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# TAN HUONG TEA COOPERATIVE

Vietnam



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PART 1

INTRODUCTION

IT WAS 5 A.M. IN THE MORNING AND MS. HIEP ALREADY LIGHTENED UP THE WOOD BURNING STOVE. BREAKFAST AND A HOT TEA POT WOULD BE READY FOR THE WHOLE FAMILY AT 6 AND SHE WOULD START HER WORK AT TAN HUONG TEA COOPERATIVE (THCO) AT 7 A.M.

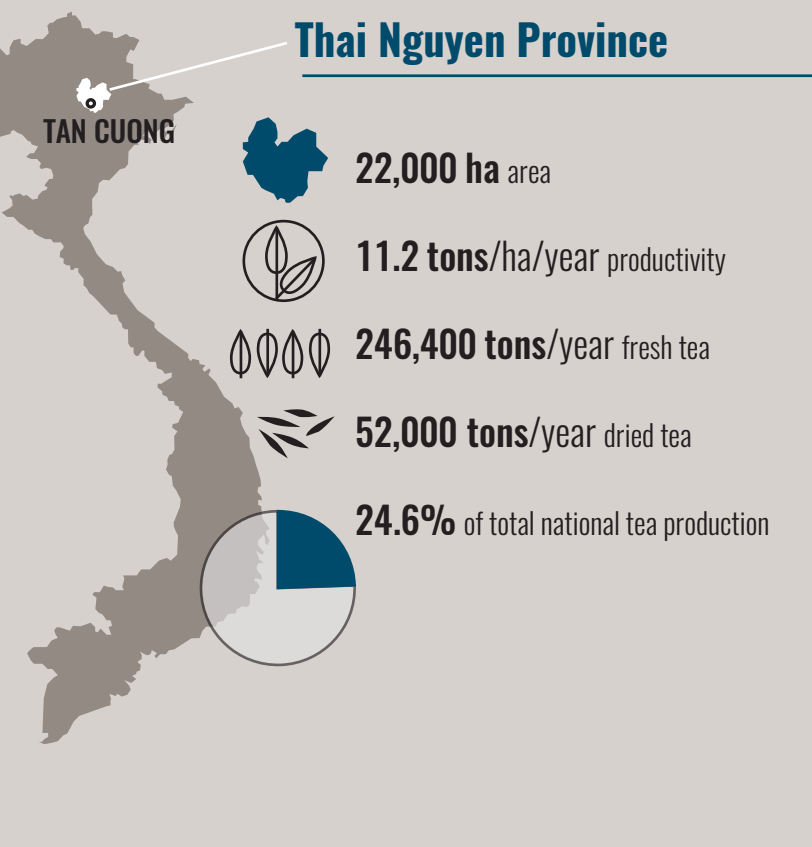
Today, Ms Hiep will pay a visit to her cooperative fellows. They just reported a thrips attack on their tea plantation and needed some advice. Although all the cooperative members were trained on Integrated Pest Management (IPM) and able to spot the disease at the early stage, they still needed to discuss with Ms Hiep before applying that new biocontrol product, Radiant 60SC. The seller said the product was safe to use but they needed a detailed instruction on how and when to use Radiant 60SC so that the pesticide application would not violate the UTZ code of conduct they had been following. It already took THCO couple years and a fortune to achieve and maintain that certification, a so-called "golden ticket" for the cooperative to sell their products to Europe, Canada, US, and more importantly, to affirm its position in the domestic market.

Ms Hiep established the Tan Huong tea cooperative in 2000. The cooperative is located in centre of Tan Cuong a place with unique soil and microclimate conditions resulting in tea with higher quality and price than any Midland areas with similar elevation.

The best-known tea of Vietnam, green tea from Tan Cuong in Thai Nguyen Province is one of only two in the country that has been awarded Protected Geographical Indication (PGI) by the Vietnamese government. The PGI classification is limited to a handful of communes around Tan Cuong and originally required the tea to be produced from the Trung Du cultivar. Tan Cuong tea, which is traditionally rolled into a small hook shape, is most commonly produced by small family businesses who both farm and process the leaf.



A CASE STUDY OF TAN HUONG TEA COOPERATIVE



Thai Nguyen currently has about 22,000 ha tea and with productivity of fresh tea leaves of 11.2 tons/ha/year, bringing a total annual fresh tea production of 246,400 tons, equivalent to about 52,000 tons of dried tea (processed tea). This accounted for 24.6% of the national wide tea production. Of which, tea for export only accounted for about 20%. The remaining are used for domestic consumption, especially high quality and specialty tea coming from famous tea growing areas.

In Tan Cuong, there is a total of 1,500 ha distributed in six communes: Phuc Xuan, Tan Cuong, Phuc Triu, Thinh Duc, Quyet Thang and Phuc Ha of Thai Nguyen city, Thai Nguyen province. Phuc Xuan commune (where the cooperative located in) is considered as a center point for tea market with more than 1,000 tea farmers and 380 ha tea plantation. There is wholesale market located in Phuc Xuan commune with hundreds of traders at different scales (small to big). Moreover, tea traders from other regions and provinces also come to Phuc Xuan to buy tea. Those traders then sell tea back to other retailers national-wide before the tea come to end users. Most farmers in Tan Cuong region (about 90% of households) are growing and also processing tea leaves manually at their home. Therefore, tea quality is usually not stable because it depends on the level of sensitivity and experience of farmers.

With 25 years experience in trading tea, Ms Hiep understood better than anyone that she had no power in controlling the market if working alone. With the technical support from Solidaridad, an international NGO based in Utrecht, the Netherlands, an agreement for financial contribution, and a commitment for collaboration of Ms Hiep's 32 best fellows, they could join forces and support each other in doing business. Ms Hiep had taken many roles in her life, a wife, a mother, a farmer, a trader, a quality controller. Each role gave her a new set of challenges, mistakes, and failures, but also new skills, experiences, and goals. All of them were difficult at first, but Ms Hiep believed that if she was persistent enough, all of her hard work would be paid off.

**AT THE END OF THE DAY, MANAGING A COOPERATIVE WAS NO DIFFERENT THAN MANAGING A FAMILY, A VERY BIG FAMILY. BUT THIS TIME, MS HIEP IS DEALING WITH A PROBLEM GREATER THAN ANYTHING SHE HAD BEFORE.**

During the past two years, the cooperative has been dealing a massive decline in sales due to Covid-19. The coop plantation yielded well during the lockdowns and the coop managed to continue its production activities. The problem is that they no longer have the trading network which normally helps to deliver their products to retailers all over the country, let alone customers overseas. Like many other food and beverage, green tea products should be consumed soon after being produced. It is because the level of tea phytochemicals, e.g. catechins, the compounds that show health-protective effects in humans, is highest when tea leaves are fresh. During storage, these phytochemicals undergo various reactions as the leaves interact with ambient oxygen and moisture and respond to fluctuations in light and temperature, causing green tea products to lose their taste and quality over time. This means the longer the cooperative have their products in storage, the greater values they will lose and a financial crisis will soon follow. Ms Hiep knew that without a well-formulated strategic plan cooperative the cooperative will face trouble in the coming years. The cooperative assembly planning meeting will be organized in two weeks and that will be the best time for them to discuss and contribute to the plan. She was eager to hear the ideas of the members and to present her own.

## PART 2

# RESOURCES

## 2.1 Initial investment

THCO was established with 32 initially members, and with contributed capital 150,000 VND/members to operating expenses. At the beginning, the cooperative encountered many difficulties such as no headquarter, no factory, no market, managers did not have professional management and administration skills, members did not really believe in the cooperatives. The difficulties were gradually overcome and resolved thanks to the determination, enthusiasm and dynamism of the Management Board. In 2005, the cooperative had funds to rent land and build headquarters and factories with total area of 400 m<sup>2</sup>. In terms of tea growing area, by 2019, THCO had 25 ha of 56 official members, an average of 0.45 ha per member, of which 11 ha of tea plantations had UTZ certificate.

As the first tea cooperative to produce tea according to UTZ standards until now, THCO still maintains the tea processing and production process according to this standard. In order to ensure both food safety and good quality of its tea products, the cooperative upgraded the factory, purchased machinery and equipment for tea processing using modern technology combined with traditional methods. To process and preserve well the products after processing, the cooperative is equipped with specialized machines such as tea flavoring dryer, vacuum cleaner, vacuum, advanced conveyor packaging machine. At the end of 2020, the total value of non-currents assets of THCOP reached 1,313.6 million VND.

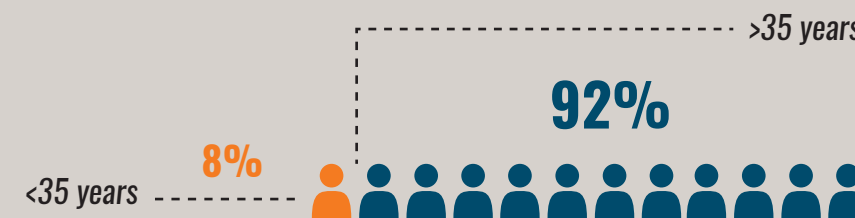
## 2.2 Labor

At the starting point, the cooperative had 32 members, 100% were woman. Currently, THCO has 68 members with 9 men. Among them, 56 official members contributed capital and 12 affiliate members who do not pay any membership fee and share. These farmers produce safe tea and are invited to join trainings organized by the cooperative. The affiliate members also can provide tea to the cooperative when the cooperative has big order that current members production is not enough. As explained by the board, the cooperative will accept those affiliate members once their sales increase to a certain level that is over capacity of current members. The average age of THCOP member is 47 years old, the members are those who have long-term experience in growing tea.

The cooperative's scale is relatively small with 7 staff who have knowledge and experience in producing, marketing and trading tea. Basically, the current staff have sufficient competencies to meet the needs of the cooperative's considering its size. The age of the leadership/the Board of directors of the THCO is over 60 years old, only an accountant is under 35 years old. Cooperative leaders are very enthusiastic, progressive, willing to change, and ready to apply new things, however, high age is a barrier to innovation ability, to accessing new technologies in trading, marketing especially in the context of applying digital technology in business.

In addition, with the average age of cooperative members being quite high, only about 9% of its members are under the age of 35. It seems it will be difficult for THCO to foster the next leader generation.

FIGURE 1: Age structure ratio of THCOP members





## 2.3 Governance and management

As mentioned above, THCO has only 7 employees and 56 official members, so management of human resources is mainly in charge of the director cum chairman. The arrangement and assignment of tasks between positions is quite clear, although THCO has no HR manual, no official personnel policies, or formal job description.

### BOARD OF DIRECTORS AND BOARD OF MANAGEMENT

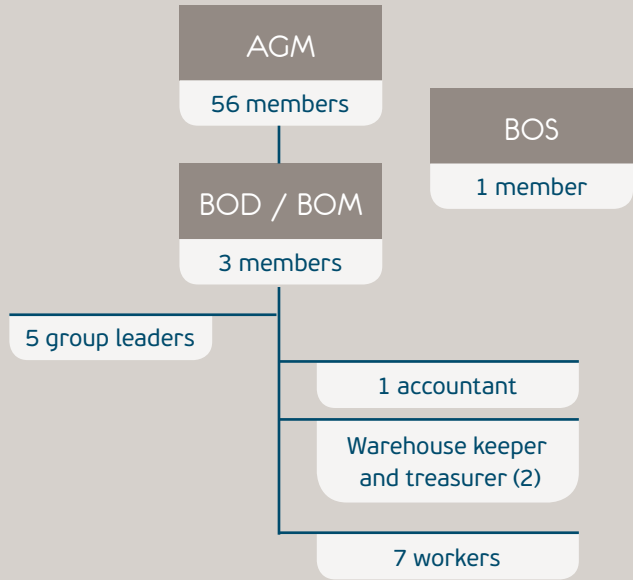
Board of director cum Board of management have three women, who have over 40 years of tea growing and trading experience, and who are very smart and sharp. Their duties include: to manage the funds contributed by members every year plus the net income from transactions; to appoint and dismiss important managerial positions of the cooperative; to manage the output quality control of the cooperative.

The professional department has four people: a chief accountant, an accountant, a storekeeper and a treasure. In addition, the cooperative has five tea production groups under UTZ standards, which are managed directly by five group leaders. The responsibility of the five group leaders is: to manage and supervise the use of fertilizers and pesticides in the tea production zone of the member households; take notes and report to the head of the department to understand the production situation of members.

The operation of the THCO's departments/positions is quite simple, all staff meet almost every day, therefore work and important issues are directly discussed. Mistakes are observed, detected and prompted directly by the board of management.

The key titles in the cooperative are all staff with intermediate to college degrees. The staff with university and postgraduate degrees are very limited; in addition, the cooperative still lacks marketing and sale staff. Meanwhile, with low wages and poor remunerations, it is increasingly difficult for cooperatives to attract qualified young people.

FIGURE 2: Organization structure. Source: Agriterra, 2020



Furthermore, at THCO, BOS with a controller who is responsible for controlling the cooperative's activities, controlling the compliance with the provisions of the Cooperative Law 2012 and controlling the activities of the management board, including the accounting department. However, the controller's professional qualifications in accounting and finance are still limited, so the control over activities of the accounting department is formal. This is also the general limitation of the supervisory board in agricultural cooperatives in Vietnam.

### MEMBERS

Members get priority to sell their products to the cooperative, and receive technical trainings held by the cooperative and related stakeholders. Supplying tea to the cooperative, members receive a better price compared to market price that normally determined by local traders. The cooperative adds 5% on top of the market price for UTZ tea. Market price will be applied for non-certified tea. In addition, all members have opportunities to participate in technical trainings on growing tea and processing tea organized by THCO and related stakeholders. Moreover, the more transaction made, the more dividend a member can gets. In addition, members receive other social support from the cooperative such as having visit and in-kind support when getting sick. Annual travels to famous places will be also provided to members and their family.

As of 2020, the cooperative had a strict requirement on membership. As the main goal of the cooperative is buying and selling 100% high quality tea from the members, the cooperative does not accept additional members when they have not yet sold out their members' production.



Moreover, the cooperative strictly oversees its members in tea producing procedure. Those do not follow growing guideline will be recorded and warned. Those broke the law more than three times will not be able to sell tea to the cooperative. If these farmers still make mistake, they will be reconsidered membership status. The cooperative reviewed membership status for about 12 members in 2021, who had not strictly followed tea cultivation guideline.

If there is someone who breaks the rules, such as using un-safe herbicides, the cooperative will stop buying tea from those farmers for at least 3 years. And during the 3-year challenge, if a farmer still violates the rules, then the cooperative will reconsider membership status of that member.

There is no obligation to sell all production to the cooperative, neither formal contracts. Farmer members can either sell their tea to THCO or to local traders. For example, when members need immediate cash, they can sell their tea to local traders who can pay cash on delivery. The cooperative often pays back members in 30 days after the transaction recorded. Sometimes, payment paid to members in 3 months. Farmers often transport their produces to the cooperative. Farmers officially registered for UTZ program will be prioritized to sell tea for the cooperative.

The tea market is very vibrant in Thai Nguyen province in general, and in the Tan Cuong region in particular. In Phuc Xuan commune, where the cooperative located, there is a wholesale tea market with active participation of hundreds of traders at different scales. Because there is no obligation to sell 100% production to the cooperative therefore farmers can sell their tea to local traders.

For example, in 2018 harvesting season, collective buying and selling was about 56% of the UTZ tea or 23.5% of the total production. However, the figure dropped to 52.3% of the UTZ tea and 19.4% of the total tea production for the 2019. This reduction caused by a decrease in sales of the cooperative, explained by the board.

### MEMBER COMMITMENT

The cooperative members consider themselves as a coop member of a family. Even if there is a better choice they still stay with the coop. They are willing to invest more in the coop if needed. Members also confirmed that the coop is transparency and fair to the members, their voices are heard, they are invited to decision meetings of the coop.

## 2.4 Finance

When newly established, THCO operated with an initial capital of 6,080,000 VND, of which each member contributed 150,000 VND. After 20 years, the total value of the cooperative's capital is up to billions of VND. In 2017, total assets of THCO achieved 3,133 million VND, however, this figure is decreasing during the last 4 years 2017–2020, to 2,702 million VND by 2020.

The total capital of THCO is financed from equity and short-term borrowing. The contributed capital of cooperative members has increased year by year. Specifically, the total equity capital of the member was to 1,764 million in 2017 but increased to 1,919 million in 2018 and the largest share capital in the 4 years was 2,385 million in 2020, equivalent to 42.6 million per member. This shows that the cooperative's business activities are quite stable, so cooperative members tend to invest and expand their contributed capital. The mobilization of capital from members and funds from organizations/government contribute to creating a low-cost and sustainable capital source for the cooperative.

On the contrary, liabilities have decreased continuously in the last 4 years, from 1,369 in 2017 million to 317 million in 2020. The debt ratio in 2020 is only 12%, which confirms the strong solvency status of the THCO. This also proves that cooperative is proactive in terms of capital, gradually reducing its dependence on external loans.

Given the current financial structure, it can be seen that THCO is in a “financially safe zone”. However, in financial management, the level of safety is opposite to the level of profit/growth. Cooperatives with a relatively low total capital in investment in production and business have not really made a breakthrough to create strong development for cooperatives. Meanwhile, the capital of THCO is mobilized mainly from members, with a small number of members, and a low financial capacity of the member, so the amount of capital mobilized for the cooperative is limited.

THCO has a strong financial status and has a good financial management system:

- The cooperative has ability to mobilize internal capital up to 50% of its total assets.
- The total debt to total assets ratio is low (16–33%), indicating that there is a low risk on financial management of the cooperative.

FIGURE 3: Change in THCO's capital over the last 4 years

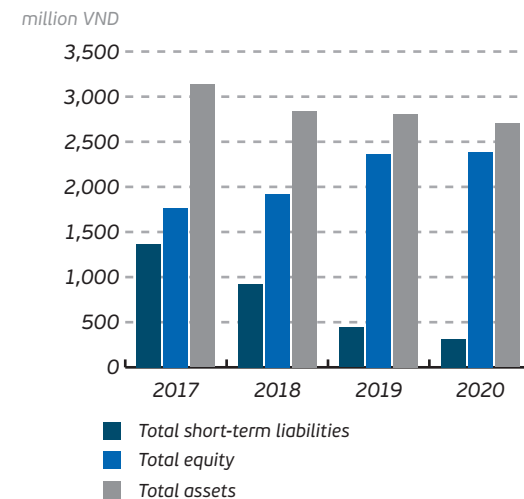
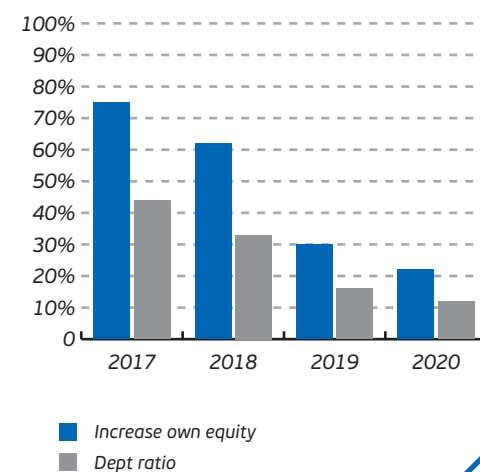


FIGURE 4: Solvency



## PART 3

## PRODUCTION PROCESS

According to Ms Hiep, Tan Huong means new flavor of tea, THCO is a new type of tea cooperative. The desire to bring new vitality and new value to tea products has been the main purpose of THCO since its establishment.

Vietnam is currently the 5th largest tea exporter in the world, according to the Ministry of Industry and Trade. Most of Vietnamese tea is still mainly exported to easy markets, there are not many products that meet the export standards to the market with high quality requirements such as EU, the US. Therefore, up to now, Vietnam's tea export volume only accounts for a small proportion of the world consumption. Moreover, Vietnam tea is mostly exported as raw material for further processing. Tea is a crop that has been associated with farmers in Thai Nguyen province for a long time and is a crop of high economic value.

At that time, tea products did not have a brand name, and the production process was not recognized. Therefore, tea produced by organic process, UTZ or Vietgap was also priced like other types of tea and was collectively known as Thai Nguyen tea (name of the tea area). Faced with that situation, THCO has set itself two goals: first, to build a tea material area with traceability, and second, to build a tea brand for the cooperative (Tan Huong tea brand).

To achieve the set goals, the cooperative has focused on all stages in the tea production and processing process from the preparation of input materials, production activities to the construction of an output system for the product.

## 3.1 Input

Farmers need fertilizers (both artificial and organic/compost), pesticides, herbicides for their tea farms. Currently, the cooperative does not provide those inputs consequently farmers have to purchase input at local shops. The cooperative suggests good shops for farmers to buy.

THCO does not provide any financial services to farmer members for purchasing farm input. However, local shops can provide post-paid service for those buying inputs from their shops.

As an experienced trader in the tea business, passionate about developing sustainable tea plants, Ms Hiep understands very well the importance of preparing inputs for the tea production process. She discussed with the members of THCO learning and following the safe tea production process. In the 2000s, when the VietGap certificate was not yet born, Ms Hiep mobilized the members of THCO to participate in growing tea according to Integrated Pests Management (IPM) standards. IPM is based on 4 basic principles, which are:

1. Growing healthy trees
2. Protect and use natural enemies
3. Regular visits to the field
4. Farmers become experts.

But the members of THCO had been already familiar with the old production method, so it had not been easy to convert the production method. Ms Hiep tried to contact and invite lecturers from the Vietnam Tea Institute to teach members about tea varieties, soil selection, and tea growing techniques; at the same time, invite staff from Thai Nguyen Provincial Protection Department to teach farmers the knowledge to make good products, ensure food hygiene and safety according to IPM. Always worrying about finding opportunities for THCO and building the Tan Huong tea brand, Ms Hiep keeps thinking about how to ensure that THCO's tea products have the best quality. Thanks to her solid knowledge, ability to persuade and explain, she has always received the support and consensus of the members of the cooperative in organizing learning and implementing new farming techniques according to IPM, VietGap.



Moreover, the cooperative was the dominant player in the tea market in Thai Nguyen province since it was the first organisation who received UTZ certification of producing traditional tea in Vietnam in 2011. The cooperative has 68 members (both official and affiliate members). All members grow tea using UTZ certified farming practice. However, there are only 25 members officially registered the UTZ program. When the cooperative can increase sale volume then more members will be joined UTZ certification. For those joining UTZ program has to strictly follow the farming guideline provided by the UTZ certification organisation. All farmer members have a farm record where farmers note all activities on their farm. The record will be regularly checked by either a supervisory board member or by THCO managers when farmers deliver tea to the cooperative. THCO often provides technical trainings for members on different topics such as taking care of tea trees or processing tea and so on. The cooperative has about 25 ha tea farm with a total production of about 70 tons annually. Of which 11 ha is UTZ certified with an average production of 29 tons per year. 14 ha has no UTZ certification but applied UTZ cultivation farming practices. As explained by the board, the cooperative has recently not yet sold all UTZ certified tea, therefore, to save cost, the cooperative has not yet registered 14 ha under UTZ scheme. But international standards need to be regularly updated, and for 2 years (2020, 2021) THCO was unable to register for the UTZ standard because of the impact of the COVID-19. Being recognized for what THCO has been doing, the cooperative has received great support from its members and related stakeholders such as NGOs and provincial farmers union. THCO is being supported by Agriterro so that Tan Huong tea products meet organic tea standards and qualify for export to fastidious markets such as the EU and US.

## 3.2 Processing

On average, each member has about 0.45 ha tea farm and equivalent to about 1 ton of dried tea leaves. Farmers often pick tea buds 8 times per year. After plucking, farmers do the withering, bruising and fixing at their home. Fixed tea then packed into 50 kg clear plastic bag and stored at home waiting for selling either to the cooperative and local traders. The cooperative often buys tea 3 days per week on Monday, Wednesday and Friday. Farmers transport tea to the cooperative using their motorbikes. Quality of the tea then will be checked carefully by a sales team that consists of board members and manager who have high experience in tea cupping. Tea quality will be graded based on its color, shape, flavor and taste. Price paid to members based on its grade. If the tea meets minimum standard then it will be stocked. The cooperative has a separate room for storing tea. It can store up to 10 tons of tea. However, as explained, the cooperative tries not to store as much as tea, it tries to minimize goods in stock to have a good cashflow and to make sure quality of the tea is always the best. Regarding to the aforementioned tea processing procedure, tea from members is fixed tea.



The cooperative then does further processing (drying) to create flavor for the tea. This is a very important step and only can be done by experienced staff. This is additional value that the cooperative can add to tea product from its members. The cooperative currently has two rotating drum roasters used for drying tea. There are 4 staff fully working for these steps. Additional part-time staff will be hired once the cooperative has a large order. In addition, the cooperative adds more values to the tea by providing packaging and marketing services. Tea will be packed in bags of 50 g, 100 g, 200 g, 500 g. By doing this, tea can be stored for longer time but quality is un-changed, consequently the cooperative can sell tea for higher price comparing to selling tea packed in bigger bags, such as 1 kg.

## 3.3 Output

When THCO was established, there were no customers, tea growers did not have faith in the success of the cooperative, so tea consumption faced many difficulties. In order to create trust for the members of the cooperative, Ms Hiep found channels to sell the cooperative's products by herself, using her personal money to buy tea from the cooperative members and pay other expenses. After selling the tea, she collected the capital and left the profits for the cooperative. Since then, the members of the leadership of the cooperative have had faith in her, they have built and implemented the cooperative development ideas with her without any public money. But they were happy to be able to consume tea themselves as family.

The cooperative has a clear position in the market of buying raw tea leaves from members then adding more values by grading, further processing, packing and marketing the tea. Being recognized for what THCO has been doing, the cooperative has received great support from its members and related stakeholders such as Provincial offices. That helped her approach provincial departments, agencies, send them tea products of the cooperative and leave a phone number for them to contact. Some of the individuals as well as organizations did contact her, others did not. She actively asked for feedback from the customers on the cooperative's products. She has used many channels to contact customers such as participating in product introduction fairs, contests, volunteering to give gifts when the province has big programs. She is never discouraged in approaching customers, if this approach is not effective, she will find another way. Tan Huong tea products have been known more and more by people in the province and neighboring markets. But along with that, there is also fierce competition of rivals. Ms Hiep has regularly researched the market and consumer tastes to produce products with good quality, beautiful designs, and many meanings. Since then, in addition to traditional products of Tan Huong Tra brand, the cooperative also has Tam Phuc Tra and Bach Ngoc Tra. These are two products that show the enthusiasm of tea growers for tea plants and society when creating high quality products based on sustainable production methods, beneficial to the environment and public health. These two products have also been twice recognized as national industrial products and 4-star OCOP products.



Tan Huong Tra was also known by a Canadian tea trader, who contacted the cooperative to buy tea and transport it to Canada and the US. However, the output was very limited. Thanks to the extraordinary efforts of the leaders of the cooperative, who then were all in their 50s and 60s, the cooperative developed, brought prosperous life to tea growing households, made contributions to the community and positively contributed to the state budget. Therefore, in 2017, the cooperative was honored to receive the 3rd class labor medal and the cooperative director (Co Hiep) also received the 3rd class labor medal.

The cooperative has no marketing strategy to enable it to differentiate its products in the tea market. About, 70% of its products is sold to Thai Nguyen People committee who has been the loyal customer of the cooperative since 2011, 20% to 2 traders (one in Hanoi and the other in Nha Trang), and less than 10% to small traders / local shops and final consumers. Although the quality of its products remains stable, the key marketing message and packaging of the products are not attractive enough to meet various and changing needs of the market. The distribution channels are also limited, mainly in Thai Nguyen and relying a lot on one customer: Thai Nguyen People Committee. The cooperative allocates a modest fund for marketing and sales activities, accounting for less than 10% of the total operational expenditures, indicating not sufficient resource and efforts for these important activities.

The cooperative does not see any threat in the value chain, as stated by the board. The main reason for this is because the cooperative has not done any market research and value chain analysis for years. Therefore, the cooperative lacks up-to-date changes in the market and actors in the value chain for instance, changes in consumer preferences. Nowadays, Vietnamese people, especially the youngsters, are getting busier with working life and consequently having less time for enjoying tea in a traditional way. They prefer more and more using instant tea bags for saving time. This shift in consumer preference is rapidly happening. Companies who see the changes will have strategies to scope with changes. Those don't see this change will be left behind and consequently end up with a reduction in sales. Added value is fundamental to a business.

First, THCO does the grading so that tea from members sorted into different quality standard. Second, THCO further processes raw tea so that tea has better flavor and color. This step is crucial to produce high quality tea. Third, THCO packs tea in eyes catching vacuumed bags and with its clear logo and information on each bag. This help to attract customers and consequently boosting sales. Last but not least, collective marketing tea products is an aspect that many agricultural cooperatives often face challenges and hesitate to do. By doing this, THCO can introduce their products to buyers and cut cost for middlemen and therefore increase profit margin for its products. There is still potential for improvement for the cooperative in its tea value chain. As mentioned in previous section, THCO's ambition in the coming years is to build a collective tea processing center where tea will be processed in one place. This will significantly increase tea quality and save costs resulting in high income and profit for THCO and for its farmer members. Moreover, there is an increasing demand for organic tea. Thus, the cooperative has step by step applied organic farming practices into part of its tea farming area. Currently they do a piloting model for an area of 0.6 ha. With organic tea, THCO can reach high-end customers. In addition, THCO is also looking for collaboration opportunities with mini-mart and supermarket chains so that its tea can be widely distributed in this channels. Understanding the limitations and challenges THCO has been using Agri-terra's help to implement organic tea production. In 2021, the cooperative made positive changes when started producing jasmine tea bags for export to the Canadian market and has been highly appreciated by customers for the quality of the goods. Hopefully, this will lead to the development of a successor team through the young farmer's club consisting of cooperative members under the age of 40. Children of the members have a love for tea plants.

## PART 4

# MARKETING ACTIVITIES

Currently, the chairwoman (cum manager) and vice chairwoman (cum vice director) are responsible for the marketing position. As explained by the board, it is highly challenging for the cooperative to recruit capable marketing staff. Without any formal knowledge in marketing, two board members have carried out some marketing activities and achieved certain results. For instance, logo of the cooperative has been designed and registered of intellectual property. UTZ certification is consistently used on labels. Products are beautifully designed and packaged to be suitable for each group of customers.

*THCO has currently four main types of tea groups based on quality (product categories and the respective selling price in VND):*

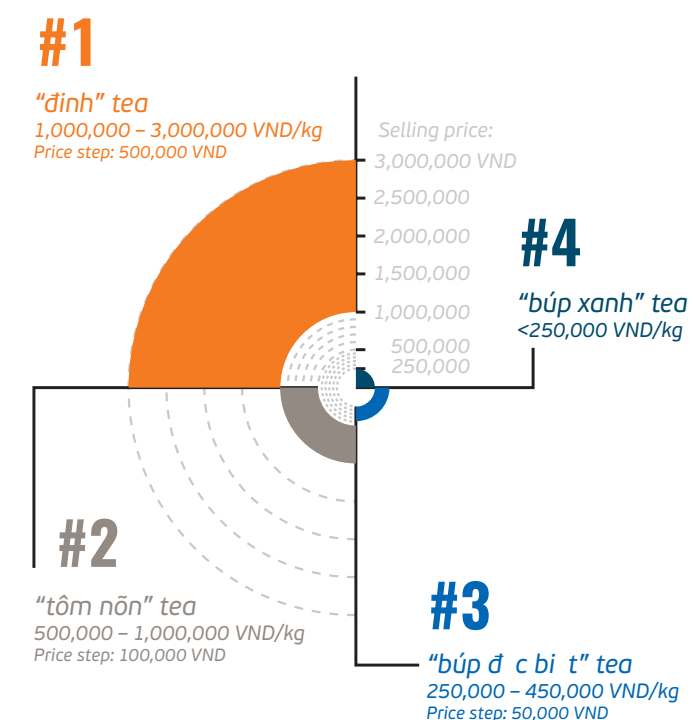


FIGURE 5: Various eye-catching designed packaging





The cooperative keeps searching for ways to improve value addition to its tea products. Stabilizing and standardizing tea quality is the first ambition. Currently, fixed tea processed at each member households. Therefore, quality of the tea will much depend on processing technique and experience of farmers. As a result, tea sold to the cooperative is at different quality and price. This will negatively affect income of those who have poor processing technique. To overcome this issue, THCO plans to build a collective processing station with up-to-date machines that can process all fresh tea leave delivered by members.

Moreover, reusing broken tea (a by-product arose during processing) is also a way to have additional value. Currently, as part of processing, there is a considerable amount of broken tea. This type of tea has a very cheap price when sold to local market. Therefore, the cooperative is looking for opportunities to produce instant tea bags (dipping tea bags). This is a new market segment and requires high investment in machineries, therefore the cooperative needs to have further data and market survey before making decision.

The cooperative became the dominant player in Thai Nguyen tea market during 2011–2015 after it was the first organisation which received UTZ certification of producing tea in 2011. However, during 2016–2020,

the cooperative lost its dominant role and part of its market share to emerging competitors: other cooperatives and private companies who work in tea production industry. The key reason is while the product portfolio and the quality of Tan Huong cooperative tea product remain the same, its competitors improved the quality of their products and diversified their product portfolio significantly. E.g., NTea company produces over 50 types of organic tea products in Thai Nguyen province and sell their products in the whole country and exports 70% of their product volume to other countries, serving young, middle-age, and senior generation. Tan Huong cooperative has only 4 types of products, serving only middle-age and senior generation who are familiar with traditional tea produced in Thai Nguyen for many years.

At the moment, THCO has two main client segments. First, end users (including the office of provincial People Committee and people buy tea directly at THCO office) accounts for 80% of the total sales volume. Those customers buy tea for both direct consumption and as gifts. Data for each purpose has not been well documented. Second client segment of THCO is retailers consisting of mini-super markets (two) and small shops (two), which accounts for 20% sales volume. These clients often buy tea packed in normal bags then sell to end-users.

TABLE 1: Key buyers of the THCO in 2017–2020. Source: Cooperative assessment Tan Huong Tea, Agriterra 2020

Tea	Unit	2017	2018	2019	2020
Total quantity produced by members	tons	70.0	70.0	70.0	70.0
UTZ tea produced by members	tons	29	29	26.526	26
Quantity bought by cooperative from members and sold	tons	15.740	16.463	13.607	16
Key buyers	Unit	2017	2018	2019	2020
% bought by buyer Thai Nguyen Provincial People Committee	%	35	35	35	25
% bought by buyer Provincial Party Committee	%	35	35	35	25
% bought by buyer shops in Nha Trang and An Giang	%	20	20	20	40



THCO is taking quite a good care for this client by providing high and stable quality tea, offering reason price and delivering on time and with any quantity. Moreover, as shared by the board, the chief of administrative office was part of a program providing support for the establishment of THCO 20 years ago. Therefore, this key person always supports the THCO since the time it was established. Beside this key buyer, the cooperative also has a good relationship with other buyers as well. As an evidence THCO easily booked appointments with managers of those organization for interviews.

REPUTATION OF THE COOP

The buyers commented that the chairwoman is entrepreneur minded, and that the coop is a responsive supplier, so a principal contract has been signed between the parties and both sides of the contract implemented their transaction in a responsive manner. They expect that tea transaction between Tan Huong and their business will increase significantly in the coming years. They also said that Tan Huong has good product and reputation but does not make use of it. It is not easy to find information on the website or on social media, so buyers outside the province are not aware the good product. Plus, the consumers have no idea about UTZ tea standard, and distinguishing among several tea standards (VietGap, UTZ, conventional teas) is hard. Many kinds of tea also try to mark with band name safe tea or Tan Cuong tea is also negatively affects reputation of the coop product. Therefore, reaching a premium price for UTZ tea of the coop is a big challenge. The buyers also commented that the packaging design of the coop is not very good in comparison with other brands.

The local government departments consider Tan Huong cooperative as a showcase and one of the top three cooperatives in the province. The coop has received many compliments, recognitions and awards from local to central government levels and programs (OCOP, cooperative comparison). They appreciate coop's achievements and contribution to the local social economic

development. They also commented that the coop has good members, who are responsive women, have good reputation in the coop and the community, who have led the coop to the current success. The local government agencies think that Tan Huong has a good, stable business producing safe tea that protects the environment and health of farmers, workers and consumers. This is also in line with current and future market trends. In addition, in terms of operation, the coop is a true cooperative established by its members, controlled by members and for members, everything is fair and transparent.

INTERNAL AND EXTERNAL PROMOTION

Main service that THCO provides to its members is joint marketing of dried tea. THCO is one of few single purpose agricultural cooperatives in Vietnam. This allows THCO to focus on its main business using their total human and financial resources to achieve good business performance. In addition to the main service, the cooperative organizes free technical training on tea farming for farmers in partnership with related stakeholders such as agricultural extension center.

Besides having good relationship with buyers mentioned above, the cooperative is also aware of buyer's satisfaction, regarding its products and services. For example, most of retailers care much about stable price therefore the cooperative applies one price policy for those customers throughout the year. For government offices, they use tea for daily drink, therefore, to better preserve the tea, THCO packs tea into smaller bags (such as packing in 100 g bag). This activity can help the tea to keep its for longer time.

For the end-users, the cooperative has not done needs assessment to update their needs. What THCO can do is to produce the highest tea quality and diversity of tea products to meet different needs of customers. For example, the cooperative provides tea with wide range of price, ranging from 200,000 VND to 3,000,000 VND. Therefore, customers have plenty of choices.



## FUTURE PLAN FOR THCO'S BUSINESS DEVELOPMENT

### MITIGATE CONSEQUENCES OF CLIMATE CHANGE

Climate clever cooperatives are cooperatives that are resilient to the impacts of climate change, reduce their negative impact wherever possible, and increase their productivity in a sustainable way.

**BUILD RESILIENCE TO THE IMPACTS OF CLIMATE CHANGE (ADAPTATION).** Farmers have experienced significant changes in climate in recent years comparing to 10 years ago. Typical changes observed in the region is **drought** and **irregular rainfall**. Drought reduces the yield of tea shrubs as the low soil moisture content reduces photosynthesis, growth and survivability of plants. Reduction in yield has run on effects for the entire value-chain; supply disruptions upstream detrimentally affect overall cost structures and sourcing options. This results in broad financial losses and less income opportunity at farm-level. For example, in 2019, there was almost no rain in March, April and May resulting to exhausted surface water. Fortunately, members of THCO all have deep well and water pumping system therefore they could still have water for its tea farm. Consequently, there is slight impact on production. However, costs for electricity considerably increased resulting in higher production cost.

Changing patterns of rainfall and its distribution have already been seen to be problematic for tea production in Thai Nguyen province. As reported, in 2019, heavy rain lasted for long period. Especially in summer, on days with **high temperature** (38–40°C), heavy rain caused “temperature shock” that negatively affected health of trees and made suitable conditions for pests and diseases spread. Consequently, farmers have to pay

more costs for taking cares of farm and costs for herbicides and pesticides. Irregular heavy rains in January and February (springtime) also negatively affected tea quality.

At THCO, 80% of members have invested in digging deep wells (30–50-meter depth) to exploit the underground water and improving irrigation systems to make sure that they have adequate water for tea trees during the shortage periods. In addition, taking more regular farm patrols in order to early discover diseases could help farmers prevent diseases at the beginning stage. As shared by a leader of the Provincial Department of Agriculture and Rural Development, the organization is proposing a project to World Bank to support tea farmers improve irrigation systems. However, the province currently has not yet had a comprehensive plan to deal with climate change and sustainable use of natural resources. At the local level, THCO is also in the same situation.

FIGURE 6: A pole with rotating watering valve. Source: THCO, 2021



### MINIMIZE NEGATIVE IMPACTS ON THE ENVIRONMENT.

While THCO has no clear plan for climate change adaptation and mitigation, the cooperative members are well aware of recent changes in climate and associated negative impacts to its tea production and quality. Thus, the cooperative is taking initial steps and actions to minimize the negative impacts on the environment. For instance, THCO grows tea under UTZ certification program, resulting in a minimum use of pesticides and herbicides. In addition, the cooperative is shifting to produce organic tea. This will stop the use of artificial fertilizer and toxic chemicals for tea trees and the environment

**UPGRADE KNOWLEDGE.** At the cooperative level, as part of the capacity building programs for its members, THCO often organizes trainings on how to take a good care of tea trees. Therefore, changes in climates with associated negative impacts and doable mitigation actions has been introduced to farmers during these trainings. For example, farmers were taught to use rice straws to cover roots of the tea trees to keep moisture and reduce heat.

**ENHANCE STRATEGY AND OPERATIONS.** In the next 5 years, THCO aims to improve living standards of farmers members by collective buying and selling 100% tea from farmers. However, the cooperative does not have a clear strategy and action plan to realize its high ambition. The cooperative believe that they can step by step reach to the goal. They think that organizing farmers and producing certified and high-quality tea will be the first and important step to position the cooperative in the market. With high reputation in the market, the cooperative will attract more customers resulting an increase in sales. In addition, THCO can collaborate with partners to develop distribution channels and new products (such as **organic tea**) in order to increase value addition to its tea products.

At the moment, there is no clear and long-term financial plan in place. However, the cooperative always has an annual plan to mobilize and maximize its current financial status. As evidence observed in the financial management health check, THCO has a strong financial position that can adequately finance for its current business activities.

The current average dried productivity of the farmers is about 2.8 tons/ha that is actually higher than average yield in the province of about 2.2 tons/ha.

As reported, 40–50% sales volume occurred in January and February each year because this time is close to Vietnamese New year festival and people often buy tea for home-use or as gifts. Therefore, to prepare for this ‘sales season’ the cooperative has to buy large amount of tea from October. This also means that farmers deliver most of their tea to the cooperative during this season.

The organizations also mentioned some challenges of the coop such as upgrading the processing area to meet the production capacity and expand the business, the difficulty to acquire land for building new processing facility, the need to mobilize more capital for the processing facility. Next to that, doing marketing, product promotion in the coop is limited. In the future, the coop should focus on this. Another challenge of the coop is that youth participation is poor. The coop needs to boost the sales to engage young staff for marketing area.

### POLICIES IN THE COLLECTIVE ECONOMIC AND IN THE AGRICULTURE SECTOR

- Attracting young people to the coop sector, that is being supported by the local government. Accessing this policy, the coop will have salary support for its attracted young staff in some first years to realize the succession plan.
- Accessing to cooperative development funds, currently Thai Nguyen CA is managing a fund for cooperatives with low interest.
- Policies of upgrading processing area: supporting the production tool / machine or building cooperative facilities of the local government programs.



QUESTIONS  
FOR DISCUSSION

Please develop answers to the following assignment and questions together with your group member.

- (1) Evaluate Ms Hiep as an entrepreneur, as a manager and as a leader.
- (2) What qualities do female leaders need? What are the strengths and weaknesses the leaders of the cooperative?
- (3) Evaluate the environment of the cooperative using the PESTEL model.
- (4) Evaluate the tea sector based on Porter's five forces model.
- (5) What are the strengths and weaknesses of the cooperative? What are the opportunities and threats for the cooperative's business? How can the cooperative take full advantage of its strengths and opportunities while eliminating its threats and disadvantages/weaknesses in developing its tea production?
- (6) Analyze marketing-mix of the cooperative.
- (7) Identify key risks for the cooperative and develop relevant strategies.
- (8) What do you think about the statement that "The future of the cooperative is bright and potential because of its high-quality tea and growing demand on safe and certified tea"?
- (9) If you were a young, elected manager of the cooperative and would like an agro-tourism startup (i.e., combination with tea production and tourism development), what would you do?

PART  
6

REFERENCES

Authors : Cooperative Assessment Tan Huong Tea, Nguyen Ba Cuong, Tran Thanh Ha, Nguyen Xuan Thuan, Agriterra (2020)

ANNEXES

Annex 1 | Tea processing

In general, tea processing can be divided into 6 basic steps:

- 1** Plucking: From tea bushes, the buds and two young leaves are carefully picked. Hand-picking is applied when high quality is asked, as plucking by machines might lead to broken leaves.
- 2** Withering: This step is to remove water and moisture from tea leaves by laying them under the shade or the sun. The withering process reduces the water content of the leaves by as much as half. To make this step quicker, farmers often heat the tea leaves in a rotating drum. Farmers also called this step as killing enzymes.
- 3** Bruising: After the leaves are withered, the leaves are rolled, twisted, or otherwise crushed. The purpose of this step is to break down cell walls in the leaf and facilitate the next step: oxidation.



FIGURE 1: Tea picking at THCO (Photo credit: VCA)



FIGURE 4: Tea bruising

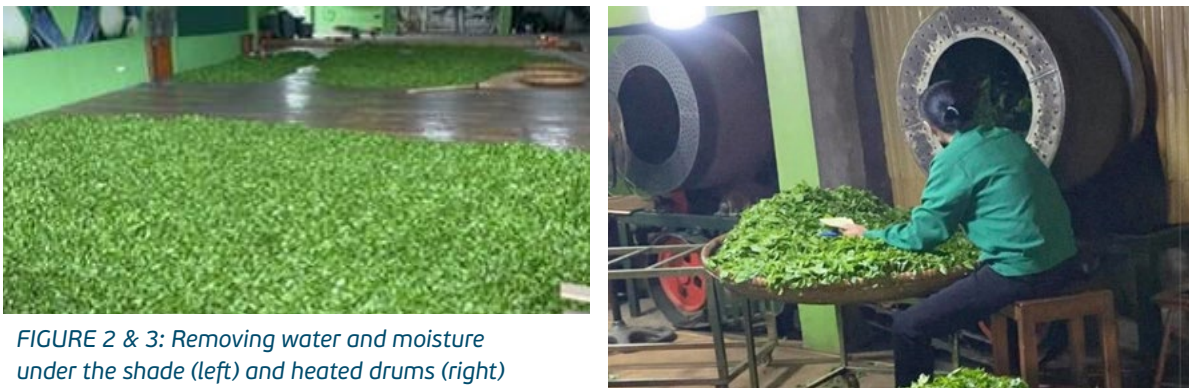


FIGURE 2 & 3: Removing water and moisture under the shade (left) and heated drums (right)



4

**Oxidizing:** After bruising, leaves are left to oxidize or turn brown. Green tea crafting skips these steps entirely, creating a tea that is by definition, unoxidized, and therefore still green in color. A black tea is defined as fully oxidized, without any green color left to the leaf.

5

**Fixation:** To stop the oxidation process, the tea leaf is heated. Just like baking an apple, the application of heat denatures the enzymes responsible for oxidation and stops the leaf from continuing to turn brown.

6

**Drying:** Finally, all tea must be dried to remove any residual moisture and create a shelf-stable leaf. Again, the method of heating can dramatically change the flavor of the tea. This effect is most commonly seen with charcoal roasting, which imparts a distinctly rich quality to the flavor during this step. This step requires highly experienced staff with sensitive smell and taste.



FIGURE 5: Fixing tea in rotating heated drums

THCO often buy green teas from farmers after the tea leaves gone through step 5 – fixation. Experience staff of the cooperative then do the final step – drying – to make best flavor before packaging and selling to customers.

## Annex 2 | Organization

In spite of there is no specific formalized gender policies in place, inclusiveness of woman is not an issue. Most of members are woman (87.5%). All three members of the board are woman. There is only one man out of 7 working staff who is in-charge of the position of supervisory person. As explained by the board, the nature of growing tea requires woman as main labor therefore woman often selected for tea related activities.

The cooperative shows their big interest on having youth joining the cooperative, especially youth with college or university education. However, this is highly challenging because educated youth prefer working in big cities and towns while average youth often choose to work for factories in industrial park. The cooperative plan to attract children of farmers to work as staff. However, there is currently no policies in place.

The cooperative currently has 7 full-time staff. There are four part-time staff. They are employed for packaging when the cooperative has a large order. Due to the fact that THCO is still a small cooperative with 7 staff, therefore human resource management is not a priority for THCO. The board of director is the management. There has no HR position, HR manual, policies, formal job description and personal development plan. The director cum chairwoman is the one in-charging of managing human resources with quite simple tasks such as staff recruitment, staff benefits.

In general, current staff have sufficient quality to perform their work at current business size. Management has more than 40 years of experience in producing and trading tea. They also have basic knowledge and experience in marketing and sales. Accountants are a noticeable strength of the cooperative. The chief of accountant used to work for Viettin commercial bank that is one of the leading banks in Vietnam. After retired, she works for the cooperative. With skills and experience she helps THCO manages its finance very well. However, for future business case, especially if the cooperative wants to achieve its BHAGs, they must have a manager with knowledge and experience in managing business. Moreover, qualified marketing and sales staff are also as of high priority.

One of the important factors impacting human resource of THCO is the salary. Currently, THCO offer a fixed salary policy that is relatively low comparing to that of small and medium size factories in the region. Therefore, the cooperative is less attractive for workers.

In the last years, management team often invited for trainings on various topics such as certification, marketing and branding. After trainings, the attendees are more or less gained basic knowledge on trained topics then applied into their daily work. As shared by the board, they have learnt from a marketing training to make eye-catching design for its packaging.

There is currently no mechanism on performance assessment in place. As explained by the board, the cooperative has only 7 staff, therefore they all meet each other almost every day. Therefore, board members often observe and give recommendations to staff right on spot. In case of making mistakes, staff often get warning in words but not punishment.

We observed that a lack of personal development and fair salary structure is the biggest challenge affecting THCO in recent years. As explained by the cooperative, youngsters do not want to work for cooperative sector mainly because of low salary and uncertain future. Instead of working for the cooperative, youngster prefer travelling far distances to work for factories in cities and towns. In the coming years, THCO should reasonably adjust its HR policies in order to attract qualified staff.

### PROFILE MANAGER

The chairperson is also the manager of THCO. She has more than 40 years experience in growing and trading tea. She is currently 64 years old but still very smart and sharp. She becomes famous within the cooperative sector because of her smart and verbal talent. In other words, she is a skillful speaker. She has been at the position since the cooperative established in 2000. She gets trusted by all the members not because of her personal talent, her business skills and also her achievement within the cooperative. She is proud of success in mobilizing internal capital. Members contributed a small amount of money (150,000 VND, equivalent to about 10 USD at the moment) and after 20 years of development, average share of members has increased more than 100 times to 26.8 million VND (about 1,116 USD). Moreover, Tan Huong trademark officially registered and has high reputation in the market is another achievement that Mrs chairwoman really proud of.



Staff list of THCO			
Position	Name, year of birth	Qualifications	At position since
Chairwoman cum Director	Đỗ Thị Hiệp, 1954	12/12 45 years of experience in growing and trading tea	2000
Vice chairwoman / vice director	Nguyễn Thị Nhài, 1958 (phụ trách kinh doanh, sản xuất)	12/12 More than 30 years of experience in growing and trading tea	2000
Member of the board	Đỗ Thị Mười, 1972	12/12 More than 30 years of experience in growing and trading tea	2000
BoS member	Nghiêm Ngọc Anh, 1964	12/12 More than 50 years of experience in growing tea	2016
Chief accountant	Đinh Hồng Minh, 1949 Gia đình có người xuất khẩu chè. Hàng tháng xuất vài containers đi thị trường Đông Âu nhưng chè rẻ	University degree, 50 years of experience of finance management	2007
Treasurer	Nguyễn Thị Hương, 1976	12/12 More than 30 years of experience in growing and trading tea	2016
Accountant cum admin, marketing	Nguyễn Thị Hoa, 1990	University, general accounting	2013

### PROFILE KEY STAFF

THCO chief accountant, Ms Dinh Hong Minh, a retired staff of Viettin commercial bank, is very knowledgeable in accounting.

Mrs Nguyen Thi Hoa, an accountant cum admin officer is a young, enthusiastic and knowledgeable person. She also takes care of THCO's website and customer services such as taking care of buyers.

### PROFILE OF THE BOARD

The board is composed of three women. As aforementioned these board members also management of the cooperative. During the assignment we had plenty of time working with all three board members. They all have more than 40-year experience in growing tea and at least 30 years experience in trading tea. They are sharp and smart people, especially the chairwoman as mentioned above.

### MANAGEMENT-BOARD

The board of director is also the management. There is no clear separation of the board and management therefore task and responsibilities are not clear to everyone. They are supported by several members who take the roles as accounting, internal control for UTZ certification. The management meet each other almost every day therefore work and important issues are discussed in a daily basic. Notes for important meetings often recorded for following up. For important decisions such as meeting with important buyers or new investment, the board will have a meeting with all board members and staff before proposing to the AGM. For instance, the board plans to increase share to a minimum amount of 30 million VND to have more working capital. They will propose this at the coming AGM scheduled in March 2021 for approval.

## Annex 3 | Management information systems

### COOPERATIVE

THCO employs both paper-based and computer-based information systems. As we observed, information on membership is computerized however data on transactions with members are recorded on notebooks. Due to being at high age and illiteracy in computer, therefore the cooperative heavily relies on the accountants as they are the only two persons can use computer at work. Therefore, paper-based reports to inform board and members are usually used by the cooperative.

THCO currently do not apply KPI in tracking its performance. However, by the end of the year the cooperative reviews sales volume and revenue and net profit of that financial year then make evaluation in comparison with previous years.

### MEMBERS

A farmer would register to be a member of THCO, that farmer has to meet the main criteria:

1. having tea farm
2. agreeing with THCO's bylaw
3. submitting an application for members
4. paying share(s).

Information of members such as full name, address, tea farm areas, shares are computerized to Excel files. However, transactions are often recorded on notebooks. This practice can bring convenience for managers when purchasing tea from members however it takes time to synthesize information for calculating sales volume, making payment and distributing dividend.





Annex 4 | The domestic market of tea products

As mentioned above, tea produced by THCO’s members is mostly for domestic use resulting in a relatively high dependent on the development in the growing local market. A report from world Atlas in 2016 pointed out that tea is the second most popular drink after water, and Vietnam ranked at number 38 with tea consumption per capita of 0.2 kg. In 2019, Department of Crop Production, the Ministry of Agriculture and Rural Development stated that in a report that each Vietnamese person, in average, consumed 0.47 kg (equivalent to an amount of 45,000 tons) of dried tea annually. So, after two years, tea consumption per capita doubled. This amount is projected to increase in the coming years.

In terms of taste, the market has witnessed a strong change in the tea drinking habits of consumers in recent years. In the past, consumers liked to drink traditional tea (green tea) for and after meals. However, there are three strongly growing segments, herbal and milk tea and handcrafted tea (in the traditional way, from the hands of artisans).

Young urban consumers have emerged as the fastest growing segment, eager not only to pay a premium for

specialty teas but also curious to know more about the product they consume – its quality, origin and contribution to sustainable development. Moreover, young, upper-middle class consumers are looking for fashionable products to be integrated into their lifestyles, which now also includes gourmet quality tea and eye-catching packages.

In terms of health benefits, more and more people fall in love with tea because of positive effects of tea leaves for their health. Tea is now considered as a medicinal beverage. Drinkers believe that tea leaves are full of healthy antioxidants and contain substances that lower the risk of cancer, diabetes and heart disease, etc. Therefore, advertisements focusing on health benefits would be a considerable advantage for marketing activities of tea trading companies.

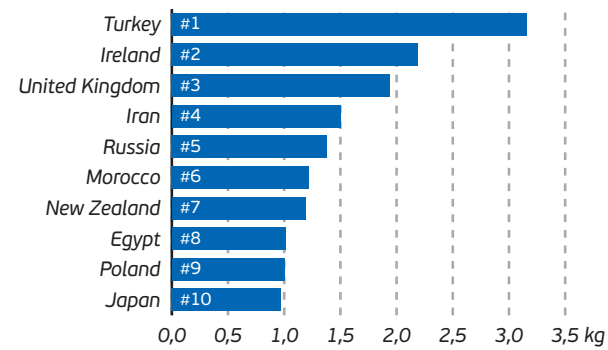
It is not easy to enter the market as a new player because of high competitiveness and business strength of THCO. However, owning an original and high-quality source of tea production is a clearly great advantage of THCO in the market. This can ensure the cooperative will have sufficient amount of tea (at different quality levels) provided to customers.

Annex 5 | The international market of tea products

According to the Ministry of Industry and Trade, Vietnam is currently the 5th largest tea exporter in the world. Most of the Vietnamese tea is still mainly exported to easy markets, there are not many products that meet the export standards to markets with high quality requirements such as EU, the US. Therefore, up to now, Vietnam's tea export volume only accounts for a small proportion of the world consumption. Moreover, Vietnam tea is mostly exported as raw materials for further processing.



FIGURE 7: Top ten countries with highest annual per capita tea consumption ranked by <http://www.worldatlas.com>, 2016







hát triển





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