has a longer history of medicinal use and has more health benefits than mānuka tea, making its value proposition stronger and more unique.

Kawakawa can be blended with other ingredients to strengthen the health properties of the beverage while also creating different flavours. For example, kawakawa could be infused with ginger, which aids digestion and alleviates diarrhoea and nausea. Similarly, green tea, which contains antioxidant properties, could be added for a more familiar flavour.

Once kawakawa tea is established as a trusted product in Singapore, it will be easier to introduce other plant-based teas, such as horopito and mānuka. Horopito leaves have a hot, peppery taste, creating a mild but pleasant burning sensation in the mouth, and they have antiseptic properties that sooth stomach pains and diarrhoea. Mānuka tea can be used to help kidney, bladder, and urinary problems.⁷



Distribution

We suggest using a hybrid distribution model that utilises both B2B and B2C channels.

B2B Channels

A direct sales strategy can be used to target businesses that specialise in New Zealand and other premium F&B products. The F&B market in Singapore is highly connected, so personal relationships and NZ Inc. networks can be used to reach many appropriate retail and wholesale businesses.

B2B distribution relies on F&B businesses, who will buy the tea wholesale and promote the product and provenance story to their customers. Therefore, the natural choice for business partners in Singapore are those who embody health, sustainability, and community. These relationships should allow a New Zealand tea business to maintain control over the final presentation of the products and the brand impression on consumers to ensure authenticity.

The global rise in demand for high quality, healthy, responsibly sourced, and plant-based F&B is reflected in Singapore's food retail sector. Many cafes and restaurants draw inspiration from international health trends and cultures, often including herbal drinks (e.g., Indonesian jamu) on their menus. We recommend that a New Zealand plant-based tea business focus on attracting these health-driven retailers first, as well as retailers with existing connections to New Zealand or that stock other New Zealand products (e.g., Wakanui Grill, who use New Zealand lamb and beef, and Baker & Cook, who serve Allpress coffee and Antipodes water).

To convince retailers to stock kawakawa tea, the business should emphasise connection and complementary offerings. Retailers must understand how kawakawa tea can be used as a tool to further their business objectives and increase the value of their brand. For example, the business could work with retailers to use kawakawa in their menus or complement other New Zealand products. The strategy, therefore, is to study the products offered by a potential partner and the provenance story driving their business, and then to co-create a tailored plan for using kawakawa tea to complement this offering.

B2C Channels

To reach consumers, eCommerce and digital marketing can be used to build interest in the brand, while reducing the initial capital investment needed and minimising the risk involved in establishing a novel product in a foreign market. eCommerce is growing rapidly in Singapore, and B2C distribution will allow the New Zealand tea business to capture more value from the supply chain. It will also give the business a channel to educate consumers about the brand and provenance story.

The business website could facilitate online sales, to avoid brick-and-mortar stores, while being convenient and accessible for consumers throughout the country (and potentially other parts of Southeast Asia).

Competition and Marketing

Understanding how kawakawa herbal tea compares to competitor products is crucial to develop a marketing strategy that distinguishes the products as the most premium herbal tea in the market. A New Zealand herbal tea company would have the following competitive advantages:

- Many native plants like kawakawa are endemic to NZ (i.e., they occur nowhere else).
- Their medicinal qualities are well-established and rooted in Māori culture and rongoā.
- New Zealand has a trusted brand that resonates with increasing global demand for authenticity and environmental, corporate, and social responsibility.

Existing competitors

In addition to the popular traditional tea made from *Camellia sinensis*, other specialist herbal teas are emerging and will compete for the same market niche as Māori herbal tea. Specialty tea retailers typically have fewer than 10 tea blends and sell for home consumption only via the internet or supermarket. For example, Tily Tea and Juan Tea both market tea blends comprised of standard ingredients used in western herbal teas (e.g., rose, peppermint, chamomile, ginger, etc), mixed with classic Chinese herbal ingredients (e.g., chrysanthemum, jasmine, goji, and jujube), and sometimes other Asian flavours like lemongrass and pandan leaves. Although there is creativity in the combinations, the flavours are all familiar to Southeast Asian consumers.

The most unique and comparable herbal tea variety that has risen in popularity in Singapore and other wealthy countries is rooibos. Rooibos is endemic to South Africa and boasts health benefits from its high levels of antioxidants. Its functionality, and

unique taste and geographical origin, make it one of the business's biggest competitors in Singapore, particularly because it is already well-established in the market. For example, TWG, a luxury tea retailer in Singapore, stocks 17 rooibos blends and only two New Zealand teas (both oolong).

However, while the health benefits of rooibos are well-documented, its South African provenance story has not been well established. The Economies of Regions Learning Network, a South African government entity, noted that rooibos is “arguably relatively undervalued for a product that is unique and only produced in one place in the world”.⁸



Digital Marketing Strategy

To distinguish kawakawa herbal tea and to protect its premium brand, digital and social media should be used to educate customers and partners. The integration of social media into the fabric of everyday Singaporean life means that even without a physical store, effective and intuitive ways can be found to contact customers.

The foundation of the company's digital brand should be an informative and beautiful website, where people can learn about the health benefits and cultural provenance story. The website should be interactive, using videos to illustrate the ecology, history and production of kawakawa tea. Historical accounts could also be used to strengthen the story. For example, wine producer Te Pā's website showcases the family's cultural and spiritual connection to the land ("our home for 800 years") to build the authenticity of their product ("superb wine borne from ancient lands").

Additional tools could include social media platforms such as Facebook, Instagram, WhatsApp, and especially Telegram, which is popular in Singapore. Having active business accounts and running advertising campaigns on these platforms will allow customers to 'chat' with the business in real time and encourage engagement. QR codes on packaging could also be used to connect consumers with digital content.

Supply Chain

The supply chain for kawakawa and other native New Zealand plants includes growing and picking the leaves, drying them, and packaging them for export. Drying will require specialised machinery, such as the DL-6CHZ-36 Leaves Drying Machine, which has the capacity to dry 25kg of wet tea leaves every hour. Two machines should be sufficient to easily process enough kawakawa leaves for projected sales during the first five years (see Table 1). To maintain quality, leaves need to be stored and transported to the dryer in stainless steel containers within one day of being picked.⁹



Finance

Initial costs

The initial capital costs of entering this venture would be low, because kawakawa leaves are readily available and they can be picked by hand. Therefore, the main initial cost will be the leaf dryers, which can be expected to last for at least the first 8 years of operation. We recommend purchasing two stainless steel DL-6CHZ-36 Drying Machines, which will cost approximately \$18,000.

Suppliers will also require stainless steel containers appropriate for storing and sending fresh leaves to the drier. The containers, which cost \$32 each, are reusable and can fit 26 leaves.

The company will also need to establish a website for online sales, which could be built and maintained for around \$26 per month through an online platform such as Squarespace. The company will also need to budget approximately \$3,800 for branding, social media and marketing collateral development in Year 1.

Operating costs and revenue

The total delivery cost from New Zealand supplier to Singapore retailer will be 0.84c per-leaf. This includes:

- Leaves can be delivered the same day to the drying machine in sets of 26 leaves per container, for \$8.50 per set, or 32c per leaf.
- Once dried, leaves will be approximately 35g lighter and can be sent to Singapore without a stainless-steel container, at a cost of \$26 per set of 50, or 0.52c per leaf.

We estimate that the business will need to budget approximately \$33,000 for marketing per annum, focused on social media channels. This will include:

- Salary for part-time social media manager: \$22,000
- Facebook ad campaigns: \$3300
- Instagram ad campaigns: \$7700
- Telegram: nil as it does not sell ads and free marketing methods will be utilised

Based on the current prices of other premium herbal teas in Singapore, we estimate that kawakawa teas could be sold by retailers for \$8.50 per tea. We recommend that the business charges retailers a wholesale rate of \$2.50 per tea, which will give the business a profit margin of 46% after cost of sales of \$1.34 per tea. The retailers will maintain a profit margin of 70%.

Table 1 shows potential annual sales projections and profit for the first three years, assuming the business can capture 5% of the café market in Singapore by Year 2 and 10% of the market by Year 3.

Table 1: Potential annual sales projections for Years 1-3. All figures are in NZD

Year	1	2	3
B2B customers	5	14	27
Monthly teas sold	3,750	9,750	19,500
Monthly revenue	9,375	24,375	48,750
Monthly COGS	5,025	13,065	26,130
Monthly gross profit	4,350	11,310	22,620
Yearly gross profit	52,200	135,720	271,440
Yearly gross profit with 10 teas sold p/d	29,938	149,688	77,616

Implementation guidelines

The key activities necessary for launching a New Zealand herbal tea business in Singapore include:

1. Establish supply-side partnerships

Ideal areas for harvesting kawakawa are lowland forest and coastal areas throughout the North Island, as well as the northern half of the South Island. Initial partnerships with landowners who have sufficient supply of the native plants will need to be established before production begins.

2. Develop branding and marketing channels

A logo, brand image and social media content will need to be created before launching the product to market. Care will need to be given to communicate and protect the premium brand that this product will require.

3. Demonstrate demand-side viability

To grow sales beyond initial adopters, the business will need to demonstrate consumer demand. This demand can be proven through sales figures from existing B2B customers, growing B2C website sales, and a growing social media presence.

4. Increase market penetration

Once the demand and supply have been tested, the business will have capacity to focus on increasing market penetration by selling to more cafes and restaurants throughout Singapore, and potentially other Southeast Asian markets.

Future Growth Potential

Opportunities for future growth of a New Zealand plant-based herbal tea business in Southeast Asia include:

- exporting to other countries in the region,
- increasing B2C sales through grocery stores or wholly owned brick-and-mortar stores,
- developing an RTD or other alcoholic drink, and
- developing other health products/supplements.

One natural next step for the business after a successful launch in Singapore would be to expand to other countries in Southeast Asia. Success in the highly competitive Singaporean market is generally viewed as a sign that an F&B business may work elsewhere in the region.

We recommend the business investigates markets where there are enough consumers who can afford the premium pricing and have high health consciousness. Malaysia probably most closely fits this consumer profile and its proximity to Singapore would be helpful. However, cultures, tastes and business environments can differ in important and confusing ways within Southeast Asia, so establishing trustworthy local relationships will be essential.

New Zealand plant-based herbal teas could also eventually be sold through more B2C channels to enable the business to scale. Supermarkets could potentially help access a much larger pool of customers, but only if brand recognition is already strong. Supermarkets are a ruthlessly competitive environment where brands can end up competing on price alone.

Another option for increasing B2C sales would be to invest in physical stores for herbal tea products, potentially alongside other New Zealand, or plant-based, products. While this would not scale the business as quickly as supermarket channels, it would enable the business to more closely control its brand story. Additionally, self-owned stores would shorten the supply chain and thereby increase profit margins.

The ready to drink (RTD) tea industry is growing in value as consumers are switching from soft drinks to RTD teas as 'healthier' choices. RTD tea companies already dominate the Singapore beverage market, but flavour innovation could help New Zealand herbal tea stand out in a crowded market. An RTD range would also target a new customer segment, who value convenience and accessibility.

A New Zealand herbal tea business could also diversify its product offerings into health products and supplements. New revenue streams would increase the business's resilience and potentially open new markets. For example, kawakawa has the potential to be used in throat sprays to treat infections, coughs and colds, as well as in ointments for skin rashes or wounds.¹⁰ However, developing medicinal products could entail expensive R&D and testing to adhere with regulatory and legal requirements.

Another way to diversify revenue streams is to develop an alcoholic tea beverage. Tea flavouring can be used to balance out strong alcohol tastes and smells, providing a palatable and sophisticated flavour. In contrast to sugary blends that have obvious negative health consequences, premium cocktails using New Zealand native plant extracts may even have some health benefits, although again substantial R&D would be needed to develop this idea further.





Conclusions

Tapping into the health benefits of New Zealand's native plants is a great opportunity for New Zealand F&B companies looking to expand to Southeast Asia. Singapore is the most likely country for market entry in the region, given its relatively wealthy and health-conscious consumer base. Functional native plant products would also allow New Zealand to diversify its F&B exports and capitalise on our country's clean and green image.

Using both B2B and B2C distribution channels, a New Zealand company can market plant-based herbal teas as a premium functional product. This could be an exciting opportunity to explore how the health benefits of our native plants could be used in other ways to create functional F&B products for exporting into other Southeast Asian markets.





Authored by



Xavier English
University of Otago
Bachelor of Commerce
(Economics)



Irmine Kabimbi Ngoy
Auckland University
of Technology
Bachelor of Business
(Management and
Marketing)



Anahita Piri
University of
Canterbury
Bachelor of
Engineering with
Honours



Diana Tran
University of Otago
Bachelor of Laws,
Bachelor of Science
(Physics)

Academic mentor

Dr Michelle Renton
Lecturer in Marketing
Victoria University of Wellington

¹ Development Solutions. (2016). The Food and Beverage Market Entry Handbook: Singapore. Agriculture and Rural Development. Publications Office of the European Union, 2017. doi:10.2818/068090

² International Food Information Council. (2018). 2018 Food and Health Survey. Retrieved 23 February 2020, from <https://foodinsight.org/wp-content/uploads/2018/05/2018-FHS-Report-FINAL.pdf>

³ Goy, P. (2016). More than half in Singapore follow diets that limit certain ingredients: Nielsen survey. Retrieved 23 February 2020, from <https://www.straitstimes.com/singapore/more-than-half-in-singapore-follow-diets-that-limit-certain-ingredients-nielsen-survey>

⁴ Euromonitor International. (December 2019). Tea in Singapore. Passport.

⁵ Te Ara - the Encyclopaedia of New Zealand. (2007). Rongoā-medicinal use of plants. Retrieved February 6, 2020, from <https://teara.govt.nz/en/rongoa-medicinal-use-of-plants/print>

⁶ Asti. (2015). Spotlight on Kawakawa. Retrieved February 6, 2020, from <https://www.kiwiherb.co.nz/about-us/blog/spotlight-on-kawakawa/>

⁷ The New Zealand Herb Foundation. (n.d). Mānuka Fact Sheet. Retrieved February 7, 2020, from <https://herbs.org.nz/manuka-fact-sheet/>

⁸ Economies of Regions Learning Network. (2016). Rooibos Tea Value Chain: Lessons for Policy and Practice, p. 6. Retrieved from: https://erln.gtac.gov.za/attachments/article/311/Case%20Study%201_Rooibos_14%2011%2016.pdf.pdf

⁹ Doyle, B. and Bell, A. (2014). Reading the Tea Leaves at Tea and More: Resolving Complex Supply Chain Issues. Operations and Supply Chain Management: An International Journal, p.172.

¹⁰ Renaut, A. (2020). Spotlight on Kawakawa [Blog]. Retrieved from <https://www.kiwiherb.co.nz/about-us/blog/spotlight-on-kawakawa/>

