

THE EXPRESSION, VARIETY AND LOVE FOR TEA WITH DILMAH'S DILHAN FERNANDO



Dilhan C. Fernando is the CEO of Dilmah tea and the younger son of Dilmah's Founder, Merrill J. Fernando. The names of Dilhan and his brother Malik form the 'Dilmah' brand, the first producer-owned tea brand which is now world-renowned.

What is Dilmah's story, and how has it evolved since its inception in 1988?

The business was conceived as an idea in the 1950s. It is important, with any business, to have a purpose or raison d'être that drives the business forward. That time was a significant preamble to the brand introduction in 1988 as it influenced our purpose.

My father, Merrill J. Fernando, is absolutely passionate in his commitment to tea. When he went to Mincing Lane in East London in the 1950s, then the hub of global tea, he saw the terrible dilution and blending of Ceylon tea. He was fortunate to be among the first group of six Sri Lankans permitted into the higher echelons of the industry, in spite of a persisting colonial mindset, to learn the art of tea tasting. At that point, Ceylon tea was a very powerful national brand and known to be the finest in the world. Yet, he witnessed it being blended with tea from other origins for the objective of profit through cost reduction. This set the scene for the birth of 'Dilmah'. Nevertheless, it took him 38 years to launch the brand as those years were characterised by harsh challenges aimed at preserving a colonial economic model. Producers of tea, coffee and cocoa face many of these obstacles even today. This is due to certain corporatisation in retail and marketing, which made it extremely difficult, particularly during that time. My father was the first producer who attempted to take produce directly to the consumer.

In 1988, my father finally succeeded in taking Dilmah Tea to the market – picked, perfected and packed at source. He encountered opposition in adding value to tea at source and an unfairly high freight rate for his value-added tea - a non-tariff barrier that should actually work the opposite way. This and other obstacles were connected with the large but diminishing bulk tea trade that supplied brands in developed countries. My father had established himself as a bulk tea exporter under his name. However, when he introduced the idea of value addition, many of his bulk tea customers were opposed to his idea and responded that his only role was to grow and sell bulk. Regardless, it was clear to him that there was no future in that.

This led him to approach potential customers in Australia, a market he was familiar with as he had been selling bulk tea. Dilmah was first launched in Australia in 1988. It marked the birth of the next phase of the journey. It was a historic development and a milestone in the journey towards ethical trade; the first time in the tea, coffee and cocoa industries that a finished product was introduced to the market, grown, packed, branded by the producer, with earnings going back to the producer.

The significance of this persists even today as we talk about social, environmental and other components which are instrumental in sustainability. None of these factors can be achieved if the required revenue is not delivered to the producer.

Our earnings have benefited our brand goals which include having Dilmah Conservation intervening in multiple locations, delivering biochar, driving new concepts, researching and developing, sharing the idea and building advocacy. The typical producer is unfortunately unable to invest in these goals. Underappreciated and exploited producers are at the bottom of the pyramid, which involves billions of dollars and euros. This subsequently fuels deforestation and other unethical practices.

This scenario underlines the importance of what my father was able to achieve. He had to source all the infrastructure for printing, packaging etc., from overseas, whereas in today's context, there are numerous start-ups with necessary infrastructure. Sri Lanka has developed immensely and Dilmah takes pride in establishing the bar in the market.

You mentioned blending and unethical practices. Do you see that some of these issues are still vastly prevalent in the current market?

Absolutely. Ultimately, all industries must contribute to national goals. With the outbreak of COVID-19, we observed that no company or individual could exist in isolation. Every industry has an obligation to align its purpose and objectives with our national social, economic and environmental parameters. If you review the definition of capitalism, it not only considers the creation of commercial capital but also the creation

of environmental and social value. Businesses should be aligned according to these priorities. In that context, unfortunately, the problem persists, as it does in Africa with cocoa.

In tea, particularly with Ceylon tea, we are more fortunate. However, we still require aligning our product with our market, from adapting to better marketing strategies to communicating our heritage and the nature of our product. Our exports figures show a difference in value addition, but ultimately it is about fair pricing.

However, we cannot blame our colleagues in the industry. The world is captivated by a form of discount culture that began in 2008 when the financial crisis hit and this culture does not help producers. Nevertheless, Sri Lanka is relatively better off and we keep trying.

What are your personal favourites among the extensive ranges of tea at Dilmah?

As a tea lover, there should never be a 'favourite' tea as there is a tea for every mood, occasion, and food.

I would typically start my day with a strong tea such as Dilmah Ceylon Premium and as the day goes by, I opt for lighter teas. When I am in need of a boost in the afternoon, I switch to something strong again. We also have a range of naturally infused teas that I might pair with a bowl of fruit for lunch. If you are looking to truly indulge in a cuppa, we have some fine Ceylon

green tea and exquisite Ceylon oolong tea produced at the Kahawatte Plantations' Craighead Estate.

There is an abundant variety of teas and infusions for all types of tea lovers and I enjoy going with the flow. However, I generally always recommend being creative with your tea.

There has been plenty of research into the health benefits of black tea and green tea, which concludes that the benefits of the two teas are similar. What are your thoughts on the conversation?

This is true. Epigallocatechin gallate or ECGC is the active component associated with a majority of the natural goodness in tea and is found in similar quantities in black, green and oolong tea. In reality, the content of ECGC is higher in white silver tip teas because it's made from the tender bud of the tea plant.

The underlying reason as to why many believe green tea is healthier is because much of the research that centred around the health benefits of tea in the 70s was performed on green tea in Japan and China. Therefore, the health benefits of green tea dominated headlines, and this has influenced the debate. However, the same beneficial and natural biochemical element is also present in black tea.

From your studies and vast experience in the industry, do you find a difference in Sri Lankan tastes in tea in comparison to other countries?

Many countries that were

past British colonies have similar tastes and influences. Consumers here in Sri Lanka prefer a strong cup of tea with milk. We have the 'Yara té', which is frothy, milky, sweet and strong. A similar parallel is observed in Australia, England, New Zealand and South Africa where 70% of tea consumers have their tea with milk. However, there is heavy commoditisation of tea and this could be due to the addition of milk.

Personally, I am not one to drink milk with my tea, as it dominates the purity of taste tea has to offer. However, I do indulge in a Yara té once a week, because it is irresistibly delicious and we do tend to see this catching on in the west with 'Chai Lattes'.

In general, however, Sri Lanka has a British influenced tea tradition. But nowadays, there are changing consumer trends where there is a demand for tea with herbs and cinnamon.

Are you able to elaborate more on the general trends in the industry and how these are shaping Dilmah moving forward?

As I alluded to before, the market has a discount culture, which is purely commoditisation with a lot of cheap, blended teas. This provides leeway for a brand to cut prices significantly. In Australia, for example, some brands offer 80% off on promotions, however, there is no ethical and sustainable future in this practice. Since we started, our direction is to follow the premium consumer, and as we are a family business es-

tablished on family values, we follow this consumer in every market. We recently launched a loose-leaf tea line as there is a niche of individuals looking back at loose leaf tea, including Ceylon gold pekoes and many other varieties.

Furthermore, in today's day and age, many consumers are sensitised to health and wellness; therefore, we have tea mixed with herbs, inspired by an incredible heritage of 3000 years in Ayurveda. It is a compelling collaboration as tea is unique in its natural antioxidant properties, and some herbs in Ayurveda can be harmonised well with tea. All these efforts are made to engage with a customer and ensure the delivery of a premium tea experience.

How was the idea of t-Lounges conceptualised, and what was your inspiration behind it?

Our first t-Lounge was launched in 2003 on the lower ground of the Ramada Renaissance Hotel. We had hot teas, iced teas, chai, cocktails and mocktails. We wanted to celebrate tea gastronomy and tea mixology, expressing the variety and the goodness of tea.

The entire idea was slightly too ahead of its time. During the early stages, we received a letter from the narcotics department stating that we were adding alcohol to tea and that it was not favourable. The whole idea was misunderstood, and the concept, therefore, shut down.

However, we decided to re-launch our t-Lounges in

2013, and this time it was a success. We went on to open up lounges in Doha, Dubai, Jakarta, New Zealand and Spain.

We are very pedantic about brewing, how it is served, and the principles, and therefore we do not always conform to the Food and Beverage (F&B) trends. We try to innovate based on the traditions and respect for tea. Our culinary competitions, such as our real high tea challenge, are designed around the respect, variety and goodness in tea. Similarly, the t-lounges and Brew 1867 both began as an expression of our love for tea. The t-Lounges are more about the elegance of tea, whereas Brew 1867 is more casual, and is based around sustainability and community.

What are the main challenges you need to overcome when setting up these lounges?

The single most difficult challenge is the high rental rates. We sell our tea at LKR 300 - 400 per set of tea, and we compete with rent for a restaurant that may operate on larger volumes from their customers. When someone has a cup of tea, we cannot rush the process. We need to ensure comfort. We want our customers to relax, read a magazine and maybe even work in peace. Therefore, it is a different concept to an atypical restaurant where the turnovers are much more frequent. The cultural aspect of it makes it difficult, and we cannot generate the revenue of a typical café or bar.

Ultimately, it is a challenge



for every F&B operator as F&B thrives in good locations. However, when there are high site costs, there is pressure to deliver revenue and cover costs from day one.

The COVID-19 pandemic has been harsh on many industries over the past year. What have been the main challenges Dilmah has faced over the recent years?

The first significant challenge is protecting your people in a health crisis such as the pandemic and the subsequent adversity. We are very fortunate as a family business, particularly with my father's altruistic approach to business, because our options were quite clear. His instruction in March 2021 was simply to protect our people. We ensured there were no layoffs, no salary reductions across our plantations or tea business.

Our faith determines our values and our values determine our actions, and for us, it was most important to protect our people.

Our next challenge was searching for avenues to supplement the revenue streams decimated during this time. In certain territories, there has been a 70% reduction in sales. However, when you have faith and the ability to look beyond the crisis and focus on the future, you can work around the materials required to build velocity and emerge stronger.

We are still in the middle of the crisis and are not out of it by any means. However,

this time enables us to optimise every part of our business and work with people as a team. A company builds reserves for such situations and to provide security to employees. This approach has helped us thus far, and I am confident that we will overcome this ongoing challenge.

How has the pandemic impacted the t-Lounges/Brew 1867, and have you had to re-prioritise operational aspects due to it?

Some developers, such as One Galle Face, have generally been very understanding and flexible with rents, but some maybe not so. In the light of such challenges, we need to be creative. Like many other F&B operators, we launched takeaways, began working on innovative formats, and made the business more accessible to customers by operating on a digital platform. There is always a way, and we need to be creative and determined.

Carbon neutrality seems to be an important factor taken into consideration at Dilmah tea. What have been the most impactful steps to achieve this goal?

Carbon neutrality is critical, particularly in the current environment. It is vital that whilst there are easy options, such as buying credits, ultimately for a business to be sustainable, we need to generate balanced environmental outputs within our organisation. We planted a million trees in the East, implemented hydroelectric power and solar power installations. We currently purchase some carbon

credits; however, our goal is to be completely carbon negative by 2030, where we will be contributing and working to a greener business internally.

If you are the president of Sri Lanka, what would be your top three highest policy initiatives?

I would never want the position as a job. However, economic, social and environmental issues are interrelated, and a top priority would primarily be to tackle the economic situation.

We need to re-evaluate and adjust the balance between state-owned enterprises and their cost to the economy.

Second, there is a need for educating those in the state sector. Similarly, to a private enterprise, where there is an expected output, that very principle must also apply. There needs to be a standard of service that echoes back and would ultimately improve state-owned enterprises. This is connected to the economic future, and the economic future is linked to food security.

Finally, we need to strengthen our civil service training institutions to bestow them with the knowledge and skills to adapt and implement modern aspects such as Artificial Intelligence (AI).

Inevitably, this process would revitalise the economy, build resilience and apply prudent spending that would enable investment into food security. Food security is required to revive the rural economy, which ultimately is Sri Lanka.