DISPATCHES

FIELDS OF GREEN Sri Lankan tea pickers wait to weigh their haul.

Vintage Ceylon

Sri Lankan tea producer Dilmah is **taking a leaf from the wine industry** by marketing its beverage as high-end and chic. **BY ERIC ELLIS**

GETTY

PHOTOGRAPHS BY PALANI MOHAN

DILHAN FERNANDO gathers a fistful of earth and surveys his family's sprawling estate. "What's grown on that field," he says, pointing to a lush cultivation on a distant misty hill, "will differ dramatically from what's grown over here." He lets the dirt sift through his fingers, as if for emphasis. "And they will both be superb drinking."

No, this is not France or Northern California, and the drink isn't a cherished chardonnay. We're in the verdant highlands of war-torn Sri Lanka, where the terrain is sculpted with waist-high tea bushes, and a marketing makeover for the humble cup of tea is underway.

Heirs to one of Sri Lanka's biggest businesses, a $500 million empire with sales in 93 countries, Dilhan, 40, and his brother Malik, 41, are trying to claw back some of the $70 billion global hot-beverage market conceded to coffee by making tea fashionable. The world might drink more than a billion cups of tea a day, but big producers have struggled to add value to the brew, while Starbucks and other coffee brands have prospered. So the Dilmah Group—the name is taken from the first syllables of the brothers' names—has positioned itself like fine wine. Its elegant packaging is heavy with wine iconography: descriptive labels equating a robust black tea to a shiraz, or a fine white leaf to champagne. The aim is to present the tea as the purest in the world while also playing to consumers' health concerns and rising enviro-consciousness. Unlike the blends in an average tea bag, which can contain leaves processed from several supplier countries, Dilmah says its teas are from a single origin. "You have to regard tea in the same way as you would an immaculate vintage," says the brothers' 77-year-old father, group patriarch Merrill Fernando. "People need to know what they are drinking."

That's an attractive pitch, but it doesn't wash with Dilmah's main competitors, beverage majors like Unilever, whose Lipton brand is world leader with 15% of the global market, and Associated British Foods, second globally with Twinings at 6%. "The wine analogy is fairly ridiculous in big wine-drinking countries, which also tend to be tea drinkers," says John Cornish, Twinings' international marketing director.

The multinationals would say that, snorts the elder Fernando, who says he has spurned many offers to buy him out over the years. "I've stayed true to the leaf because I believe in its quality and not in its mass-market commoditization."

The company—"my third son," Merrill describes it—which was founded in the midst of civil war in 1988, effectively created a new market segment that the industry now calls "curiosity teas." But Dilmah is less and less a niche player today, as the market has come to it. According to Euromonitor, a London market research consultancy, Dilmah is now the world's third-largest standalone global tea brand, about even with Tetley, which is owned by India's Tata Group. Merrill claims Dilmah's innovations have forced competitors to follow with their own specialty brands. Starbucks, too, has caught the boutique-tea trend, with its 1999 purchase of Tazo Tea. "Dilmah is a very interesting company," says William Gorman, executive chairman of Britain's Tea Council. "This is an industry that has been incredibly slow to innovate, and relatively tiny Dilmah has showed it how." The company has doubled in size since 2000, averaging annual 15% growth in revenues and profits, according to Dilhan, who adds that a quality edge allows margins up to 40% higher than those of its competitors.

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The Fernandos are no friends of the fair-trade trend raging through the beverage industry. Merrill dismisses last month's Rainforest Alliance endorsement of Unilever's teas as "holistic," calling it "marketing hype." Tea pickers' wages are union-set in Sri Lanka, but Dilmah argues it is the "original fair trader" by providing workers with extensive social welfare—homes, schools, hospitals, clean water—in regions neglected by the government.

Dilmah's latest gambit is the T-Bar—standalone, chic-and-trendy outlets targeting the Buddha Bar set. A recent Miss World is its brand ambassador. Some 65 T-Bars have opened in rising economies like Poland, Belarus, Kazakhstan, and the United Arab Emirates, places where the industry majors have a lesser presence. The first in the U.S. is to open in San Diego in September, and the company hopes to have 200 outlets by 2015. Dilmah is also planning releases into the sector's fastest-rising segment, ready-to-drink teas, where Twinings and Lipton have made early inroads. "The strong desire among consumers for a refreshing, thirst-quenching natural beverage has spurred growth of ready-to-drink teas," he says. "But the reality does not yet deliver on the expectation of health and natural goodness."

Talk of natural goodness may seem out of place in Sri Lanka, which isn't exactly the world's healthiest economy. Dilmah operates with a creaking infrastructure

TEA TRIO Merrill Fernando (center), with sons Dilhan and Malik, in their T-Bar in Colombo and labor laws scarcely improved since British rule ended in 1948. That can make getting goods from plantation to port tricky for a product that stresses freshness, says Dilhan, citing a 100-mile journey from Dilmah's estates that can take as long as seven hours. And that's only if Colombo's port isn't locked down and military security checks are smooth.

This tiny Indian Ocean nation of 22 million has been crippled by a bitter civil war between its minority Tamil (and mainly Hindu) community pressing for a separate state in the northeast of the island, and the majority Sinhalese (and mainly Buddhist) community in the south. The conflict has killed 70,000 people since 1983. A ceasefire in 2002 briefly brought peace—and a short-lived economic boom—but fighting broke out again last year. Worried shippers have abandoned Sri Lanka out of fear that their vessels will be attacked—resulting in freight costs up to 50% higher on the fewer ships braving Sri Lankan ports. “We've been able to manage and grow the business around the conflict,” says Dilhan. “But we watch things very closely.”

LOOSE LEAF Workers at a Dilmah tea estate in the highlands of Sri Lanka put tea leaves through a sorting and drying process that turns them from fresh-picked to packaged in less than 24 hours.

The Fernandos' tea estates lie in the middle of the island, and their functioning depends on a delicate political balance. The Fernandos are Sinhalese, but most of the group's 37,000 workers are Tamil, primarily women descended from indentured laborers brought from India in the 1800s to work on then-Scottish-owned estates. While the remote tea region is mostly peaceful, estate managers note with some concern that effigies of homegrown Tamil Tiger leader Vellupillai Prabakaran have begun to appear in the area's Hindu temples.

The country's complexities are reflected in Dilmah's marketing. Although the island has been called Sri Lanka since 1972, Dilmah and Colombo's state tea board market themselves as producing Ceylon tea, as the island used to call itself. That's not because the Fernandos are nostalgic for colonial rule. It's simply good business. “Sadly,” says Malik, “too many people associate the term ‘Sri Lanka’ with strife.”

Dilmah is unusual in the tea industry in being a vertically integrated operation—a producer, packager, and marketer of its own teas. But that has often been a thorny thing to be in Sri Lanka. Next to remittances from overseas laborers, the tea industry is one of the biggest foreign-exchange earners in one of the world's poorest countries. It has endured nationalizations, followed by halfhearted privatizations. Various postcolonial administrations in Colombo tried loosening the grip of the British tea estate houses, eventually succeeding in the 1970s by simply seizing them.

But the move backfired. With bureaucrats in control, Sri Lanka's tea industry almost collapsed as planters moved to Kenya, with devastating effect for the island. From virtually nothing in the 1970s, Kenya now vies with Sri Lanka as the world's third-largest tea producer and biggest exporter, after India and China, which consume most of their domestic output. “We definitely would have been more successful than we are today had we not had these problems and policies,” says Lalith Hettiarachchi, chairman of the Ceylon Tea Board.

Merrill Fernando got his start in 1950, when he was 20. It was a tough time, when estates were under colonial control and elephants would transport heavy machinery from Colombo. Close links to government helped. (His ex-wife—the brothers' mother, Devika—was the daughter of a government plantation minister.) So did the lucrative business of selling bulk tea to the former Soviet Union and Saddam Hussein's Iraq in the 1980s, which gave him the financial wherewithal to start Dilmah. Now hailed as an industry legend, he likes to keep old traditions alive, while his sons project a modern image for tea-drinking.

But the next challenge confronting Dilmah may have nothing to do with politics or marketing. Merrill recently fell ill and is progressively handing over control of his well-oiled operation to his sons. Still, when viewed against the backdrop of Dilmah's homeland, such tests are nothing special. F

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