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Winning consumer trust



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RANGLAL JAMUDA
Secretary

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November 26, 2015.

MESSAGE

With a remarkable economic transformation and change in lifestyles, consumers are experimenting with different cuisines, tastes and new brands as a result of increased awareness and concern for health and wellness. It is a matter of pride that the food processing sector is emerging as a very promising sector and through the aggressive "Make in India" campaign, the food processing industry is in for a much faster transformation. Along with the growing industry, the concerns over food safety and quality have also grown and contributed significantly to the sector.

I am happy to note that to further highlight the consumer perceptions with regard to safety and quality of processed food, this report is being released. This report captures perspective of the consumer on food safety, quality and their trust on food companies & regulators.

I am hopeful that the report will be very useful to all the stakeholders.

(Ranglal Jamuda)



Ranglal Jamuda
Secretary, Ministry of Food Processing Industries

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Message from the Federation of Indian Chambers of Commerce & Industry (FICCI)

India is an emerging food power with a rich agricultural resource base, strategic geographic location and proximity to food-importing nations and an extensive network of food processing training, academic and research institutes.

The Indian processed food industry accounts for 32% of the country's total food market, 14% of manufacturing GDP, 13% of India's exports and 6% of total industrial investment. Besides the role of providing variety of processed food to consumers and industrial growth to the nation, a critical requirement for the industry to flourish is to maintain food safety and quality and comply with regulatory and industry norms for the same.

This report aims to look at food safety and quality of processed foods available in the market from the consumer's perspective. It also captures the key components of safe and quality processed foods as perceived by the consumers.

I am confident that this joint effort by FICCI and PwC will be instrumental in highlighting the key consumer perceptions with regard to safety and quality of processed food.



Dr A Didar Singh

Secretary General, FICCI

Message from FICCI Food Processing Committee



Sangeeta Pendurkar
Chair, FICCI Food Processing Committee and Managing Director, Kellogg India



Sanjay Sharma
Co-chair, FICCI Food Processing Committee and CEO, MTR Foods, India

Increasing incomes are always accompanied by a change in the food basket.

The food processing industry forms an important segment of the Indian economy. It is also one of the major employment intensive segments, contributing 13.04% of employment generated in all registered factory sector (2012-13). It is estimated that the share of processed and packaged foods will increase to over 40% of overall intake by 2025-2030 at a growth rate of over 15% compound annual growth rate (CAGR).

Processed food from India is now a preferred choice for many overseas retail markets as well. The average Indian consumer is reportedly spending almost 31% of their earnings on processed food products. With growing awareness, health consciousness, need for convenience and improving lifestyles, the share of processed food is gradually and steadily increasing in the consumer's food plate. These trends indicate that in the future, consumers will become more and more demanding to know what they are consuming. Therefore, it is essential for the food processing and retail industry to understand how the consumer preference is changing with time and what are the key ingredients that constitute consumer trust.

The report 'Winning consumer trust' resonates with this idea and captures from the end consumer their perceptions of food quality and safety of processed food products, key components of safe and quality processed food as perceived by consumers, and consumer perceptions on regulatory strictness and industry compliance. It also tries to assess the key food safety and quality areas for Indian food processing companies to build and maintain consumer trust. Several insights in this report have been sought from industry leaders in the Indian food processing business and end consumers. We acknowledge their valuable inputs. We are also thankful to the PwC team who has worked alongside FICCI in bringing out this report.



Sangeeta Pendurkar



Sanjay Sharma

Foreword

Today's consumer is becoming more and more demanding about what he is consuming, what quality of food he is getting and how safe it is for his and his family's consumption.

India is one of the front-running nations in consumption and production of food products over the world. The food processing sector plays an important role in contributing to the development of the economy. With a market size of 181 billion USD, food and food products form the largest consumption category in India. A survey conducted by FICCI in 2010 found out that the spending on food and food products in the domestic market amounts to nearly 21% of the nation's GDP and constitutes the largest portion of the Indian consumer spending, that is, more than 31% of their earnings.

In order to promote the growth potential of the sector and promote the food processing industries, the government on its part has initiated extensive reforms and schemes. To facilitate the delivery these schemes, the government prepared a Vision Document—2015, which envisaged trebling the size of investment in the processed food sector by increasing the level of processing of perishables from 6% to 20%, value addition from 20% to 35% and share in global food trade from 1.5 % to 3 % by 2015.

The allocation of 2,000 crore INR (319.98 million USD) as a separate National Bank for Agriculture and Rural Development (NABARD) fund for food processing industries during the Union Budget 2014–15 is all set to give a big boost to this sector in India.(India in Business, Ministry of External Affairs, Government of India).

The retail industry is the primary interface between food processors and the consumers. It has a pivotal role in ensuring the availability of products to customers. It also creates awareness in consumers on various products and brands. With the boom in the food processing sector, the retail market in India has grown up to 1,750 billion INR by 2015 with a 6% CAGR. (Karunakaran, B. Opportunities in Indian Food Retail: An overview). This has also translated to an 11% growth in sales for food and groceries which will continue to grow in the near future. Today's consumer is very specific in his food requirements and considers various aspects such as product quality, pricing, brand promise and after sales service before making a purchase. The retail and processing industry needs to track these consumer preferences in order to deliver a good product experience and win the consumers trust.

Echoing the sentiment is the report 'Winning consumer trust' which aims to gauge consumer perceptions with regard to safety and quality of processed food. Insights in this report have been sought from industry leaders across the Indian food processing business and consumers.



Ajay Kakra

Leader, Agriculture & Natural Resources, PwC India

Executive summary

"Consumers have a right to expect that the foods they purchase and consume will be safe and of high quality."

– Food and Agriculture Organisation of the United Nations

Increasing urbanisation, dynamic lifestyle changes and increasing number of working women and nuclear families are changing the global setting for the food industry. With changing consumer demands, evolving sector dynamics and increasing exports, the Indian food processing industry is also at the cusp of transformation. In light of the recent food safety incidences and product recalls, the food processing industry has put a renewed focus on food safety and quality. Overall, Indian consumer trends are set to undergo a major change owing to various demographic, regulatory and industry drivers. Understanding Indian consumers' evolving behaviours through continuous feedback will pave the way forward.

For this purpose, PwC and FICCI jointly conducted a consumer survey study. This study focusses on understanding the consumers' perspective on various aspects of food quality and safety. With a sample size of nearly 400 respondents, this structured survey study was conducted in three major cities–Delhi, Pune and Hyderabad. Food shoppers from both modern and conventional retail formats were interviewed to capture their views on the current food safety and quality scenario in the country, how confident are they on the safety and quality of the food they eat and how do they judge food quality and safety while making purchase decisions for packaged, processed food products. The major findings of the survey include the following:

- Expiry date, health (nutritional composition) and brand are the most important factors considered by consumers while deciding which processed food products to buy.
- The consumer buying behaviour towards the overall processed packaged food industry remains more or less unchanged over the past six months. It is noteworthy that wherever there was indication towards decrease in consumption, the major reasons were concern over food safety and quality of the products.
- Consumers perceive safety and quality as synonymous characteristics—a quality product is bound to be safe and vice versa.
- Brand name, followed by ingredient information and referral from friends and family emerged as the top three factors that define trust for consumers in the quality and safety of processed food products.
- It is a common consensus among consumers that the government and food processing companies need to take further measures to ensure food safety and quality.

The government and industry have a shared responsibility to ensure the safety and quality of packaged, processed food products. From the consumers' perspective, truthful and clear labelling is a 'high impact imperative' for the industry. This will in turn help achieve other imperatives for the industry, namely building consumer relationships to win consumer trust and brand loyalty. Government/regulatory bodies, on the other hand, should focus on making the quality checks and safety audits a stricter process, increase transparency and instil simplicity in the food safety complaints management process. Creating consumer awareness on food safety and quality and developing a transparent product testing certification process are areas that require joints efforts from both the parties.

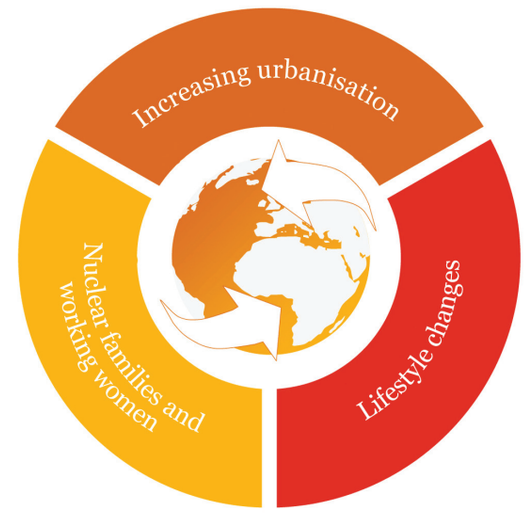
The government and food processing industry should keep a track of consumer preferences and continue working towards building consumer trust.

Global setting for the food industry

Increasing urbanisation, lifestyle changes, and more number of nuclear families and working women are some of the major factors leading to the rise in demand for processed foods all over the world. This has resulted in substantial growth of the food processing industry, which has now become one of the major manufacturing sectors in almost all developed countries.

Majority of the foods consumed in today's world undergo varying levels of processing. The processing is undertaken to ensure easy acceptability, digestibility and microbiological and chemical safety of foods, and to improve their quality or increase their shelf life. The level of processing varies with food items. It may involve only a few steps that don't change the structure r nutritional properties of the food items such as sorting/grading, washing or peeling. Alternately, it may involve complex steps that use different ingredients.

Processed foods have garnered a lot of media criticism in recent times due to various instances of contamination and product recalls. This has led to more stringent food safety and quality assurance mechanisms, especially in the case of



Source: PwC analysis

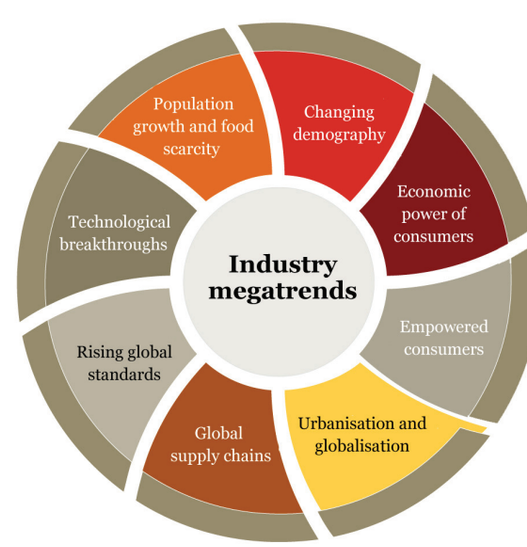
global food supply chains. Reports of minced beef adulteration with horsemeat, melamine in dairy products, nuts in spices, etc. have propped up the question of food safety. These instances have changed consumer perception of food producers, processors and sellers. As such, the importance of tracking the source of food and the entire food value chain has increased, and food processing companies are increasingly focussing on having more control on the chain.

Food safety drivers: The industry megatrends

The food processing industry is undergoing changes because of certain megatrends, the impacts of which are important in understanding the overall food safety scenario.

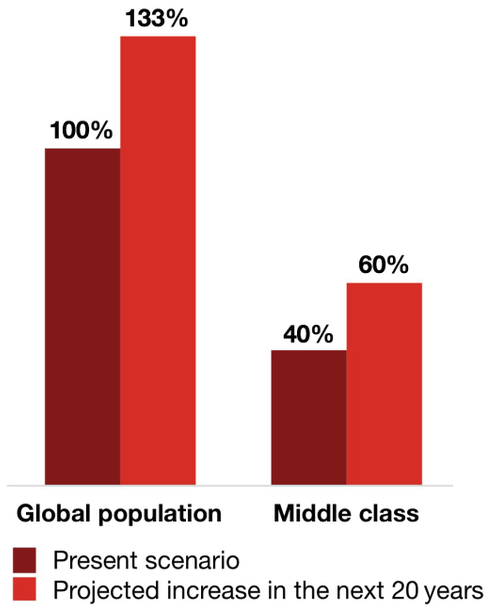
Shift in economic power, demographic change and empowered consumers

Shift in economic power and demographics are expected to change consumers' food preferences and lead to the evolution of the global food supply chains. Studies indicate that in the next 20 years, global population is projected to increase by 33% and the middle class by 150%. This growing middle class will primarily be concentrated in the Asia Pacific region. This trend is resulting in greater consumer expectations with regards to safety, quality, integrity and traceability of food across all emerging economies.



Source: PwC analysis

Shift in global demographics: The growing middle class

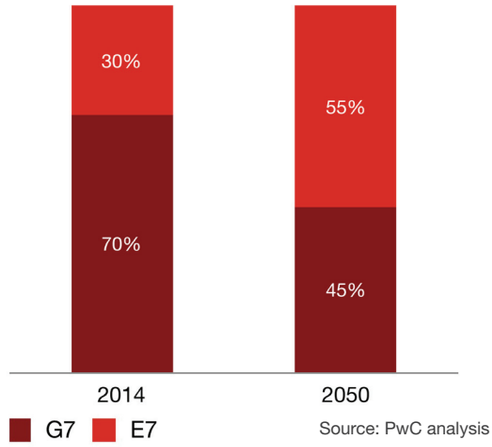


Source: PwC analysis

Accelerating urbanisation, globalisation and integration of food supply chains

The other megatrends are accelerating urbanisation and globalisation, which have had a significant impact on the agricultural production and food supply chain. The population is rapidly shifting to urban from rural areas; by 2050, it is estimated, cities will have as many people as the entire planet does today, with the proportion of global urban population increasing from 49% at present to 70%.

Changes in share of global wealth of E7 and G7 nations by 2050



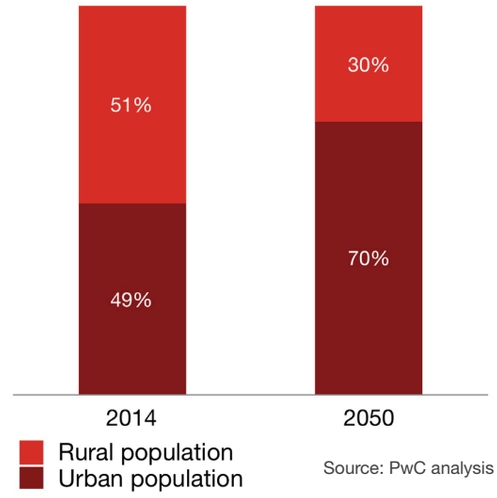
Source: PwC analysis

G7: The US, Japan, Germany, the UK, France, Italy and Canada

E7: China, India, Brazil, Russia, Indonesia, Mexico and Turkey

As a result of this socio-demographic change, the food manufacturers have developed interest in the emerging markets from where they source raw materials. This has led to the globalisation of food supply chains along with changes in their organisational structure. These changes have forced food supply chains to evolve and, in the process, become more complex, increasing the risk of unsafe food products.

Global population: Increasing middle class



Source: PwC analysis

This shift will result in less manpower performing agricultural activities, even as climate change will be depleting resources. It is estimated that there will be a 30% dip in Southern Africa and 10% in South Asia in yields of staple crops by 2030. The twin factors will diminish agricultural production, but to feed the growing world population, countries will either have to boost production or source material from other countries. Thus, there will be redoubled pressure on the supply chain to ensure food security globally, as both the demand for and awareness surrounding safe food escalates.

Scandals, increasing scrutiny and rising regulatory standards

Cases of food adulteration and batch recalls are whittling down public trust in the food industry and amplifying concerns about its products. More stringent food safety regulations with stricter policies in terms of quality standards, supervision

and sanctions are being adopted by governments committed to protecting their communities. Meeting multi-country regulations while remaining economically competitive can be challenging.

Scientific advances

There have been significant advances in technology, such as 'digitisation' of the food supply chain, precision agriculture and its use in farming, integration of new information and communications technology (ICT) models in agriculture, etc. These technologies facilitate dispersal of knowledge, resulting in increased availability of information on food safety across the supply chain, consumer awareness on the subject of food safety, and expectations from producers and manufacturers to provide safe food. Furthermore, technology has facilitated traceability of the origin of the food product and validation of its quality. This increases the pressure on food companies to ensure their offerings are safe for consumers.

The above-mentioned megatrends have changed the food processing industry and affected the drivers of food safety. The industry is beginning to be more cautious and is ready to invest much more to ensure safety throughout the supply chain. Even then, more and more cases of food adulteration and recalls are coming to the fore, leading to monetary losses as well as loss of brand value and image for the firm in question. Once such incidents happen, consumers lose trust—which is of paramount importance—for a brand.

A brief profile of the Indian food industry

The Indian food processing sector: An overview

Accounting for about 32% of the country's total food market, the food processing industry is one of the largest in India and is ranked fifth in terms of production, consumption, export and expected growth. The sector has been growing fast, with a higher contribution to GDP as compared to agriculture or manufacturing. Its performance has improved significantly in recent years. Manufacturing was generally growing at a higher rate than food processing till 2009-10, but the latter's performance improved substantially in 2011-12, registering a record growth of 21.6%. In 2012-13, growth of the food processing sector decelerated, but it was still higher than the agriculture or manufacturing sector, which also witnessed a slowdown. (Ministry of Food Processing Industries, Government of India, Annual Report 2014-15).

According to the data provided by the Department of Industrial Policies and Promotion (DIPP), the food processing sector in India received around 6,215.46 million USD worth of foreign investments during April 2000-January 2015.

Growing exports of Indian processed foods

As per the Agricultural and Processed Food Products Export Development Authority (APEDA), India's exports of processed foods amounted to 31,563.43 crore INR in 2014-15. The following table lists the share of various products:

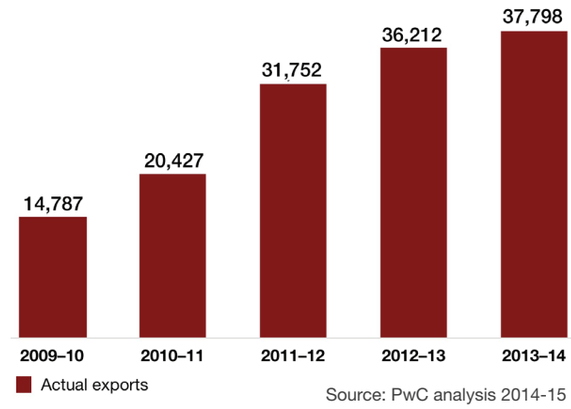
Export product	Value
Mango pulp	841.39
Dried and preserved vegetables	847.11
Other processed fruits and vegetables	2,569.93
Pulses	1,209.51
Groundnuts	4,675.35
Guargum	9,480.00
Jaggery and confectionery	1,161.81
Cocoa products	848.62
Cereal preparations	3,038.79
Alcoholic and non-alcoholic beverages	2,231.58
Miscellaneous preparations	2,437.77

(crore INR)

Source: APEDA 2014-15

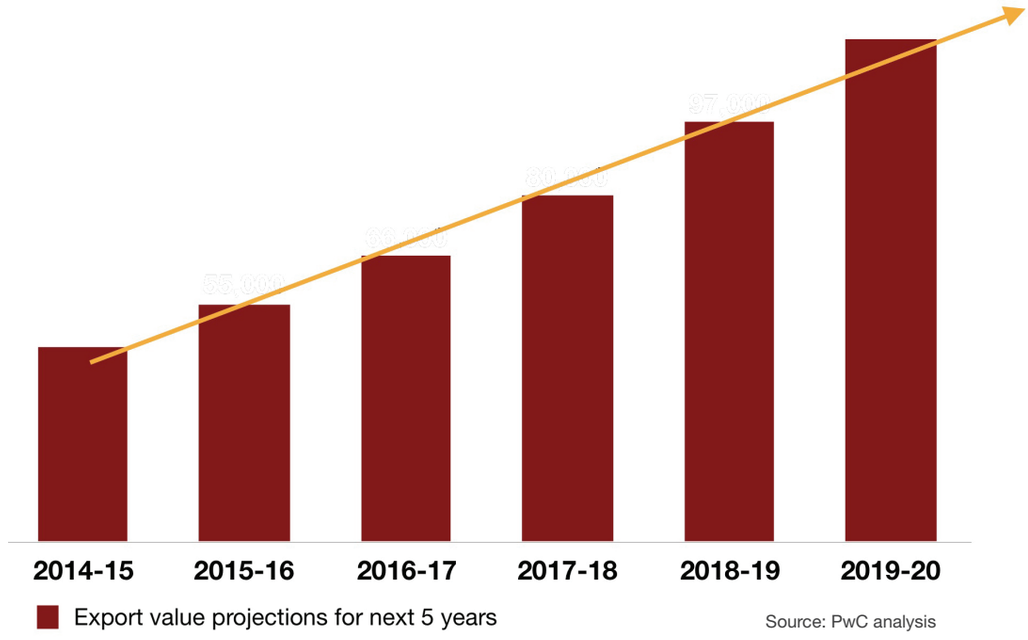
The value of the exports from the sector has been on the rise, with an average annual growth rate (AAGR) of 20.53% for five years ending 2013-14. The value of processed food exports during 2013-14 was of the order of 37.79 billion USD (of the total exports worth 312 billion USD), constituting 12.1% of India's total exports. (Directorate General of Commercial Intelligence and Statistics (DGCI&S), Kolkata). Considering the AAGR of 20.53% for the next five years, the sector is expected to touch the 100 billion mark by 2020.

Processed food exports from India (million USD)



Source: PwC analysis 2014-15

Projected exports of processed foods from India (million USD)



Source: PwC analysis

Food safety and quality: Existing situation

Considering the rising demand for processed foods in our country as well as abroad, food safety and quality assume paramount importance, which will ensure continuous growth of the domestic sector and exports market. This is crucial—amid current trends of increasing urban population, growing consumer awareness, frequent product recalls over safety concerns—from the perspective of public health, product quality and food players' brand image and monetary considerations.

The food processing companies operating in India have largely adopted the food safety and quality assurance mechanisms such as total quality management (TQM) including ISO 9000 and ISO 22000, Hazard Analysis and Critical Control Points (HACCP), Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP). These mechanisms are expected to enable the industry to adhere to stringent quality and hygiene norms, thereby protecting consumer health, preparing the industry to face global competition, enhancing product acceptance by overseas buyers and keeping the industry technologically abreast of international best practices. Although the Indian food processing sector has been keeping abreast of quality assurance mechanisms, the focus has been more on getting safety certification rather than constant quality improvement. This is confirmed by recent examples of food recalls and notices by the food safety authorities to large food processing players, even though in these cases, certification of some sort was in place.

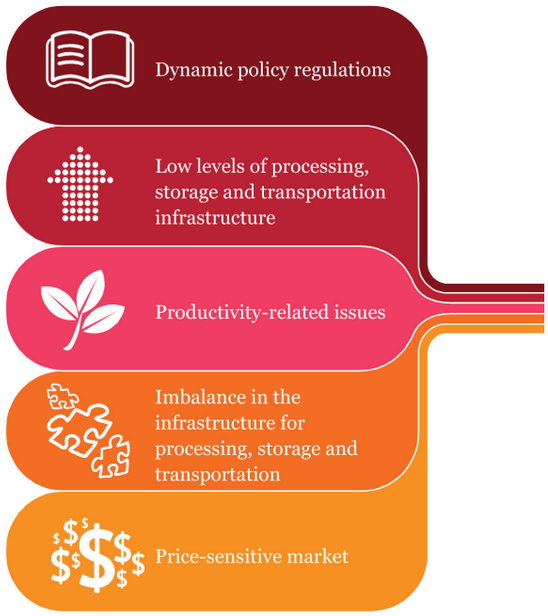
Food safety and quality: Major challenges

The Indian food processing industry has not been able to match up to the international food safety and quality aspects due to various challenges unique to the country. It faces various challenges including dynamic policy regulations; lack of appropriate processing, storage and transportation infrastructure; lower levels of processing and monetary aspects pertaining to price consciousness, which affect food safety and quality.

Dynamic policy regulations

Although, efforts have been made by the Food Safety and Standards Authority of India (FSSAI) to unify various legislations and regulations under the Food Safety and Standards Act, 2006, many aspects need further clarification. Industry experts have indicated there is still a lot of repetitiveness in the Act, and there is lack of clarity about the roles of various stakeholders.

Challenges faced by the Indian food processing sector



Lack of infrastructure and lower levels of processing

Infrastructure development in the food processing sector has increased substantially during the last five years. However, we are still far behind developed countries. Poor or no infrastructure is often the main cause behind loss of quality and lack of food safety. There is a need for constantly developing food processing, storage and transportation infrastructure. While food processing and storage infrastructure has been expanding continually since a few years ago, transportation and logistics-related infrastructure is growing at a sluggish rate. This imbalance in infrastructure development among these subsectors may further aggravate the quality related concerns.

Monetary aspects

Adherence to food safety and quality standards is associated with a considerable increase in the cost of processed foods. As the Indian market is price point-sensitive, cost hikes can render businesses non-competitive many a time. Although consumer awareness is increasing and many Indians are now ready to pay for better quality, the larger share of the market is still not ready to shell out more until there are visible quality differences. However, with increased product recall incidences and a spate of notices by food regulators, the situation is gradually changing. And with the processed food exports market getting bigger, the quality and safety aspects need further attention.

The way forward

With the advent of modern retail marketing and increasing exports of processed foods, the trend is geared more towards better quality and higher safety. The Indian processed food exports market is taking its next steps in terms of moving from the Middle Eastern to the European markets, where food safety and quality assurance mechanisms are more stringent. India has to keep pace with European standards in order to maintain the growth in the processed food exports.

Indian regulations are also moving towards a facilitation role from the inspection role, which is further enhancing the implementation of quality assurance mechanisms.

In addition, with increasing consumer awareness, incidents of product recalls and regulator notices hugely dent the brand image of the defaulting food processing player—a major cause of concern especially for large established brands and organised retail players.

In the wake of these trends, food safety and quality aspects are gaining their due importance, and this will not only boost exports but also enlarge the domestic market for processed foods.

Consumer perspective on the food industry

The average Indian consumer is relatively younger and more mobile, with 65% of the population below the age of 35. India has a strong urban middle class with a high per capita income and increasing consumption levels. With these changing population demographics, the market for processed food products has expanded.

Changes in production and distribution methods, new developments in trade and the transportation industry, shifts in climatic and environmental factors, and growing antimicrobial resistance—all of these factors increase the probability of food hazards and food safety incidents. These concerns have even greater significance for India and other developing countries, owing to the potential impact on public health, food security and trade competitiveness. The emphasis on the quality parameters pertaining to the safety of food has taken the centre stage in global food trade for decades. Increasing agricultural exports have also been an integral part of the government's sector development strategy. Higher incomes, urbanisation, literacy, improved infrastructure, and greater influence of global trends—especially during the last decade—are driving changes in consumer demand and preferences in India and prompting policymakers to take urgent action to address food safety risks. Stringent quality and sanitary and phytosanitary (SPS) norms in prospective international markets have always been the major drivers for the increased attention to food safety in India. The entire Indian ready-to-cook packaged food industry was hit hard by the recent food safety fiasco—sales went down by 9% in the June 2015 quarter as wary consumers drastically reduced purchases. In light of such food safety incidences, the Indian food processing industry has placed a renewed focus on food safety and quality. Coupled with the growing complexity of global food systems—delivering food from many sources, sometimes over great distances—this situation underscores the importance of food safety at the national level.

Simultaneously, the food industry is experiencing a monumental demand shift towards 'good for you' food products. Older shoppers tend to view foods with lower calories, less fat (especially saturated fat), less sodium and added sugar as being big drivers towards their definition of good for you. Recent trends reveal consumer preferences for products with more natural ingredients, even if they have high salt, sugar or fat content. A recent statement by Indra Nooyi, the CEO of PepsiCo, captures the industry situation: 'We have a challenge to really think about what is the definition of "good for you" from a consumer perspective'.

Overall, Indian consumer trends are set to undergo a major change owing to various demographic, regulatory and industry drivers. Understanding the Indian consumer's perspective on the food industry is essential to shaping the way forward.

For this purpose, it is important to understand and define the following:

I. **Consumer behaviour and consumption pattern for processed food segments:** What drives consumer behaviour and the consumption pattern for processed food products? How has the consumption of various processed food categories changed in the light of the recent food safety incidences and what are the reasons behind these changes in the consumption pattern?

II. **Consumer perceptions of food safety and quality:** How do consumers perceive food safety and quality? Which factors define trust for consumers while judging the quality and safety of processed food products?

The following sections outline each of these aspects, supported by the relevant key outcomes of our study.

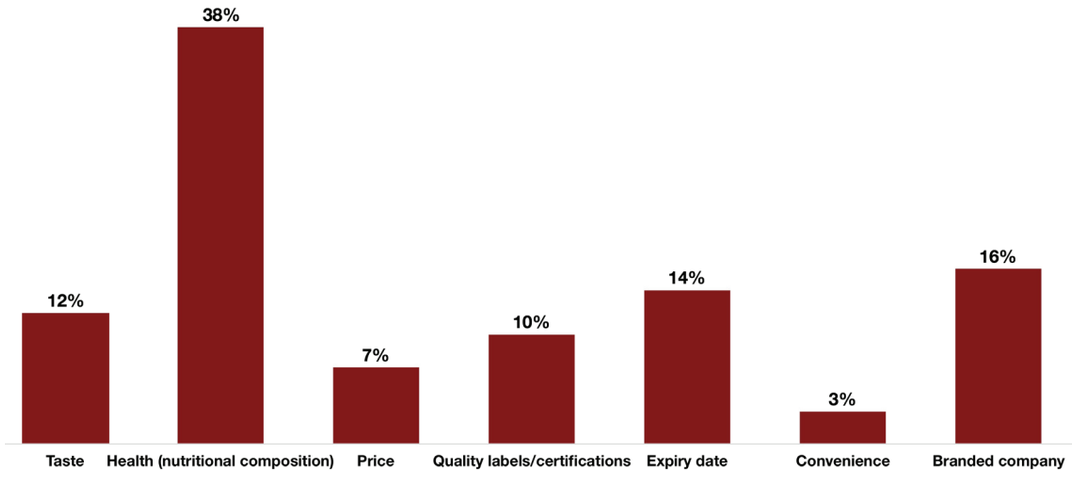
Consumer buying behaviour and consumption pattern for the processed food segment

Factors that affect consumer buying behaviour

Consumer demand is governed by macro factors, while purchase/buying behaviour largely varies at the micro level. While there is currently a demand shift towards the processed food segment among Indian consumers—largely due to lifestyle changes, increasing urbanisation, changes in demographics, and an increasing number of nuclear families and working women (macro factors)—the purchase behaviour for various processed food categories is defined by micro factors like taste, health, price and brand. Macro factors govern the overall sector dynamics. On the other hand, individual purchase decisions are largely based on micro factors, which may vary from consumer to consumer. For instance, some consumers may prefer taste over health, while others prefer quality over price. The interplay of these micro factors defines individual preference and, hence, consumer acceptance. The micro factors equip companies with opportunities to appropriately position themselves as per their competitive advantage. If leveraged adequately, these factors can help both food processors and regulators to gain increased consumer acceptance.

The PwC-FICCI survey attempted to identify these micro factors—the most important factors considered by consumers while making purchase decisions regarding processed food products. **Expiry date, health (nutritional composition of the product) and brand emerged as the most important factors**. The responses were the same in both the aided and unaided formats. In the unaided response format, consumers considered health as the most important factor while purchasing processed foods; it was followed by brand and expiry date. In the aided response format, expiry date, followed by health and brand, were the top three factors considered.

Factors considered by consumers while purchasing processed food (unaided)
Percentage distribution of respondents, 2015



Source: PwC analysis

Changes in consumption pattern

In order to define the emerging consumer trends in the processed food segment, it is imperative to understand the change in consumption patterns for various product categories and the reasons for the same.

The decrease in consumption for select processed food categories is clearly indicated by data released by the Indian market research firm (IMRB) Kantar Worldpanel, which studies consumption patterns through volume sales. According to this data, processed food categories, namely instant noodles, and soups declined by 9% during the June 2015 quarter compared with a 5% growth in the last year period. The data also showed that beverages fell by 4% while the overall food segment's growth eased to 4% from 9% a year earlier.

Our survey results covering respondents from three major Indian cities—Delhi, Pune and Hyderabad—also indicate similar trend. Significant percentage of respondents indicated that they had decided either to decrease or not increase their purchase of most processed foods over the last six months. However, the trend indicated by substantial number of respondents towards willing to increase consumption of basic traditionally consumed processed foods like biscuits, fruits juices/concentrates and packaged milk during the same period indicate lack of confidence and a sense of uncertainty in new genre of processed foods.

The recent controversy around non-adherence to food safety standards by one of the world's largest dairy and food products companies has brought food safety issues in India into much sharper focus, not only from the regulators and the industry but also from the consumers perspective, who now same to take more conscious and informed decisions while purchasing processed, packaged food products. However, in general, the consumer buying behaviour towards the overall processed packaged food industry remains unchanged over the past six months. Consumer trust on the processed packaged food products remain almost intact, except for select processed food categories impacted by the controversy. This validates the growing acceptance of processed foods as part of daily food consumption basket and also the growing consciousness of Indian consumers towards safety and quality of such processed food products.

Consumer perceptions on safety and quality of processed foods

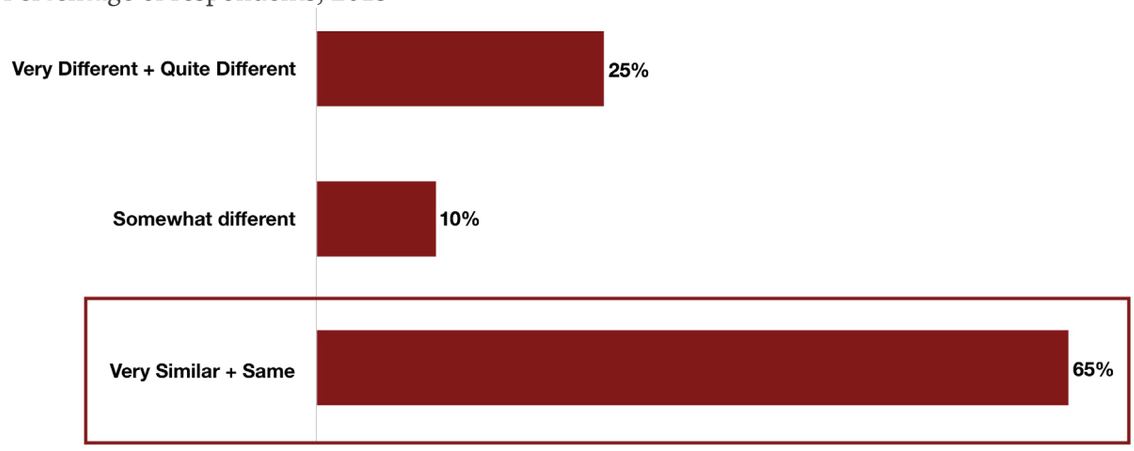
For the industry to adequately respond to consumer demand for safe and quality products, it is important to understand how consumers define and assess food safety and quality. **Our survey findings indicate that consumers perceive safety and quality as synonymous characteristics, that is, a quality product is bound to be safe and vice versa**, but this may not necessarily be true at all times.

Food safety essentially means that the food products are safe for human consumption and will not have adverse effects on the health of the consumer, whereas food quality for a product is defined by its conformance to established food quality standards/regulations.

Though quality standards take food safety into account, a safe food product may not always be a quality product. **65% of the respondents in our survey indicated that they perceive food safety and quality as same/similar characteristics**, while 35% perceive them as two different characteristics defined by different factors.



Consumer perceptions on food safety and quality
Percentage of respondents, 2015



Source: PwC analysis

Factors that define trust for consumers

Consumer trust can be defined by multiple factors–brand, previous usage, referral from family members/friends/relatives or through advertisements. It is important that consumers, food processing companies and regulators, all share a uniform concept of trust to ensure safety and quality of food products both from consumer experience and regulatory compliance perspective.

When consumers were asked about how they judge safety and quality of processed food products–**brand name, followed by ingredient information and referral from friends and family** emerged as the top three factors which define trust for consumers on quality and safety of processed food products.

Factors that define trust for consumers on quality and safety of processed food products
Percentage of respondents, 2015



Source: PwC analysis

Quality and safety certifications/labels are not the major factor considered by Indian consumers while judging the safety and quality of processed food products. Instead, they use brand as a surrogate to define trust in safety and quality of processed food products.

These findings clearly indicate that **consumer awareness on food safety and quality needs improvement**. Consumers also expressed their concerns over this lack of knowledge regarding various parameters required to judge quality and safety of processed food products. Aware consumers are better equipped to take conscious purchase decisions and can better judge quality and safety of processed food products.

Winning consumers' trust

Consumer confidence in safety and quality of processed food products is dwindling day by day. An IBM study reveals that less than 20% of consumers trust food companies to develop and sell food products that are safe and healthy for themselves and their families. The study also shows that 60% of consumers are concerned about the safety of food they purchase, and 63% are knowledgeable about the content of the food they buy (IBM, News Releases, 2013).

Our survey findings also reflect the dwindling consumer confidence levels in the quality and safety of the processed packaged food products they consume.

- **About 40% of the survey respondents have faced quality-related issues** in the processed food products purchased by them.
- More than one-fourth (27%) of our survey respondents have faced **issues concerning either the expiry date of the product or ingredient quality.**
- **Around 41% of the aggrieved respondents did raise complaints** regarding these quality and safety issues.

In the light of the recent food safety incidences and with growing consciousness of the Indian consumer towards food safety and quality, it is important for food companies to build trust with consumers.

Four major factors that can help win consumer trust



1. **Brand reputation**: This is defined by the market reputation of the brand–how is it perceived by customers and consumers. Brand reputation is often earned and developed over years.
2. **Consumer relationship**: This is defined by the emotional relationship that the brand shares with its consumers. This is also build through years.
3. **Quality compliance**: Compliance to various quality standards and requirements can be demonstrated through certifications/labels on product packaging. This instantaneously helps build credibility with conscious consumers.
4. **Marketing and advertising campaigns**: This is another short-term measure adopted to win consumer trust. Food companies also use marketing/advertising campaigns to create consumer awareness on product and its characteristics.

In our survey, we tried to assess consumer perceptions on regulatory strictness and industry compliance in order to understand what consumers need from food processing companies and regulators to build and maintain their trust on processed food products.

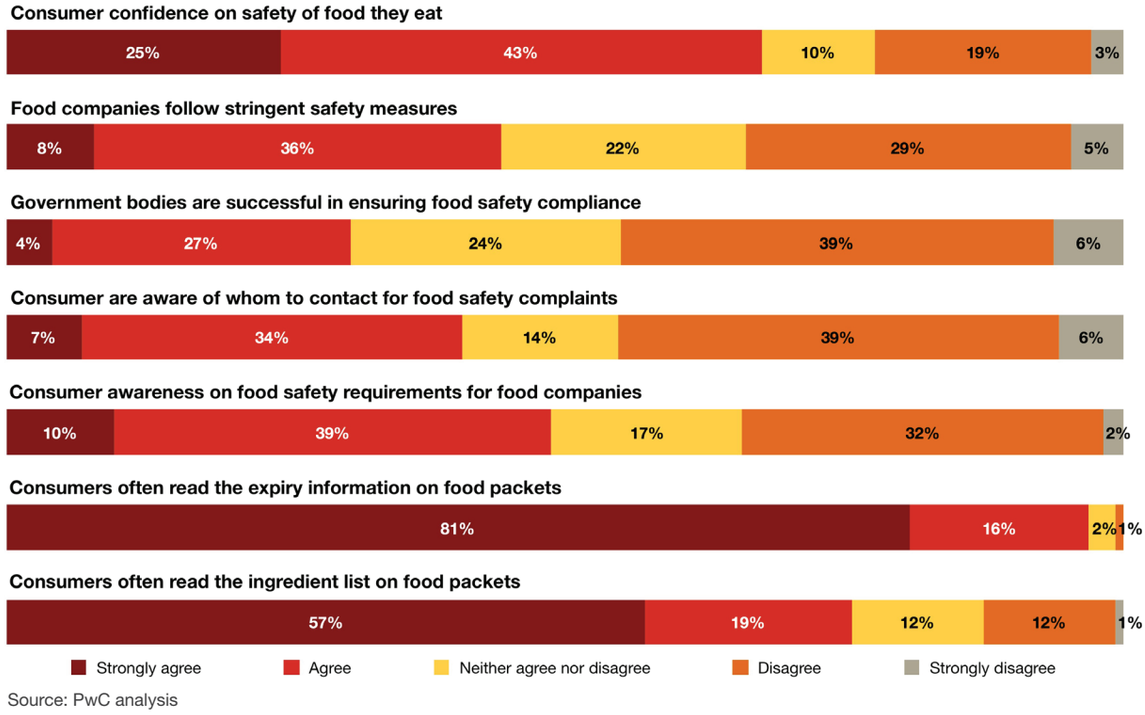
Consumer perceptions on regulatory strictness and industry compliance

- About 50% of the respondents were aware of the food safety requirements for food processing companies.
- It is evident from the survey responses that consumers are conscious of the expiry date and ingredient list of the processed food products. More than 80% of the respondents 'strongly agree' that they often read the food expiration date on the packets and nearly 60% of the respondents often read the ingredient list on the food packets.
- About 45% of the respondents feel that regulatory authorities are not successful in ensuring compliance with food safety and quality regulations. Consumers stated that they want regulatory authorities to conduct regular third party checks and adopt continuous and rigorous product/ingredient testing measures to ensure proper compliance of food safety and quality regulations by food companies.
- Around 44% of the respondents were satisfied with the food safety measures followed by food processing companies. However, one-fourth of the consumers raised concerns regarding 'encrypted' ingredient and product information on the labels. They expect clarity on ingredient and expiry date information on product labels, especially in case of low shelf life/highly perishable products like milk, meat and meat products and bread/other bakery items.

In general, respondents are confident of the safety of food they eat. We can infer from the survey findings that consumers ensure the safety of food they eat through various measures such as checking the expiry date information of the product and reading the ingredient list. Simultaneously, it is also evident from the survey findings that the respondents identify that government/regulatory bodies have a greater role in ensuring food safety and quality of processed food products.

Overall, the respondents feel that both government and food processing companies need to take further measures to ensure food safety and quality. The respondents feel that food processing companies need to provide clear/non-encrypted information about the ingredients and expiry date details on the labels, whereas government authorities need to conduct regular checks and guarantee proper testing measures to ensure food safety and quality compliance by the industry.

Consumer perceptions on regulatory strictness and industry compliance
Percentage of respondents, 2015



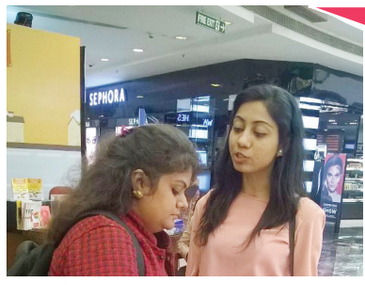
Source: PwC analysis

Consumer testimonials



Sangeeta Kumar, Delhi

Information on the labels and list of ingredients mentioned on the packaged food items should be clear and easy to read and understand.



Shikha Sharma, Delhi

Use quality ingredients and safe packaging, along with attention to cleanliness and hygiene in the process.



Mohit, Hyderabad

Food testing facilities should be made available to keep a check on the quality of packaged food.

Conclusions and recommendations

With evolving consumer needs and changing regulatory landscape, winning consumer trust is essential for both food companies and regulators.

Our findings suggest that consumers are becoming more conscious of food quality and safety; however, their ability to make informed purchase decisions for processed food products is limited by their lack of awareness of food safety and quality parameters.

Driven largely by industry megatrends, consumers are becoming more conscious about food safety and quality. They consider micro factors such as expiry date and health while making purchase decisions for processed, packaged food products. Consumers often use the brand name as a surrogate indicator of quality and safety of food products. There is also a decline in the consumption of certain processed food products due to concerns over food safety, quality of the product or lifestyle changes. Few of the processed, packaged food categories, namely biscuits, fruit juices/concentrates and packaged milk have undergone a positive change in consumption during the same period. This change, for the select categories of products, can be attributed to lifestyle changes.

However, the consumer's limited knowledge on how to judge the safety and quality of processed, packaged food products affects the purchase decision process. Public awareness and sensitisation efforts on factors defining food safety and quality for a given product, and awareness on various quality/safety certifications and labels can help consumers distinguish safe and quality processed food products.

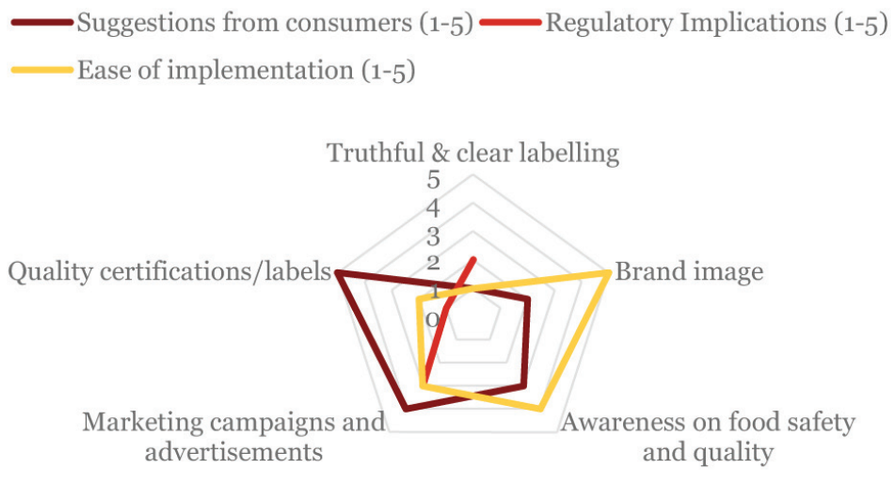
Efforts are required from both industry and regulatory bodies to streamline the food safety and quality landscape in India.

Imperatives for the industry

Our study suggests the following major imperatives for the industry:

- Truthful and clear labelling
- Quality labels and certifications
- Consumer awareness on food safety and quality
- Building consumer relationships through marketing campaigns/advertisements and brand image

Food safety and quality: Imperatives for the industry



Source: PwC analysis

Focus areas for the industry to win consumer trust include truthful labelling, building consumer relationships through marketing/ advertising campaigns and brand image and quality certifications/labels. While outlining the imperatives for the industry in order of importance with regard to the consumer, regulatory implications and ease of implementation, truthful and clear labelling emerged as the 'highest impact imperative' for the industry.

The industry needs to work towards simplifying and providing clear/non-encrypted ingredient and expiry date information on labels. Indian consumers focus on the product's ingredients and expiry date information while assessing the safety and quality of the product and also while making purchase decisions, especially for perishable food products like dairy and bread. This becomes all the more important with evolving product categories such as functional foods/nutraceuticals and frozen foods.

Labelling information is an important area both from a consumer perspective and regulatory compliance perspective. Clear and simple labelling helps consumers take conscious and informed decisions about the food they eat. The brand, on the other hand, is benefitted by delivering what it promises, thereby winning consumer trust and building better brand image and consumer relationship through increased integrity. Consistent brand performance in delivering what it promises wins consumer trust and develops brand loyalty.

In addition to clear and simple labelling, **creation of consumer awareness on food safety and quality of processed, packaged food products, and quality labels/certifications** will also assist consumers in making informed choices. However, the industry requires support from the government/regulatory authorities to create widespread consumer awareness on food safety and quality.

Overall consumer perspectives on trust towards industry are positive. Despite of recent food safety incidences, consumer trust in the packaged processed food industry remains intact, except for select processed food categories. It can be inferred from our survey responses that consumers trust food companies on ensuring food safety and quality. Some of the survey respondents even take brand as a surrogate to define quality and safety of processed food products.

Imperatives for government/ regulatory authorities

Consumers recognise the role of government/ regulatory bodies in ensuring food safety and quality of processed food products. Ensuring compliance with the set safety and quality regulations will ultimately guarantee safe and quality food to the consumer.

The areas where government/regulatory bodies can play an important role, as suggested by consumers, include various food safety and compliance related aspects—more frequent and stricter quality checks/third party audits, food safety complaint management system, benchmarking with international food safety standards. Other 'joint effort areas' such as consumer awareness and sensitisation, achieving increased transparency in product testing and certification process will require support from the industry.

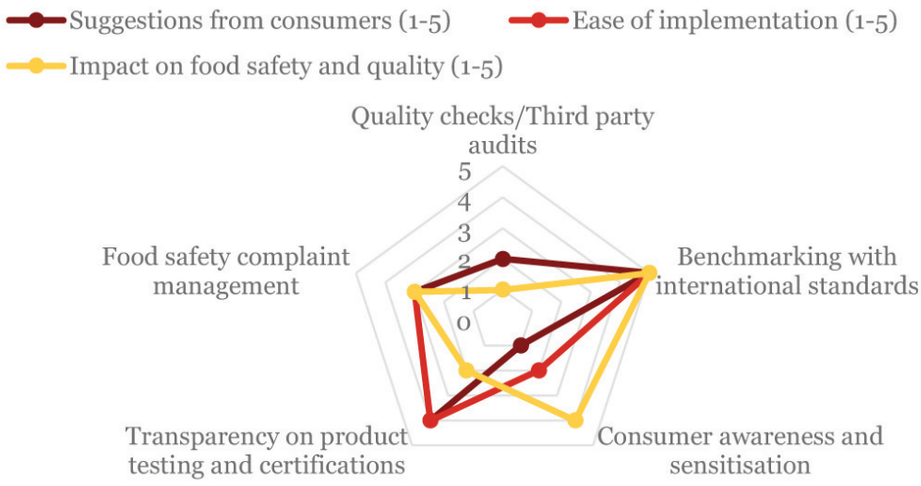
> ***"We, the consumers, place a lot of faith in big brands, and these reputed companies should do their best to retain it."***
>
> - Pankaj Singh, consumer/teacher, New Delhi

A brief description of each of these imperatives for the government/regulators is given below:

- **More frequent and stricter quality checks/ third-party audits** by the regulator can strictly ensure compliance with regulatory norms at all times. Our survey respondents stated that in the light of the recent food safety incidences, there is a need to increase the frequency and decrease the time-interval between two subsequent quality checks/third-party audits. If uniform regulations on these are defined by the regulator for the industry, better compliance can be assured.

- **Consumer awareness and sensitisation** is another area where the government has a major role to play. Consciousness, when coupled with awareness of food safety and quality parameters and certifications, will help consumers make informed decisions. Consumers are conscious but their ability to make informed choices is limited by their awareness on the food safety and quality parameters of various food products, certifications required by food companies to sell various processed food products, and the quality and safety certifications/labels assuring food safety and quality.
- **Food safety complaints management** is another important area where the regulatory authorities can play an important role. FSSAI, in association with the state the food authorities, is the nodal agency responsible for the implementation and enforcement of the Food Safety & Standards Act, 2006, (the umbrella act governing food safety and quality in India). Consumer complaints management and grievance redressal falls under the purview of FSSAI. However, the government needs to create awareness amongst consumers on the complaint registration and grievance redressal system for food safety and quality related complaints. The system needs to be simplified to ensure greater consumer reach, better transparency and quicker resolution.

Food safety and quality: Imperatives for the government/regulators



Source: PwC analysis

- **International benchmarking** to ensure better quality and safe food products.

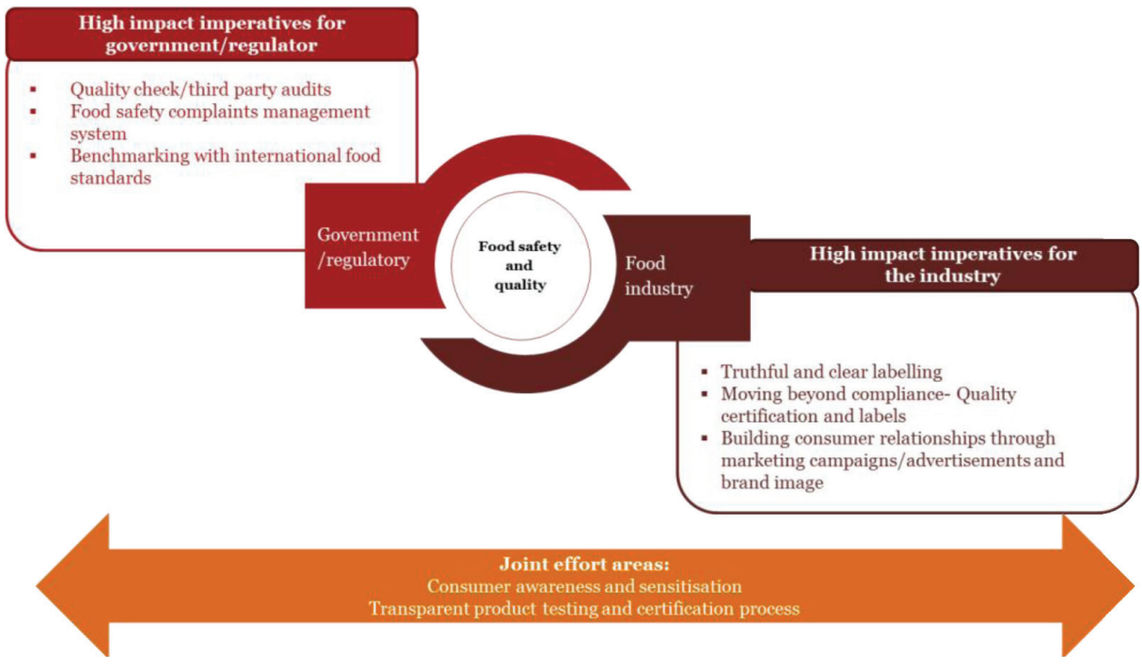
  Consumers seem to have more confidence in international standards and want the regulatory authorities to benchmark the Indian food safety and quality standards with the international norms. This seems relevant in the current scenario where the regulations are still evolving.

  This will help us build a strong reputation in international exports markets as well. Quality of Indian produce in the international market has long been questioned. There have been concerns over pesticide residues in horticultural produce (EU's ban on India's mango exports (2014), Saudi Arabia's ban on the import of Indian chillies (2014), Indian grape export crisis (2003)), aflatoxin contamination and the use of prohibited food colourants in spices' export (Indian dry chili exports faced rejection in Germany, Italy, Spain and the UK due to the presence of aflatoxin in 2004-05; EU banned fish and fish exports from India in 1997 due to salmonella detection). The emphasis on the quality parameters pertaining to safety of food, has taken the centre stage in global food trade. Increasing agriculture and food exports also form an integral part of the government's sector development strategy.
- Indian consumers demand **increased transparency on product testing and certifications**. Consumers feel that this will assist them in identifying trusted brands through more information on industry and regulatory compliance. The government will

need support from food companies to establish greater transparency in product testing and certifications.

Both government and food processing companies need to take further measures to ensure food safety and quality. A public-private partnership (PPP) for food safety and quality assurance is the way forward. Areas like consumer awareness and sensitisation and increased transparency on product testing and certifications require joint partnership efforts from both government and industry.

Food safety and quality: High impact imperatives for government/regulators and industry



About the study

The study is woven around consumer feedback and confidence on processed food products. As India moves towards a middle class that has higher purchasing power and changing food habits, it is important to understand the consumer perceptions on food safety and quality and regulatory strictness and industry compliance of processed foods.

For deciphering what the consumers desire, a survey was conducted at three locations: Delhi, Pune and Hyderabad, with a total sample size of 384. While 204 consumers were surveyed in Delhi, 120 and 60 were surveyed in Pune and Hyderabad, respectively. The survey was conducted at modern and conventional retail stores where about 70% of the responses were collected from modern retail stores and 30% were collected from the conventional stores.

The main objectives of the study were:

- To assess the perceptions of Indian consumers on food safety and quality of processed food products
- To identify key components of safe and quality processed foods, as perceived by consumers
- To assess the key food safety/quality areas for Indian food processing companies to build/ maintain consumer trust
- To assess key food safety/quality areas for Indian regulators to build/maintain consumer trust

Prior to this, a pilot survey of 20 consumers was conducted in Delhi, where the main objective was to find out the adequateness of the survey questionnaire in capturing the perceptions of the consumer. The pilot study was a success, in which it was broadly understood that the consumer puts factors such as health, quality of the product, expiry information as top priority before buying processed foods. The consumers are also more aware of the food safety requirements that the food processing companies ought to follow. They are also willing to be a part of the regulatory checks and compliances by visiting the processing units and seek more information on the food apart from what just catches the eye.

Both the studies point towards one common factor that the consumer is evolving both in terms of their choice of food and also the quality of food that is being consumed. Winning consumer trust is a task that is accomplished both by the food companies and the regulators.

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Our vision

To be the thought leader for industry, its voice for policy change and its guardian for effective implementation

Our mission

To carry forward our initiatives in support of rapid, inclusive and sustainable growth that encompasses health, education, livelihood, governance and skill development

To enhance the efficiency and global competitiveness of the Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialised services and global linkages

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PwC's Regulatory services has actively contributed towards applicability of food safety laws on processed food and have also been involved in discussions with the government and regulatory authorities on packaged food distribution in India.

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