Food Retail
Opportunities & Challenges

International Conference on
Agribusiness and Food Industry
in Developing Countries:
Opportunities and Challenges

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What we will talk about

- Agricultural Scenario
- Processed Food Industry
- Food and Retail
- Food Industry Division
- How Consumer Preferences are changing
- Issues Faced by the Industry
- Quality is the Key to World Market
- Supply Chain Management
- FDI In Food Industry
- Manpower Issues
- Indian Food Brands in Global Markets

Agriculture in the World economy

- Agriculture causes the greatest contention in international trade negotiations.
- It is ironic that agricultural policy is so contentious, given its small and declining importance in the global economy.
- The sector's share of global gross domestic product (GDP) has fallen from around 1/10th in the 1960s to little more than 1/13th today.
- In developed countries the sector accounts for only 1.8 percent of GDP and only a little more of full-time equivalent employment.
- Mirroring that decline, agriculture's share of global merchandise trade has fallen by more than half since 1970, dropping from 22 percent to 9 percent.
- For developing countries, agriculture's importance in exports has fallen even more rapidly, from 42 to 11 percent.
- Policies affecting this declining sector are very politically sensitive.

Agriculture in India…..

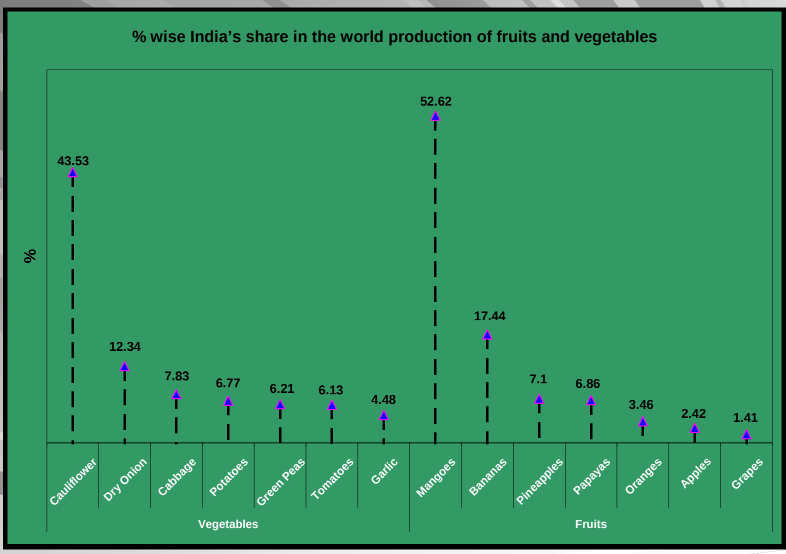
- Share of agriculture in the national GDP is a huge 18%;
- a little over 700 million people, that is about 69% of the population, are dependent on the rural economy for their livelihood
- Very large majority of this rural population survives on an annual per capita income of US$175 as compared with the current national per capita income of US$480
- India is the second-largest agricultural producer in the world, its yields are still very low.

Indian Agricultural - Wins

Product	World Rank	Production World (In Mill. M.T)	Production India	% Share
➢ Tea	I	2.99	0.75	27.0
➢ Milk	I	568.48	73.10	12.5
➢ Cattle Population*	I	1350.00	218.80	14.8
➢ Cashew	II	1.27	000.45	20.8
➢ Sugar Cane	II	1278.00	315.10	12.2
➢ Fruits	II	475.14	049.19	11.6
➢ Vegetables	II	670.59	061.69	12.0
➢ Rice (Paddy)	II	598.85	134.15	21.3
➢ Wheat	II	576.31	74.25	10.7

Source : Apeda

India's Share of key Fruits and Vegetables



Inefficiencies in Indian Agriculture

- India wastes more fruit and vegetables than are consumed in the whole of the United Kingdom.
- Cumulative waste is worth an estimated $6.7 billion, the equivalent of 40 percent of the total production of fruit and vegetables.
- Wastage of wheat, at 8 percent, is less severe, but still high given that this is a relatively non-perishable item.
- Poor road surface leads to fragile produce being easily damaged.
- Produce is handled roughly. It is piled into large cane baskets or on to truck beds without cushioning or packaging, and transported in open trucks that leave it exposed to the sun in temperatures often exceeding 40 degrees celsius.

Inefficiencies in Indian Agriculture….

- Twenty-four hours or more after harvest it arrives at the retailer, typically a pushcart or open-market vendor.
- The produce is then kept out in the sun in baskets or in open piles where it deteriorates rapidly. Much of it becomes inedible within a day or two of harvesting.
- Yields for most key products are 25 to 40 percent of world-best levels.
- Even in areas such as milk, fruit, and vegetables, where India is the world's leading producer, yields are less than 40 percent of the world's best.
- Although India has 75 percent more arable land than China, it produces 30 percent less.

Inefficiencies in Indian Agriculture….

Type of food commodi	Present Level of Pro Quanti (Mill t.	Averag Price (Rs. / t)	Value (Rs. Cr.	Post Harvest Losse %	Quanti (Mill t.)	Monetary Va (Rs. Cr.)
Semi-perishables (Potato, Onion, sweet potato, tapioca)	40	300	12000	15	6	1800
Perishables (Fruits, Vegetables)	108.2	900	97380	30	32.5	29214
Total	148.2	1200	109380	45	38.5	31014

Major Challenges - Indian Food Industry

- Consumer education that processed foods can be more nutritious
- Low price-elasticity for processed food products
- Need for distribution network and cold chain
- Backward-forward integration from farm to consumers
- Development of marketing channels
- Development of linkages between industry, government and institutions
- Taxation in line with other nations
- Streamlining of food laws

Indian Food Processing Industry

India ranks first in the world in production of cereals and milk.

It is the second largest fruit and vegetable producer and is among the top five producers of rice, wheat, groundnuts, tea, coffee, tobacco, spices, sugar, and oilseeds.

With an industry size of US$70bn, the food processing industry in India ranks fifth in terms of production, consumption, export and expected growth.

The industry contributed 6.3% to India's GDP in 2003 and had a share of 6% in total industrial production.

The industry employs 1.6mn workers directly and accounts for 13% of the country's exports and 6% of total industrial investment.

The overall food processing industry has achieved a growth rate of 8% in FY05 with an estimated figure of Rs3,584bn.

Indian Food Processing Industry… Shortcomings

Industry is largely unorganized,unorganised small players account for more than 70% of the industry's output in volume terms and 50% in value terms.

75% of the processing units belong to the unorganised category. The organised category though small, is growing.

India's share in the global processed food trade was a minuscule 2%. There are very few large Indian food brands with an established global presence. Most exports are in bulk form and branding is minimal.

Majority of the food units are engaged in primary processing. Production base of secondary and tertiary processed foods is low, resulting in low value addition.

An estimated 25% of fruits and vegetables valued at about Rs250bn-300bn is wasted annually due to poor post harvesting technology and inadequate storage and transportation.

Indian Food Processing Industry - Outlook

Processing of fruits and vegetables is a mere 2% and is expected to increase to 10% in 2010 and to 35% in 2025, according to the Ministry of Food Processing, India.

Post liberalisation of food sector (1991) the government has taken various steps to encourage the industry, like removal of price controls, dereservation from small scale and reduction in import controls

The Ministry of Food Processing estimates the size of the Food Processing Industry at Rs3,150bn (US$70bn), including Rs990bn (US$22bn) of value added products

The Food Processing Industry is estimated to grow at 9-12%, on the basis of an estimated GDP growth rate of 6-8%,

Value addition of food products is expected to increased from the current 8% to 35% by the end of 2025

Indian Food Processing Industry…

The industry employs 1.6mn workers directly. The number of people employed by the industry is projected to grow to 37mn direct and indirect job workers by 2025.

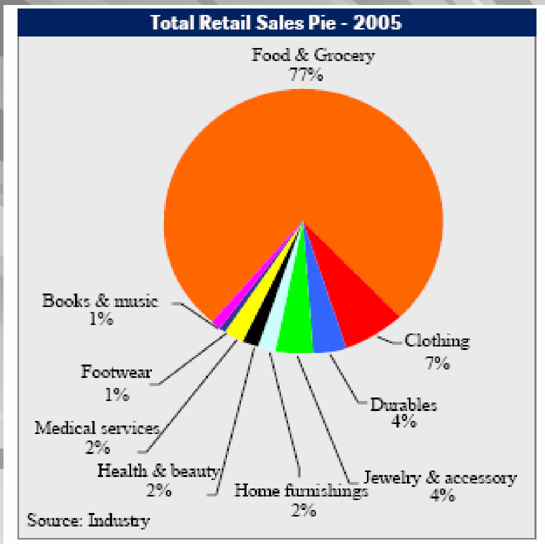
Marine products export was the single largest constituent of the total exports of processed foods contributing over 40% of total processed food exports.

India is the largest producer of milk in the world with an estimated production of 91mn tons. Milk and milk products account for a significant 17% of India's total expenditure on food.

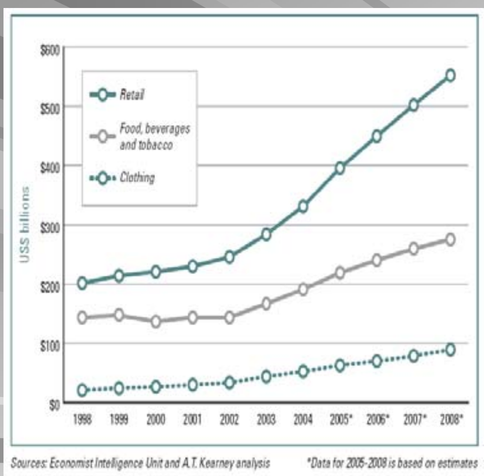
The total size of the Indian snack food market is at an estimated over 400,000 tons in volume terms and Rs100bn in value terms and is growing at over 10%.

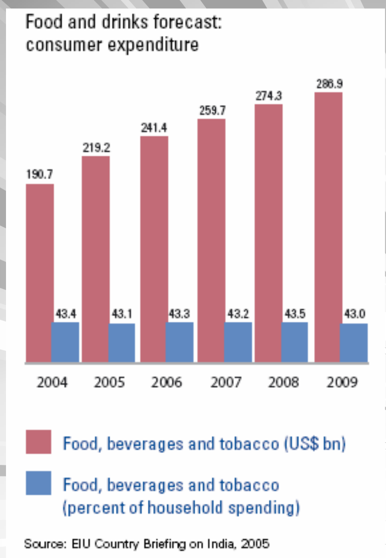
India has the highest number of plants approved by the US Food and Drug Administration (FDA) outside the USA.

Food is the Backbone of Retail

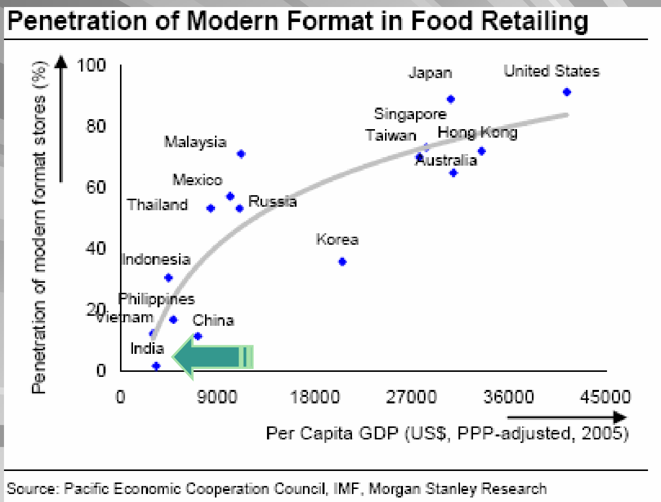


Food Retail Sales in India





Food Retailing in its Infancy



Food Industry Division

- **Food Retail**

  At present, only 1 per cent of the food items retailed in India flow through the organized retail channel. But this situation is expected to change due to the following reasons

  - changing lifestyle,
  - increasing number of nuclear and dual income families,
  - changing consumer tastes,
  - increasing disposable incomes

  Currently, the size of the domestic food retailing market isestimated to be US$ 6 billion.

Food Industry Division

- **Ready-to-eat food**

  The amount of money Indians spend on meals outside the home has more than doubled in the past decade, to about US$ 5 billion a year and is expected to double again in about half that time**.**

  The Ministry of Food Processing Industry estimates the size of the semi-processed and ready to eat packaged food industry is over US$ 1 billion and is growing at a CAGR of 20 per cent.

Food Industry Division

- **Food Parks**

  In a bid to boost the food sector, the Government is working on the concept of agri zones and mega food parks which would cover the entire food processing cycle "from the farm gate to the retail outlet".

  30 locations have already been identified for mega-food parks for which the government would provide grants of up to US$18.9 million each.

Shifting Consumer Preferences

Indian consumers are evolving…

- From traditional to…

…modernized traditional

- From globalize to…

… Indianise

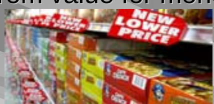
- From functional to…

… lifestyle

Shifting Consumer Preferences

Indian consumers are evolving…

- From value for money to…



… value for time and convenience

- From cautious to…

… experimentation

- From over-the-counter to…

… touch-and-feel

Evolving Consumers

- Beverages
  - Rise in coffee drinkers
  - More fruit drinks and bottled water
  - Wines and Liquor sales on rise
- Processed food consumption
  - Focus on 'Food Safety'
  - Increasing ready to eat food
  - Growing premium foods
  - Increasing private label
  - From "packaged as stale" to "packaged is hygienic and high quality"
  - Increased tendency towards disposability
  - Shift from price consideration to design and quality

Evolving Consumers

- Lifestyle
  - Frequent eating out
  - Growing health and dietary supplements
  - Growing organic produce
  - Greater focus on looking and feeling good

Issues Faced by the Industry

- The industry today - at one of its lowest performance level
- Projections based on huge raw material base failed to translate to reality
- High amount of apprehension arising out of day to day changing policies Multiple authorities enforcing multiple laws and standards sometimes on same issues and products
- Constant changes in tax structure and indicators

Issues Faced by the Industry

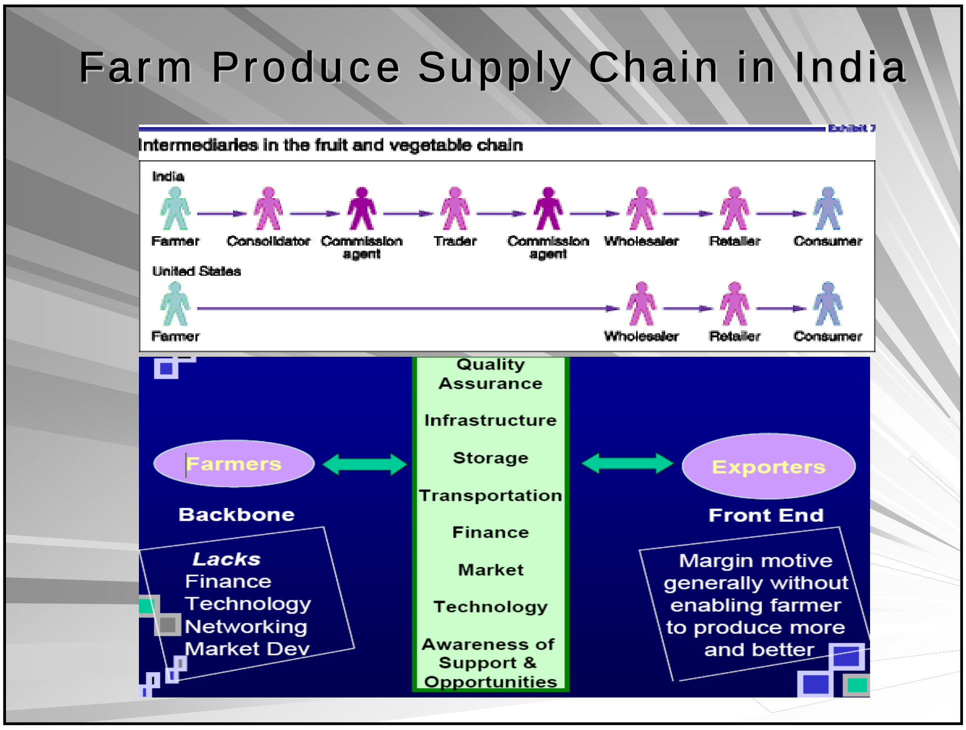
- Poor infrastructure
- High taxes on some high value products
- High cost of packaging material
- Very negative attitude on industry's intentions
- Lack of concerted scientific approach towards the technical issue

Quality is the Key to World Markets

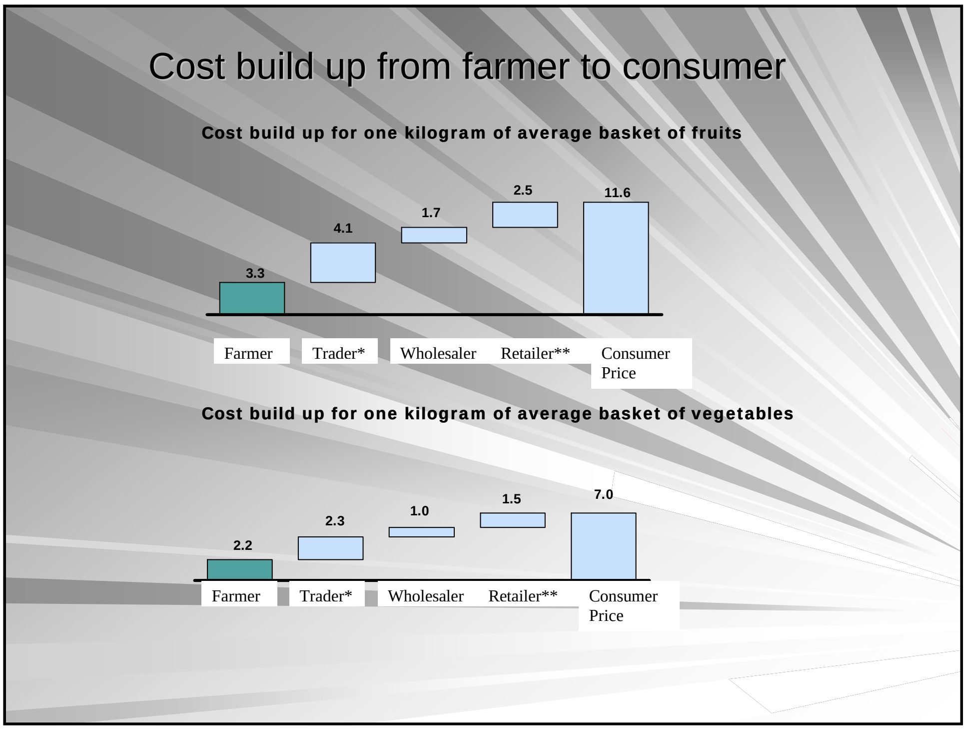
- Significant changes have also occurred in the global food markets with the signing of WTO agreements in the previous decade. Specifically, agreements on sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), and, to some extend, on trade related intellectual property rights (TRIPS) have brought to the fore issues of quality competitiveness
- The capacity of India to penetrate world markets depends on its ability to meet increasingly stringent food safety standards imposed in developed countries.

Quality is the Key to World Markets

- Food standards are expected to acquire greater importance given increasing concerns on food safety on the back of breakout of diseases such as Bird Flu etc on the one hand, and growing consumer demand for products which are healthy on the other
- Compliance with international food standards is a prerequisite to gain a higher share of world trade.



Farm Produce Supply Chain in India
Exhibit 7
Intermediaries in the fruit and vegetable chain
India
Farmer
Consolidator
Commission agent
Trader
Commission agent
Wholesaler
Retailer
Consumer
United States
Farmer
Wholesaler
Retailer
Consumer
Farmers
Backbone
Lacks
Finance
Technology
Networking
Market Dev
Quality Assurance
Infrastructure
Storage
Transportation
Finance
Market
Technology
Awareness of Support & Opportunities
Exporters
Front End
Margin motive generally without enabling farmer to produce more and better



Cost build up from farmer to consumer
Cost build up for one kilogram of average basket of fruits
3.3
4.1
1.7
2.5
11.6
Farmer
Trader*
Wholesaler
Retailer**
Consumer Price
Cost build up for one kilogram of average basket of vegetables
2.2
2.3
1.0
1.5
7.0
Farmer
Trader*
Wholesaler
Retailer**
Consumer Price

Supply Chain Management

- India has a huge opportunity to become a leading global food supplier if only it has the right marketing strategies and of course agile, adaptive and efficient supply chain.
- India's diversity should be used to advantage to become the "Halal Food Hub", the "Organic food hub", the "Vegetarian food hub" the "Sea food hub" among others.
- The food supply chain is complex with perishable goods and numerous small stake holders. In India, the infrastructure connecting these partners is very weak.

Supply Chain Management

- Cold chain logistics supply chains should take advantage of technology improvements in data capture and processing, product tracking and tracing, synchronized freight transport transit times for time compression along the supply chain and supply & demand matching.
- The supply chain need to be designed and built as a whole in an integrated manner with the processes of new product development, procurement and order to delivery processes well designed and well supported using IT tools and software.

Supply Chain Management

- The food supply chain can be subdivided into a number of sectors.

  - Agriculture, horticulture, fisheries and aquaculture are the primary producers

  - The manufacturers who process the food for ready to eat or cook format together with the packaging companies are in the intermediate stage, and

  - The retailers, wholesalers and caterers are in the last stage of the supply chain

Supply Chain Management

- **FOOD SUPPLY CHAIN CLUSTER**

  Food chain clusters are formed with the participation of all stake holders such as farmers, seed growers, merchants, transporters, wholesalers, retailers, financial institutions, and insurance companies. Information sharing is essential for generating the efficiencies

Supply Chain Management

- **The Cold Chain**

  The temperature controlled supply chains or cold chains are a significant proportion of the retail food market. Fast foods, ready meals and frozen products have increased market share in recent years. The recent developments in electronic tagging could be useful for monitoring the temperatures and also the shelf life of the product.

FDI In Food Industry

- Foreign direct investment (FDI) in the country's food sector is poised to hit the US$ 3-billion mark.
- In the last one year alone, FDI approvals in food processing have doubled.
- The cumulative FDI inflow in food processing has reached US$ 1.276 billion in March 2007, which is 2.68 per cent of total FDI inflows into the country.

FDI In Food Industry

- The new wave in the food industry is not only about foreign companies arriving here attracted by the prospective size of the market. It is also about the migration of the Made in India tag on food products traveling abroad.

Manpower Issues

- Retail and hospitality business face a huge challenge in people. Hiring and retaining manpower is a critical problem that shrouds most industries today and for these industries, especially quick service restaurant (QSR) industry, it is an emerging area of concern.
- Long working hours, Night shifts, Harsh working conditions and meagre salary in the industry force almost half of them to quit after getting some hands on experience and join other sectors like call centres and cruise liners

Manpower Issues

- This is one area, which has not kept pace with the growing demand of the industry. We need more institutions with world-class facilities and faculties. The industry is science based and technology intensive. The course design, facilities and education process need to be highly sophisticated and should keep abreast with the global systems.

Indian Food Brands in Global Markets

- Indian food brands and fast moving consumer goods (FMCGs) are now increasingly finding prime shelf-space in the retail chains of the US and Europe. These include Bikanervala Foods, MTR Foods' ready-to-eat food, ITC's Kitchen of India, Indage Wines and Satnam Overseas 'Kohinoor' Basmati rice.
- There are lots of overseas 'Indian' food brands such as Noons and Pataks which are present across the grocery shelfs worldwide but not of Indian origin. (Though the promoters of the companies are Indian)

Making a Global Indian Food Brand

- Global brands can't be established in every product category. With lack of infrastructural facilities, huge wastage and low productivity of raw material our products are generally becoming less competitive.

- We need to identify our niche strengths and develop brands for those specific products. There are certain product categories where India has already made a mark and is known as credible suppliers for those like marine products, Indian ethnic products, honey, specific tropical fruits and their products etc.

Making a Global Indian Food Brand

- A new entrant is wine. The effort in building brands should be directed towards these products for which India has been traditionally known. Such niche products will also be able to command premium in the global retail market, which is otherwise gradually becoming very competitive leaving little margin for other processed food products which are widely produced by developed countries.

The Way Forward for Indian Brands

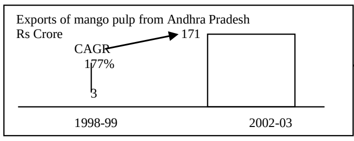
- Expect that the huge demand and thus more investment in hygienically packed fresh and frozen products will be introduced in the coming years.
- More investment will flow in the ready-to-eat products provided the tax structure eases on them.
- Export of Indian ethnic products and fresh produce will grow.

The Way Forward for Indian Brand

- Even when the general positioning has been identified, there remain huge issues that companies are still grappling with in the global Market .

  - How much do you tweak the product to suit particular markets?
  - Will that affect the brand?
  - The costs in terms of marketing expenses particularly will be big.

India becoming a major exporter

Drivers	Illustration
Indian exports picking up; Huge untapped potential in food	 India ranks second in international trade of mango pulp ➢ India ranks #1 in global production of tea, sugar ➢ India ranks #2 in global production of rice, wheat, tobacco, milk
Global retailers stepping up food sourcing from India	"In the ongoing year, 2003-04, we will touch $100 million. Sourcing of foods from here is within the shooting range. We could look at sourcing rice, dry fruits and ready meals as Indian ethnic food is gaining popularity in the UK" - MD, Tesco India Sourcing
World-wide consumer trends towards organic foods, where India is well positioned	- Global market for organic food is expected to touch $23 to $25 billion by 2003 and $29 to $31 billion by 2005 - About 65% of the India's cropped area is not irrigated, where the farming practices are still largely 'organic by default' - Need to significantly ramp up organic farm certification on beyond current number of 1426 certified organic farms that produce 14,000 tons of organic produce

What Lies Ahead

- Encourage Direct 'Manufacturer - Farmer' Linkage
- Encourage More of Value Addition Through Incentives – Proportion of Incentives Could be Linked to Proportion of Value Addition
- Need of Greater Financial Support from Ministry currently the maximum available for setting up a unit – Rs 50 lakhs & for infrastructure Rs 4 crores
- More Incentives for Infrastructure for Packing

What Lies Ahead

- Stations, Cold Storages, Refrigerated Transport Systems etc.
- Stable Policies
- A One Time Amendment of Basic Food Law and Standards Integrating all Existing Regulations into One, Clearly Spelling out Responsibilities & Definite Direction for Future Amendments

THANK YOU

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