

Opportunities in Indian Food Retail – An Overview

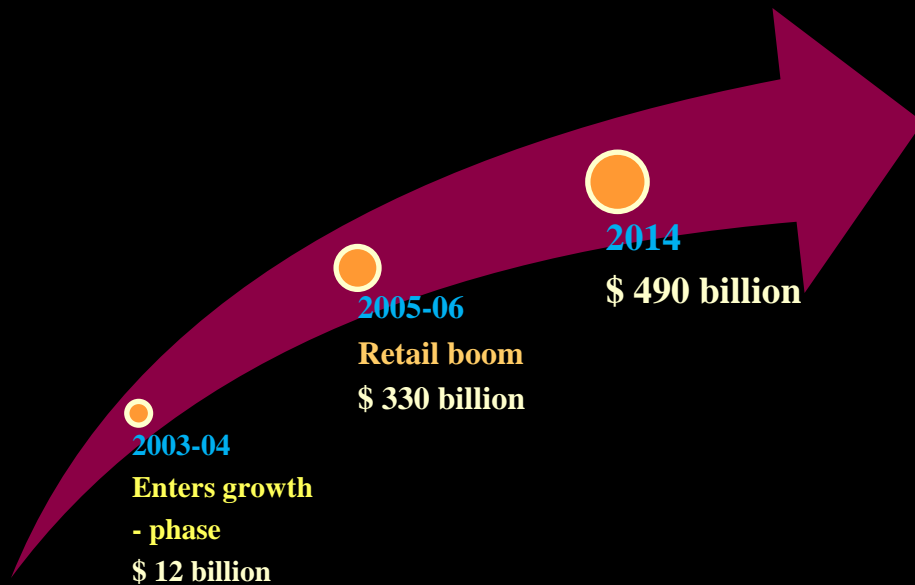




Demography & economy of India

- ❑ 7th largest country in the world by area
- ❑ Largest democracy and 2nd most populous country in the world with 1.2 billion people
- ❑ India is a land of 29 states and 7 union territories with diverse cultures, religions, communities, languages (Hindi, English & 21 other official languages), and politics.
- ❑ 3rd biggest economy in the world in terms of purchasing power parity (PPP)
- ❑ Total exports is US\$ 212.6 billion and imports is US\$ 451 billion
- ❑ GDP: US\$ 1.8 trillion (economic growth rate : 4.8%)
- ❑ Middle class population: 300 million
- ❑ Literacy: 74% (2011 census)
- ❑ Inflation: 9.1%
- ❑ India has been a consumption-driven economy for the last many decades. Consumer spending in the country is expected to increase about 2.5 times by 2025

Evolution of Indian retail market

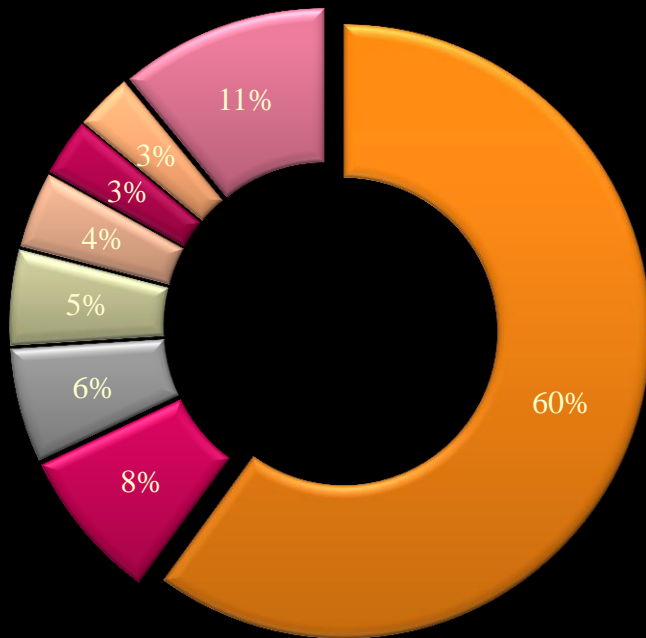


Indian retail market:

- ❑ One of the top five retail markets in the world by economic value.
- ❑ One of the most dynamic and fast paced market.
- ❑ Expected to grow to US\$ 865 billion by 2023 with CAGR of 6%

Food is the major segment in Indian retail market

Retail market size



- Food & Grocery
- Mobile & Telecom
- Jewellery
- Pharmacy
- Apparel
- Food service
- Consumer Electronics
- Others

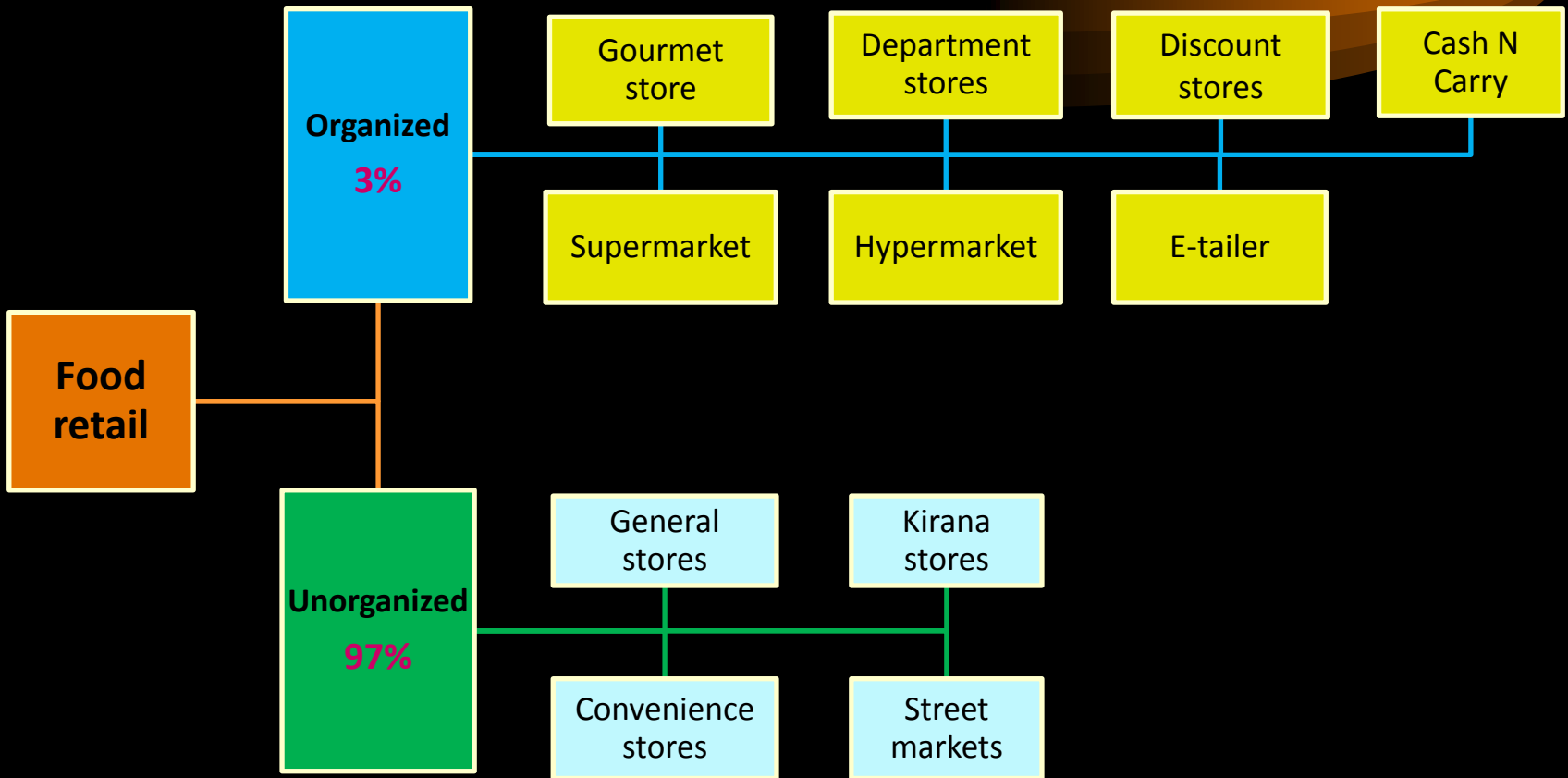
Food retail:

- India is the world's second largest producer of food
- Food and grocery retail in India exceeds US\$ 294 billion representing 16% of India's GDP.
- Food retail comprises of 97% of unorganized & 3% of organized market.

Drivers of food retail market in India



Food retail formats in India



Imported food market in India



- ❑ Imported food takes up 15 to 20% of the total organized retail space.
- ❑ Vegetables, fruits and nuts are the largest imported categories contributing to 80% of total food imports.
- ❑ The fastest growing category in imported foods are dairy items with cheese, creams and dips that has grown by 140% in 2013 followed by wine and packaged food.
- ❑ 60% of the total packaged imported foods are chocolates – from Italy, Netherlands and Malaysia (contributing to 60% of total chocolate imports)
- ❑ Imported food business is subject to severe competitive pressure – with the power shifting to retailers from manufacturers/importers resulting in shrinking margins to the backend.



Gourmet food market in India

- ❑ Witnessed a major transformation in the recent years - expected to grow at a CAGR of 20% touching US\$3 billion by 2015.
- ❑ Prominent players like Godrej's Nature's Basket, Le Marche, Foodhall, Nuts & Spices, Brown tree are very positive about the ongoing trend.
- ❑ The segment offers high margin to retail for high end products as it caters to premium customers conscious of quality, looking for variety and willing to spend.
- ❑ Young urban Indians aged 16 to 40 remain the target – who spend over 40% of their income on food, ready to experiment, willing to pay premium for better variety and taste.
- ❑ Chocolates, cookies, juices, honey, sauces and certain fruits are the prime categories constituting bulk of the gourmet market in India.
- ❑ Apart from these categories, ingredients such as truffles, artichokes, asparagus, Australian lamb and Norwegian salmon have found their way into the Indian food and beverage space.



Modern retail in India

- ❑ Food & Beverage (F&B) accounts for over **60% of customer spend** and growing at the rate of **30% per year**.
- ❑ In F&B, penetration of organized retail is only 2% of the total market. An Indian shopper visits both traditional (“kirana”) stores and modern stores in the ratio of 5:1 times per week.
- ❑ Modern retail stores have grown more than 4 times since 2006 and is currently estimated to be more than 40,000 stores in the country and expected to reach 70,000 by 2016.
- ❑ Consumer spending in modern retail is seeing a rapid growth in tier-2 and tier-3 cities but challenges include brand building, pricing, logistics, trained manpower, hygiene concerns etc.,
- ❑ Modern trade is used to launch new products, build brands, improve customer awareness etc., This could then be followed by volume ramp up from general trade channels.



Online retail (E-tail) in India

- ❑ Online retail (E-tail) in India had grown tremendously in the last 5 years. It is expected to reach **\$ 8 billion by 2015**.
- ❑ Mumbai tops the chart in online shopping followed by Delhi and Kolkata.
- ❑ Performance of top online players is forcing many physical retailers to move to online space.

Drivers of E-tail:

Internet penetration



Internet penetration to touch 330 million users by 2016;

Rapid penetration of smart phones – growing 50% year on year

Exposure levels



Increasing awareness & young population;
Raising literacy rates

Evolution of E-tailers



Convenient payment modes - EMI, COD, Net banking, Credit/Debit card;

No question refund;

Best prices & offers

Busy life style



Traffic congestion;
Increasing working women

E-Groceries in India

- ❑ India is the 6th largest grocery market in the world.
- ❑ Online grocery is gaining popularity in India in the last 3 years with no. of new entrants mushrooming in key metro cities. Many venture capitalists are investing in e-grocers which is a good sign for growth.
- ❑ In Delhi on an average an e-grocer delivers approximately 20 orders a day. In Mumbai 40% of the groceries are bought through online or via phone.

Top e-grocers in the country,

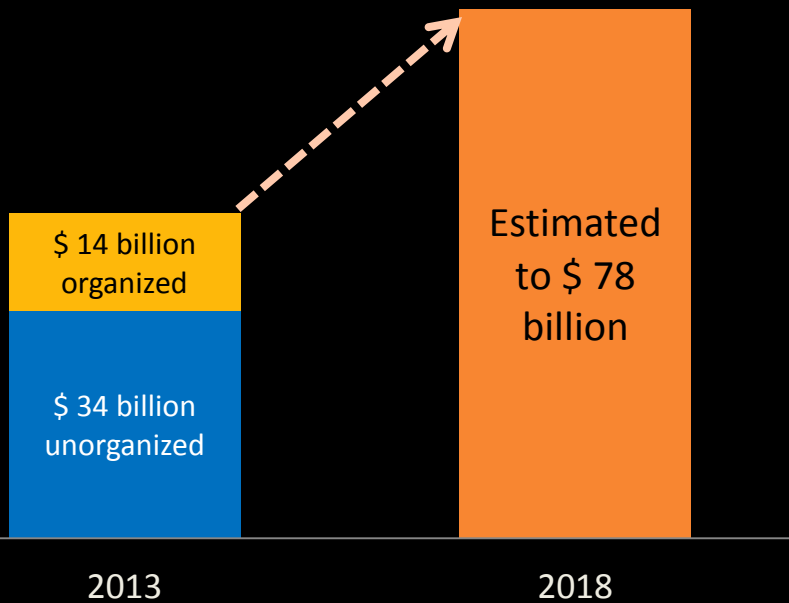
- ❑ Bigbasket.com, ZopNow.com, MyGrahak.com, Aaramshop.com, Ekstop.com, AtMyDoorSteps.com, LocalBanya.com

Reasons for people for moving towards online grocers:

- ❑ Best price & on time delivery
- ❑ Goods are delivered to neighbors or security staff in door lock condition after getting consent from the customer

Food services market in India

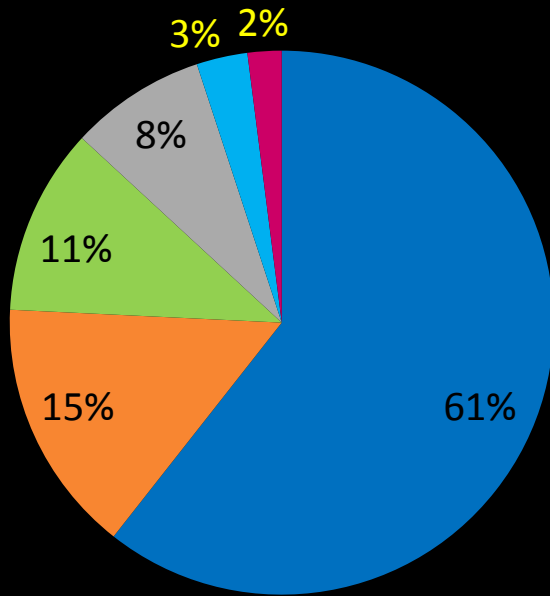
Food services market size



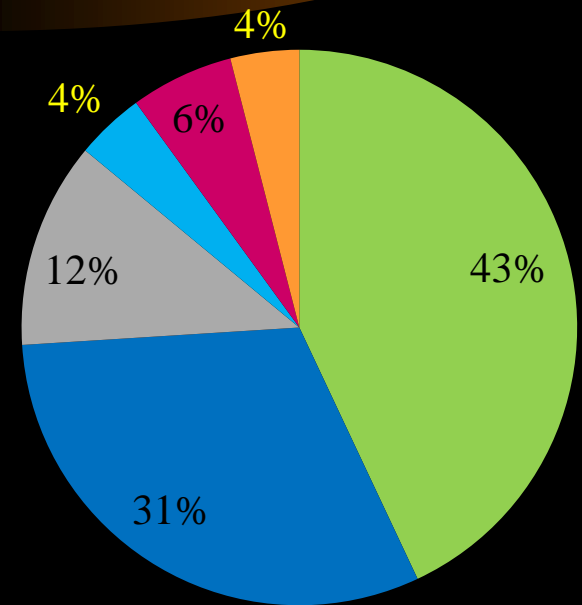
- The present food services market is US\$ 48 billion & is expected to grow to US\$ 78 billion by 2018
- Key drivers of food services market are,
 - Increasing working & young people, urbanization, disposable income & economic growth
 - Diversifying into multiple cuisines in tune with changing consumer preferences
 - Growth of tourism industry

Organized food services sector segments

Licensed standalone market



Chain food services market



- Casual dine restaurants (CDR)
- Pub, Bar, Club, Lounge (PBCL)
- Quick service restaurants (QSR)
- Café
- Fine dine restaurants (FDR)
- Frozen dessert (FD)

- Casual dine restaurants is the largest segment in licensed standalone market.
- Quick service restaurants is the largest in chain food services market followed by CDR.

Retail formats & key differences

	Gourmet stores	Modern trade	General trade
Market size	US\$ 2.2 billion	US\$ 27.2 billion	US\$ 264 billion
Customer profile	Affluent & upper middle class	Middle income population in metros	Predominantly low income
Price sensitivity	Low	High	High
Target products	Premium/specialty/imported products	All branded products and to some extent premium / imported products	Low end mass FMCG products & local brand packed foods
Business model	Low volume high profitability	Moderate volume high profitability	High volume low profitability
Key Challenges	High listing fees	High listing fees Poor payment terms	Highly fragmented – difficult to service Low 'per store' volume High level of bad debts

Key links in the supply chain & their responsibilities

Importer

- Owner and promoter of the brand in the country. responsible for:
- Sales and market share
- Pricing
- Quality
- Development of distribution network
- Forecasting, ordering and stocking
- Sales promotions ; and
- Single point of contact for all consumer queries

Distributor

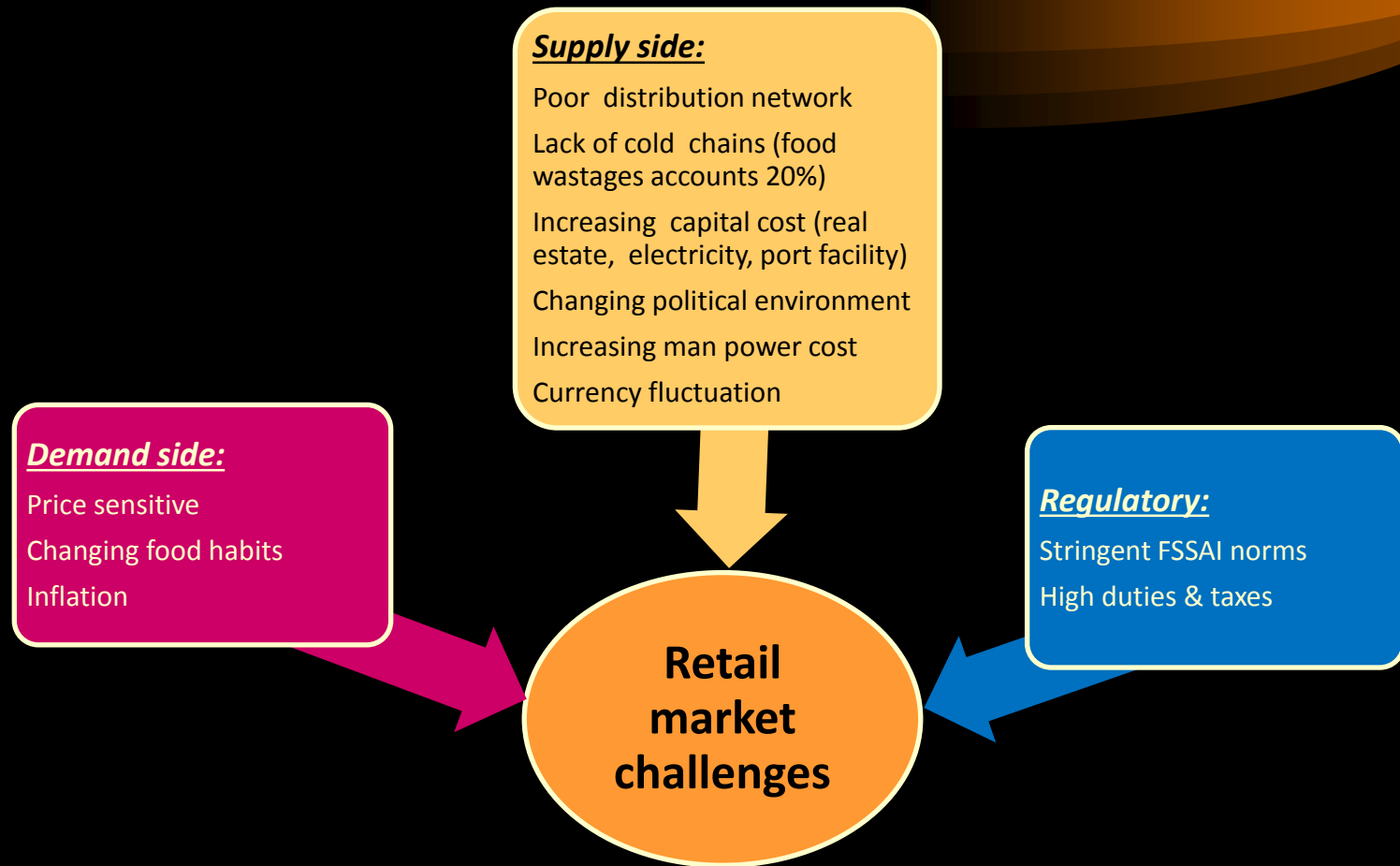
- Ensures the product reaches maximum number of potential retailers
- Stocks and distributes based on market demand
- Gives credit to the retailer
- Pushes retailers to stock and sell

Retailer

- Primary interface to end users
- Ensures availability of products needed by the customers
- Creates awareness to customer on the various products and brands
- Pushes sales through recommendations and through displays at the right place
- Offers schemes and discounts

Success or failure of any brand in the country can be directly attributed to the effectiveness of the importer

Challenges of food retail market in India



India is an attractive market but exporters fail to realise the complexities

- ❑ Indian market is definitely a tempting one for any new player because of its sheer volumes. But many new companies have exited India without breakeven or within 2 to 3 years of entry failing to understand that
 - ❑ India has 29 different states with varying state government regulations.
 - ❑ Huge disparities in domestic incomes, social status and lifestyle needing very carefully crafted distribution and pricing strategies
 - ❑ Consumer awareness, preferences and expectations different across states.
 - ❑ Marketing efforts, promotions and schemes need to address regional differences.
 - ❑ Infrastructure, distribution network vastly different across regions.
- ❑ In essence, significant efforts need to be put by the new entrant in terms of entry strategies, product positioning and brand building for achieving profitability in the long run.

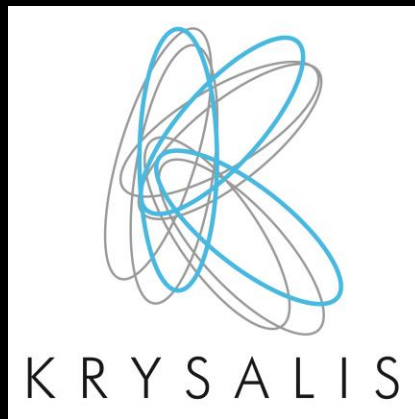
Labelling requirements

1. The name of food
2. List of ingredients
3. Nutritional information
4. Declaration regarding veg. or non veg.
5. Declaration regarding food additives
6. Name and complete address of manufacturer
7. Net quantity
8. Lot/code/Batch identification
9. Date of manufacture or packaging
10. Best before & use by date
11. Country of origin for imported foods
12. Instructions for use

About Krysalis

- ❑ Management consulting company offering solutions in the area of market research, supply chain and strategy
- ❑ Seasoned player in retail segment – worked with leading companies in India and abroad
- ❑ Services offered to retail industry:
 - ❑ Helping overseas companies to setup business in India
 - ❑ Market research to understand project feasibility (only commercial)
 - ❑ Assessing market potential
 - ❑ Evaluating and selecting right channel partners
 - ❑ Assessing distribution channel effectiveness
 - ❑ Creating/ redefining Go-to-market strategy
 - ❑ Stake holder perception and satisfaction studies - Consumer/ retailer/ dealer/ distributor/ Importer

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References

Abbreviations:

- ❑ GDP – Gross Domestic Product
- ❑ PPP - Purchasing Power Parity
- ❑ CAGR – Compounded Annual Growth Rate
- ❑ F&B – Food & Beverages
- ❑ COD – Cash On Delivery
- ❑ FDI – Foreign Direct Investment
- ❑ EMI – Equated Monthly Instalment
- ❑ FSSAI – Food Safety and Standards Authority of India

Sources referred: The World Bank, Indian Brand Equity Foundation, Food Safety and Standards Authority of India, censusindia.gov.in, Wikipedia and research reports of technopak, Nymex consulting