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FICCI

Indian Food Processing Industry

Keeping pace with evolving consumer needs

September 2014

Message from FICCI



Dr. A. Didar Singh
Secretary General

The food processing industry plays a vital role in enabling productivity improvements across the value chain and increasing the availability of affordable, nutritious, and safe food- the most crucial aspect, given the immense and immediate challenge of providing nutritious food for more than a billion people. This industry also has a much wider role to play in the Indian context, beyond just the packaged foods sector as it has a significantly positive impact on the entire food value chain, and has the potential to contribute even further.

With growing awareness, health consciousness, need for convenience & improving lifestyles, Indian consumers are moving increasingly towards processed & packaged foods. These factors combined with favorable demographics will lead to the food processing industry witnessing unprecedented opportunity for growth in the coming years.

To seize this opportunity, it is important to understand the evolving Indian consumer behavior and play a significant role in shaping future consumer evolution. Several challenges need to be overcome by the food processing Industry for the growth opportunity to be fully tapped. These challenges exist throughout the farm to fork value chain and though several of them are being addressed, there has been only limited success due to the scale of the overall problem, limited resources, and implementation gaps. It is imperative now to prioritize these initiatives and focus on their effective implementation.

This joint effort by FICCI and A. T. Kearney will be helpful in shaping the future of the food processing industry and enabling its growth.



Dr. A. Didar Singh

Message from FICCI Food Processing Committee



Siraj A. Chaudhry
Chairperson, FICCI Food Processing Committee &
Chairman, Cargill India



Sangeeta Pendurkar
Co-Chairperson, FICCI Food Processing Committee &
Managing Director, Kellogg India

Safe and nutritious food is the foundation of a healthy and active life. One in every 5 people in India are undernourished or malnourished. A complex set of factors, including food availability and affordability, affect the amount and types of foods people consume.

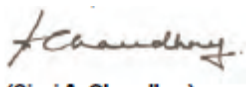
Efforts to improve nutrition at all stages of human development are being advanced by the public and private sectors. India has unique consumption behaviors with wide availability of most food products. There is a need to keep the consumer informed and educated on the various variety of food available, highlighting the health benefits or the nutritional value of the food thereby empowering the consumer to make the right choice.

The food industry plays a critical role in shaping the habits of the consumer and affects both urban and rural consumers with a role varying from addressing the basic nutrition needs to providing indulgence options. With growing awareness, health consciousness, need for convenience & improving lifestyles, the gradual shift towards processed & packaged foods will increase rapidly taking a larger share of the consumers food requirements. It is estimated that share of processed & packaged foods will increase to over 40% of overall intake by 2025-2030 at a growth rate of over 15% CAGR.

There are several challenges like high agri wastage, inflation, quality and safety risks etc., all of which can be addressed by a strong food processing industry. In addition, the food processing industry through its backward and forward linkages has tremendous potential to influence other parts of the food value chain.

Giving impetus to the food processing industry is a way to ensure efficient supply of nutritious, affordable food besides offering more choices for the evolving consumption patterns of the consumer.
The paper released last year "Feeding a Billion: Role of the Food Processing Industry" was an attempt to look at the various gaps that exists in the areas of production, food security, nutritional deficiency, quality, safety and enhancing customer awareness. While there is a tremendous potential for rapid growth in the food processing industry in the coming years, there are critical challenges that must be successfully overcome by the industry as well as the government. These challenges exist throughout the farm to fork value chain. While many initiatives have already been undertaken to address the issue, within this context the FICCI – A.T.Kearney paper on "Indian food processing industry: keeping pace with evolving consumer needs" provides a perspective while keeping the consumer as the mainstay and attempts to take a fresh look at these initiatives and prioritise and focus on the most critical ones that can ensure effective implementation.

Several insights in this paper have been sought from the government and industry leaders across Indian food processing businesses. We acknowledge their valuable inputs. We are also thankful to the A.T. Kearney team who has worked alongside FICCI to bring out this paper.



(Siraj A. Chaudhry)



(Sangeeta Pendurkar)

Foreword



Debashish Mukherjee
Partner, A.T. Kearney

"When people were hungry, Jesus didn't say, "Now is that political, or social?" He said, "I feed you." Because the good news to a hungry person is bread." – Desmond Tutu

Our last report was about "Feeding a Billion"[1] was a call to action to ensure sufficient food for India in the coming decade. To achieve this goal, the report highlighted the growing importance of the Food Processing industry in leading the change across the food value chain; given it is the first organized part of the value chain, which links the farm to the fork.

This report builds on three key concepts to clarify why key stakeholders need to act and now:

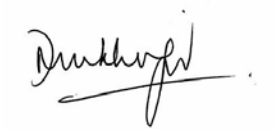
1. **Processed Food industry does not only benefit the "rich", it significantly drives the nutrition needs of the "masses" as well:** every evaluation of the importance of the Food Processing Industry has focused on its macro contributions, where undoubtedly, this industry scores very well. Such as significant contributions to the economyIn terms of providing the highest employment across industries, significant contributions to GDP with USD 180bn+ of outputs, etc. It is however also important to highlight that this industry has made affordable food available across the far reaches of the country for the common man - with biscuits at Rs. 5 and drinking water at Rs. 10 available even where nothing else is available. This is no mean feat and we believe and recommend in this report, further steps for the Government and Industry to drive specific actions for the "masses". Our market research conducted for this report confirms that poorer sections of society have started adopting processed food and see its benefits.
2. **Adoption of processed food is poised to see an increase and hence the time to act is now:** with millions of young Indians joining the workforce and spending / wanting to spend less time in the kitchen, the math is clear that the demand for processed food will witness a dramatic increase in the coming

[1] http://www.ficci.com/spdocument/20312/Feeding-a-Billion_Role-of-the-Food-Processing-Industry.pdf

decade. However, the processed food industry has to equally accelerate its innovation to satisfy the new consumers coming on stream, who are equally concerned about safety and hygiene. This has wide spread ramifications for all institutions that serve processed food - of course processed food / packaged food companies but also restaurants, QSRs and any other public forms of food distribution. In this report, we highlight a framework for accelerating Innovation while maintaining safety and hygiene norms across food products / service establishments.

3. **Finally, drive implementation of known solutions:** the challenges / issues affecting the food sector are well known and documented across farm level productivity, post-harvest wastage, price in-transparency, multiple levels of taxation, limited investments in cold chain, etc. While this report quickly summarizes these issues, we boldly propose two key changes which we believe with the will of the new Government, can be taken up in a more determined manner -a. Looking at an integrated framework (department?) for agriculture and Food Processing and b. Instituting a Central Program Management Office that facilitates / drives / reviews implementation of all agri / food agenda between Centre & State. Else the ball will always be in "somebody else's court".

With a new Government now at the Centre and the Industry filled with hope, we hope that the opportunities and challenges will be recognized by all key stakeholders and we will see significant progress to a food sufficient India.



Debashish Mukherjee

Partner, A.T. Kearney

Food Lead - Asia.

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Executive Summary

As demands shift, the market for processed foods is growing, and the industry is poised to capitalize on an unprecedented opportunity. However, several challenges must be overcome.

Food plays an important role in India's economy. In 2012, the $200 billion industry made a significant contribution to economic and social growth, employing more than 3.1 million people in organized segments and micro, small, and medium-sized enterprises (MSMEs), with a significant impact on local economies. The industry shapes consumer habits, drives efficiency, and helps keep inflation in check. It affects urban and rural consumers in many ways, from addressing basic nutrition needs to providing options for indulgence.

The food processing industry is about more than packaged foods. It also includes primary and secondary processing for sectors such as dairy, fruits, vegetables, and grains. In short, it is a vital link between the agriculture sector and final food consumption.

The industry is poised to enter a sweet spot with an unprecedented opportunity for explosive growth. India is witnessing the favorable coming together of several demographic factors: rising disposable income, more young people, and growing urbanization. This is expected to lead to a substantial rise in food demand over the next seven to ten years. At the same time, factors such as growing awareness, health consciousness, the need for convenience, and improving lifestyles are shifting consumers toward processed and packaged foods.

Capitalizing on this opportunity will require understanding Indian consumers' evolving behaviors and shaping the way forward. Our dipstick survey of consumers sheds light on five major trends. Interestingly, these trends are no longer confined to metros and tier 1 cities but are beginning to be observed in tier 2 cities and among consumers from socioeconomic classification (SEC) groups C and D as well.

New consumption occasions are emerging. Breakfast, lunch, and dinner are the established occasions for consuming food, but new occasions such as pre-lunch snacking, evening snacking, and after-dinner drinking are emerging across all consumer segments.

More consumers are buying processed foods. Traditional meals such as lunch and dinner are largely unchanged but now often include processed foods such as yogurt and soup. New occasions such as snacking are increasing the consumption of processed foods because of easy availability and convenience.

Demand is growing for traditional foods in package form. The rise in the number of working women and the greater mobility of the working and student populations are driving demand for traditional food in a convenient format as these consumers seek traditional meals in their new locations. The traditional ready-to-cook and ready-to-eat segments are growing at more than 20 percent CAGR.

Consumers focus more on value than on price. More consumers are moving to a price-value comparison instead of making buying decisions based only on affordability. More than 60 percent say they are willing to pay more for appropriate perceived value. SEC C and D consumers had similar responses although the nature of perceived value is different.

Food quality, safety, and hygiene are becoming more important. Consumers' focus on quality, safety, and hygiene has increased significantly in the past 10 years. Most people are willing to pay a premium for foods that are superior in safety. This presents a sizable opportunity for companies to differentiate themselves in the minds of consumers by offering safe and hygienic foods.

While these trends indicate the potential for rapid growth, the food processing industry and the government must overcome several well-documented challenges across the farm-to-fork value chain. Both sectors are addressing these with various initiatives but have so far met with limited success because of the scale of the problem, limited resources, and implementation gaps.

A fresh look at the initiatives and prioritizing and focusing on the most important ones can help improve effectiveness and remove impediments to implementation.

Three industry moves will be important:

Drive breakthrough innovation. More products for new consumption occasions, convenient products for core meals, and tasty yet healthy foods will be needed to serve the upcoming demand. However, the sweet spot lies in creating innovative products for the country's 700 million rural consumers. To truly make an impact and gain scale, the industry needs to develop an all-inclusive portfolio of food products across price points to profitably serve the population.

Differentiate through superior food quality, safety, and hygiene. There is an immediate need for the industry to introduce adequate checks and move toward self-regulation. Consumer awareness also needs to be improved and misconceptions about packaged foods being unhealthy dispelled.

Get the price-value equation right, and communicate it to customers. Beyond taste, consumers are focusing on price and quality. The industry will need to assess the perceived value of products and the price people are willing to pay, especially in price-sensitive segments. Strengthening this price-value equation will require capturing value across the supply chain.

The industry actions need to be supported by government initiatives related to approvals, taxation, and compliance:

Increase availability, and improve price stability. First, **set up a virtual national common market for agri-produce**. Eliminating the physical and fiscal barriers and enabling transparency and free movement of agricultural produce will help improve availability and keep prices in check, enabling the industry to give consumers the right price-value equation. Implementing a goods and goods and services tax will be a step in the right direction, but a review of taxation for food products at important price points such as Rs. 5 and 10 will improve general affordability and availability. Second, **encourage innovation in the food processing sector**. Simplify the product approval process, and set up a single-window system for new investments to spur innovation. Additional incentives and exemptions should also be considered to attract new entrepreneurs and MSMEs into agro-processing, especially for ethnic food. These steps, along with promotion of the use of the latest agri-processing technology, will help improve availability.

Revamp food safety and quality laws. Improve transparency of existing laws, upgrade testing facilities, invest in talent, and harmonize laws across states and with international standards. Such moves can provide a robust regulatory framework for the food processing industry. Government focus on enforcing these laws and ensuring compliance will be essential.

Finally, implementation of these initiatives will require a high-performance program management office that combines the best talent from government and the private sector and clear identification and close tracking of government and industry stakeholder targets.

Part 1

Role of the Food Processing Industry

1

The food processing industry is a significant contributor to economic & social growth...

Fig 1: Output generated across key labour intensive sectors

(USD billion, 2011)

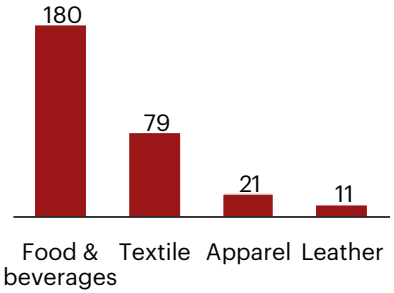


Fig 2: Employment generated across industries

(Millions of persons, 2011)

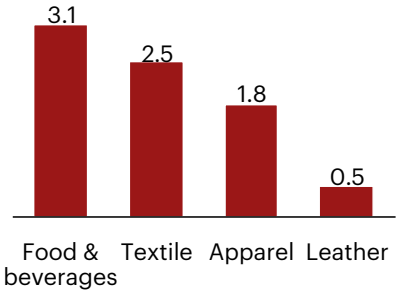


Fig 3: Potential for inflation stabilization

(Increase in prices (%), 2013)

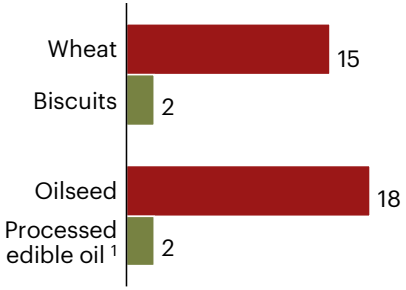
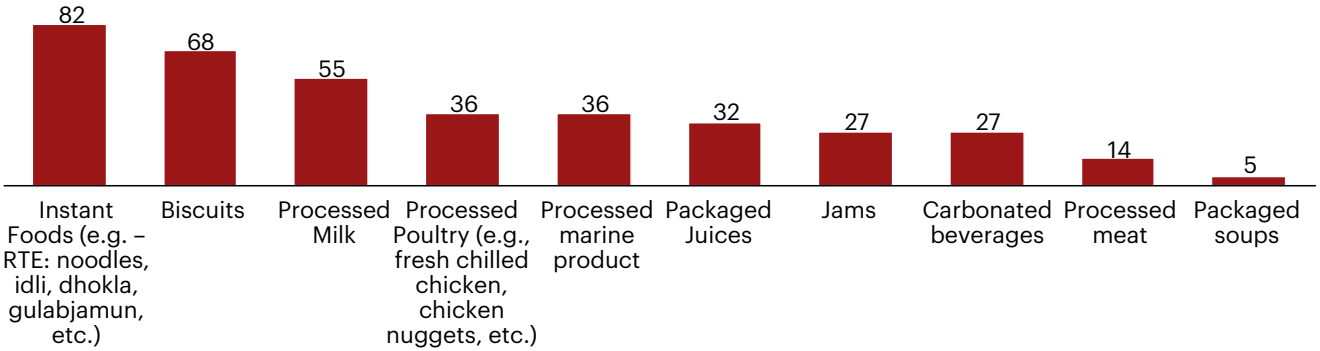


Fig4: Sec C & D consumers increasingly adopting processed foods

(Food products added in the last 10 years (% of Sec C & D respondents)



[1] most processed oil companies take advantage of lower overseas prices and have structured procurement and hedging processes in place leading to lower inflation

...and there is a need to recognize that it plays a much wider role

The size of the food processing sector in India was ~USD 200 billion in 2012 and it is expected to grow at ~13% on a nominal basis and reach size of USD 530-550 billion by 2020. The sector has a significant impact on the economy, due to:

Scale of outputs: This industry is larger than many other labor intensive sectors like textile, apparel & leather (fig. 1)

Employment generation potential: The industry has large employment generation potential & currently accounts for direct employment of more than 16 lac workers in factories along with over 14 lac workers in the MSME segment (fig. 2). In addition, the industry potentially impacts over 1.2 crore people across its suppliers and supply chain

Impact on local economy: Since a large share of this industry is based in rural, semi-urban regions, there is a significant multiplier effect on the local economies as these regions provide both raw material and labor for the industry. This boosts the local economy through generation of income and its cascading effect on the economy. The food processing industry typically has an output multiplier of two to four on GDP as seen in several countries

Inflation stabilization potential: India's average wholesale price inflation in "food articles" was 12.24% in the first half of FY14, far higher than the inflation rate of 4.65% for "food products". A key reason is the commodity management practices of processing companies like forward purchase, margin management and cost reduction programs (fig. 3)

The unique food value chain in India offers multiple opportunities for the industry to push penetration of packaged foods by shaping consumption habits of the consumer and also address challenges like high wastage, inflation, quality and safety risks etc. The industry, through its backward and forward linkages, has tremendous potential to influence other parts of the food value chain.

Food Processing Industry forms the vital link between the agriculture sector and final food consumption and has a much wider role to play in the Indian context, beyond just the packaged foods sector.

Part 2

Future of the Food Processing Industry

2

Food demand is expected to increase exponentially over next 10 years

- **High GDP growth**
- **Increasing disposable income**
- **Higher population of youth in population**
- **Increasing urbanization**

Fig 5: Increasing food demand

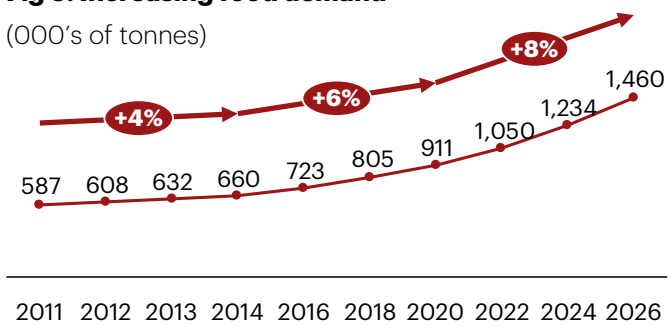


Fig 6: Rapid increase in middle & upper income households

	# of households (Mn) HH disposable income p.a. (INR)
High-end	>30,00,000
Upper	15,00,000 - 30,00,000
Middle	4,00,000 - 15,00,000
Emerging	1,50,000 - 4,00,000
Bottom of the pyramid	<1,50,000

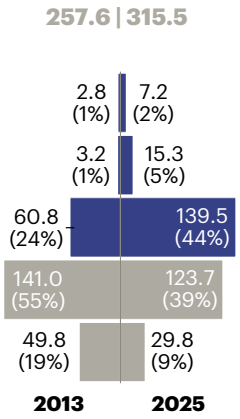
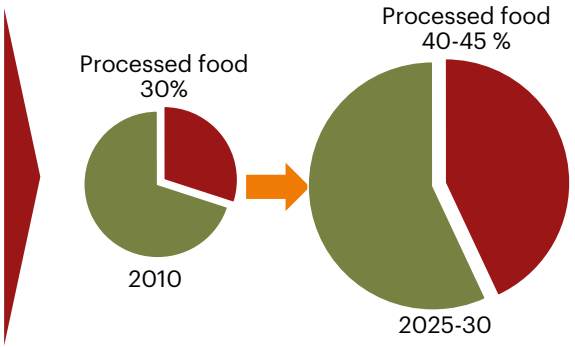


Fig 7: Increasing share of processed food in total food market



Indian processed food industry will enter a demand sweet spot by 2025

India is witnessing the coming together of multiple favorable demographic factors.

Rising disposal income: Per capita disposable income is expected to grow at 6% till 2030 from current levels of 4.3%.
High share of youth: India will have only 16% of its population over the age of 55 compared to 28% for China. This relatively youthful population will see India potentially adding almost 170 million workers to its labor force from 2005 to 2025.
Increasing urbanization: India's share of world urban population is expected to increase from 10% to 14% by 2050, an increase of 40%. 13 million people enter the urban workforce every year led by continued rural to urban migration and upgradation of rural settlements due to industrial investments.

India's aggregate energy Intake levels are likely to Increase from 2,140 KCal to 2,568 KCal by 2025. India's food mix will also continue to move away from grains & pulses towards dairy, fruits and vegetables and edible oils.

With growing awareness, health consciousness, need for convenience & improving lifestyles, the gradual shift towards processed & packaged foods will Increase rapidly taking a larger share of the consumers food requirements. It is estimated that the share of processed & packaged foods will increase to over 40% of overall intake by 2025-2030 at a growth rate of over 15% CAGR (fig. 5, 6, 7).

Packaged foods have benefits over traditional loose foods

Benefit and value addition

Salt	Tea and coffee	Pulses	Wheat flour
• Sufficient content of critical micronutrients, especially iodine • Low sodium salt options help lower risk of lifestyle diseases	• Better quality and standardized products • Healthy options such as decaffeinated and increased antioxidants • Wider range of choices, such as flavored teas	• Better nutrient retention through alternate processing (for example, non-water and oil polishing) • Modern and scientific sorting and grading for purity	• Fortification of flour through addition of vitamins, minerals, and iron • Use of better quality wheat (such as whole wheat) • Branded Atta flour now makes up 3 percent of total market

Part 3

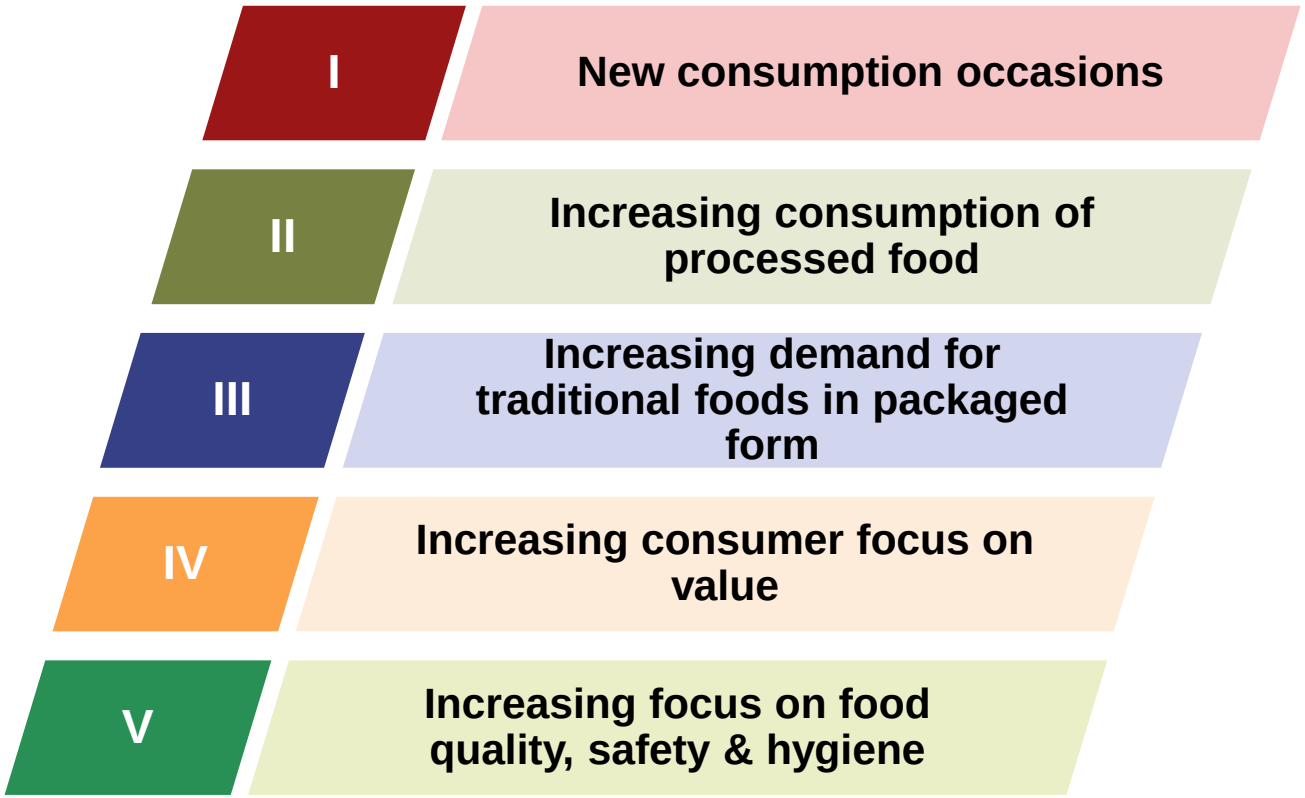
Emerging consumer trends in India

3

The Indian consumer is evolving and trends are clearly visible...



… Across five areas



New consumption occasions

Fig 8: Change in consumption occasions

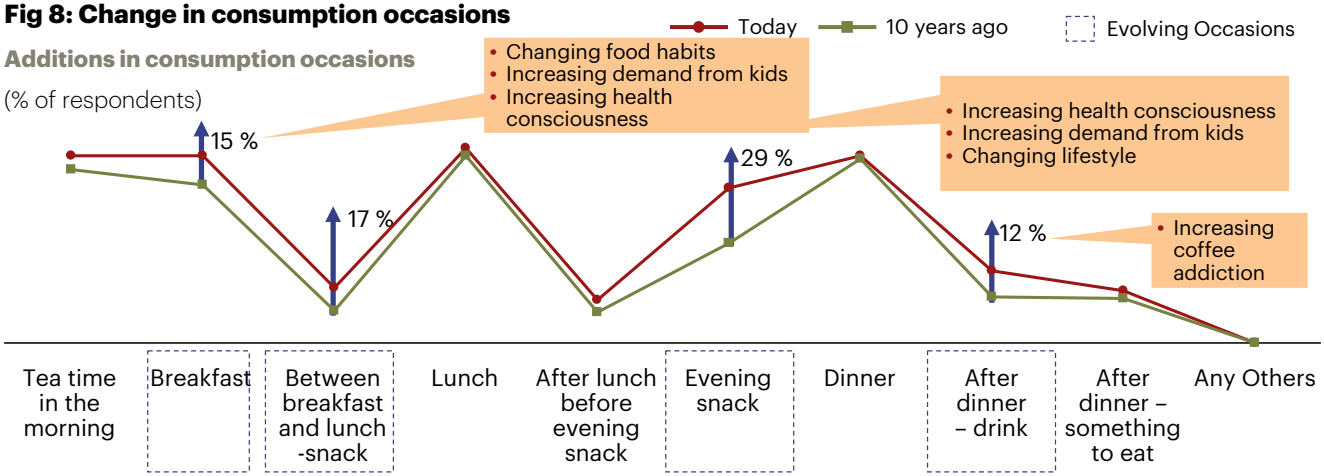
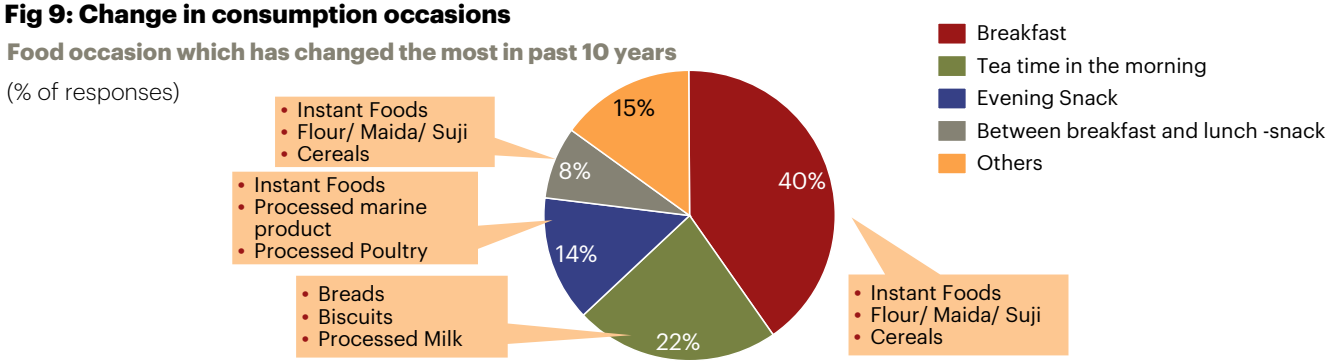


Fig 9: Change in consumption occasions



Breakfast is now established as a consumption occasion while three other mid-meal times are emerging as new occasions

Breakfast has now become an established occasion along with lunch and dinner. A dip-stick survey we conducted indicates over 90% consumers think about having breakfast today; a rise of over 15% in the last decade (fig. 8, 9). Three other consumption occasions are emerging:

Pre-lunch snacking: Is gaining popularity led by young professional and blue-collar workforce who skip through breakfast and compensate with a mid-day snack later. More than 15% of our survey respondents said they started consuming foods at this occasion in the last 10 years.

Evening snacking: With increased health consciousness, consumers, especially in metro & tier I cities, are breaking up their nutrient intake into smaller portions and consuming more frequently. Also longer work hours and commute mean a later dinner, encouraging a snack before. Interestingly this trend is visible in tier II & III cities as well and is more attributable to children snacking after school along with rest of the household.

After dinner drink: Culture of having post dinner coffee or other liqueurs is visible among metro consumers. There is more than 10% increase in this occasion in last 10 years, but has a long way to go before being established.

Organized processed food companies also play an important role in the emergence of new occasions

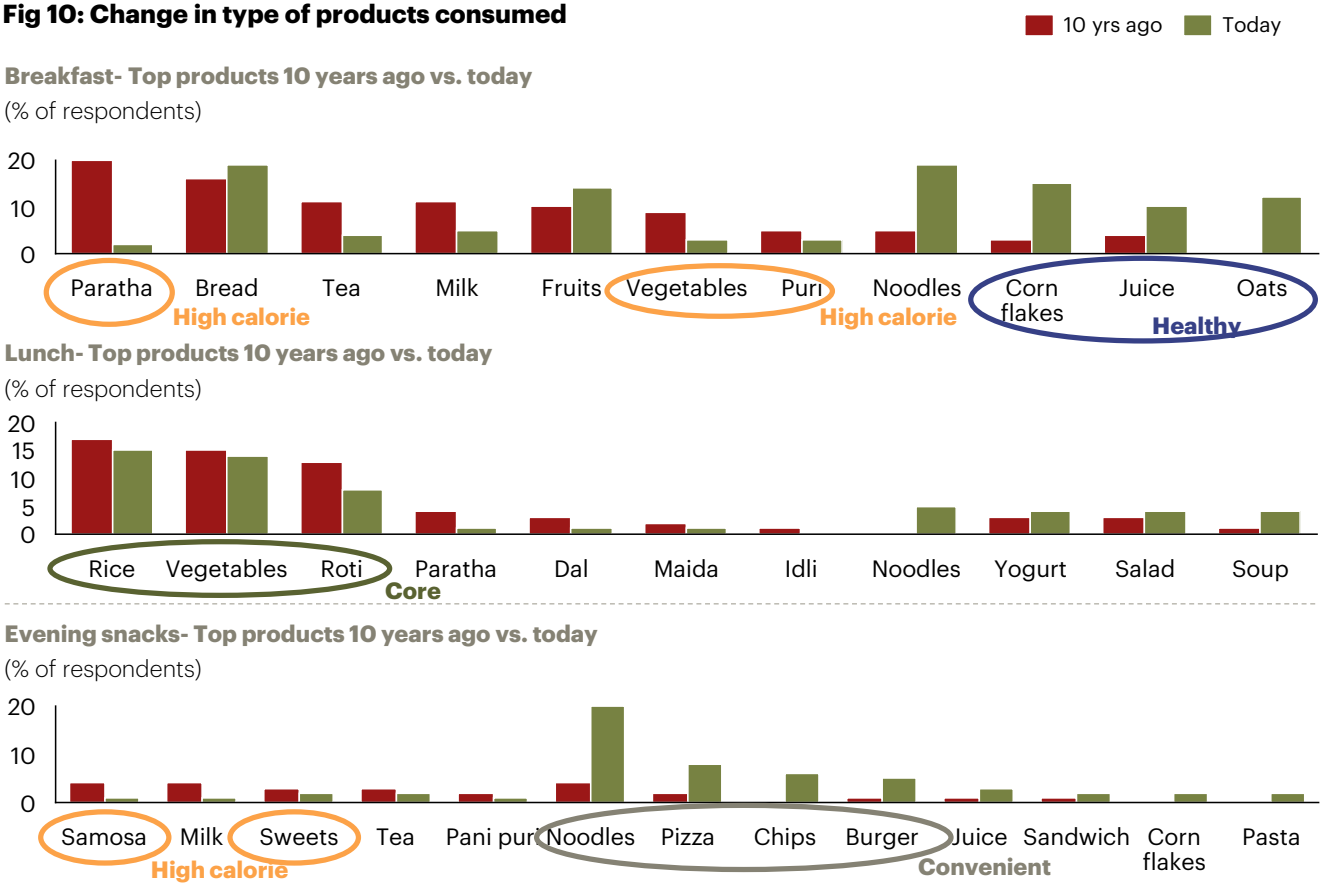
Kellogg India revolutionized the Indian breakfast cereal market & contributed significantly to its growth from INR 15 cr in '95 to INR 60 cr in '00, growing its share from 53% to 65%. Kellogg India, with its Indianized flavors, positioning around health/nutrition & innovative marketing, has sustained this leadership position, with sales of INR 500 Cr today.

Knorr realized that across India, mothers need to fight with their kids/family to stop them from eating snacks before dinner, lest they ruin their appetite- thus was born the campaign “7 baje ki bhukh”- where Knorr positioned its soups as an evening snack & created the instant soup range. Knorr is now a leader in the market, with a share of 63%.

II

Increasing consumption of processed foods

Fig 10: Change in type of products consumed



Increased awareness, health consciousness and improving lifestyles are driving the shift towards higher consumption of processed & packaged food

Our survey indicates that consumers are increasingly consuming more processed & packaged foods to meet their overall nutrition requirements. This trend has been observable in sec A & B consumers for several years and is increasingly observed in sec C, D consumers as well (fig. 10).

Traditional consumptions occasions like lunch are seeing a change in accompaniments to the meal with increasing preference for processed foods like noodles, yoghurt, soups etc. Similarly the morning tea time now has higher share of processed foods like biscuits, breads and milk compared to earlier.

Newer consumption occasions like evening snacking and post-dinner drinks are also having a multiplier effect towards higher share of processed foods being consumed. For example, led by desire of increased convenience and easy availability, the nature of evening snacking is shifting from traditional options like samosas & sweets to processed products like noodles, pizza, chips etc.

Emergence of new processed food options in traditional and western foods is changing the nature of what is being consumed.

Traditional foods in packed form are on the rise. Increased focus on convenience and lack of time has led to outsourcing of preparation of traditional foods. Ready availability in shelf further enables the consumer to adopt processed form of food

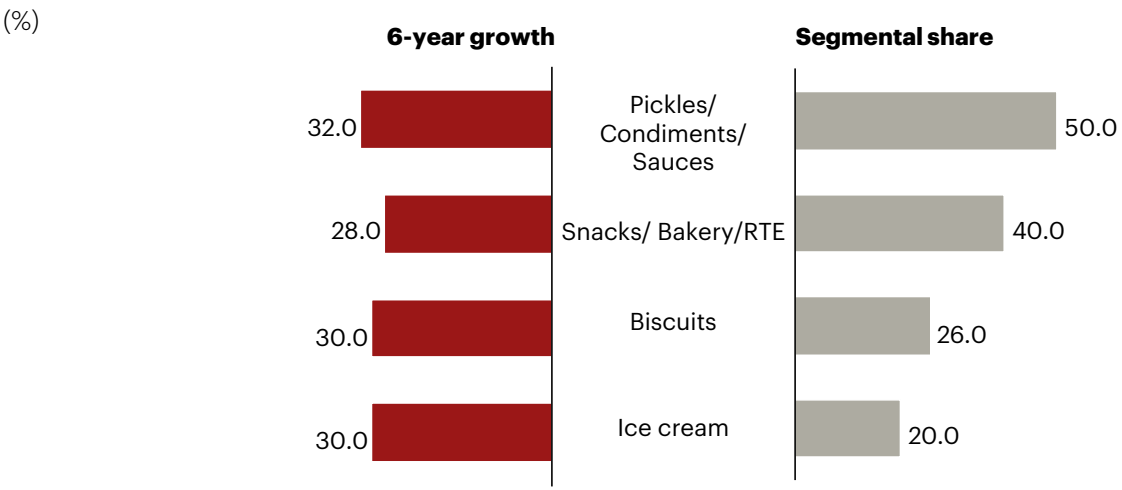
Increasing demand for western foods as seen in growth of pasta and other ready to cook foods is contributing to shift towards processed foods.

Growing consciousness of health is a key reason driving this shift especially in core commodities like dairy, fruits & vegetables, and grains where processing is more primary or secondary in nature. There is also an increase in customer willingness to experiment with new cuisines, ingredients and foods. Around 7% Sec ABC homemakers are opting for packaged branded foods due to its increased convenience. The emerging spirit of experimentation is also visible among processed and packaged food companies in an attempt to serve these consumers. Dominos, for instance, recently launched several new varieties experimenting in terms of the consumers' taste preferences.

III

Increasing demand for traditional foods in packaged form

Fig 11: Tier II players have grown significantly in traditional segments





Aachi Masala Foods, a regional brand with presence in about five States has grown to over 160 products over the last decade and is today a INR 1000 crore company. The company offers niche and quintessentially Indian products such as spices, pickles and cooking pastes. It has been a pioneer in branding traditional foods. Products in sachets is an innovation to ensure reach



MTR foods is the largest player in this emerging market with a near 65% share. It is considered to be the pioneer of ready-to-eat products in India. MTR owes its success to combining Indian traditional foods with the benefit of convenience, while still ensuring to give consumers a taste of food which tastes like fresh home cooked food.

Increasing demand for traditional foods in packaged form

With the rise in number of urban working women there is an increased need for convenience due to lesser time available for cooking. Along with greater awareness of health & hygiene, this is driving a growth in traditional foods in packaged form. Increasing mobility of working and student population is another driver leading to rise in demand for traditional foods, as these consumers seek traditional meals in their new locations.

Regional players are currently serving this demand in a fragmented manner (fig. 11). Growth of regional players like Aachi Masala Foods is indicative of the potential of this segment. Aachi Masala is an INR 1,000 Cr food company that most people outside South India would be hearing about for the first time.

Innovations around product variants that are new to the market, delivering regional specific taste and differentiated packaging are key success factors to woo the consumers.

The ready to cook (RTC) and ready to eat (RTE) segments are also growing at over 20% CAGR. Desire of the homemaker to contribute to the family meal in a convenient manner is driving the RTC segment while increased incidence of working couples, desire for experimentation are driving the RTE segment growth.

Given the F&B space is severely underpenetrated, there is a significant opportunity for processed & packaged food industry to focus on traditional foods as a major growth driver.



Dabur's Hommade range of ethnic cooking pastes & chutneys is positioned to cater to regional markets. The business contributes INR 40-50 Cr & is expected to growth at 20% CAGR.



Gits was the first company to introduce the concept of instant mixes in India with instant Indian food mixes such as idli, dosa and gulab jamun & has been a market leader since its inception. It brought ogether Indian tradition and ease of use and became an instant hit.

IV

Customer is increasingly focusing on value as compared to price

Fig 12: Willingness to pay premium

(% of respondents)

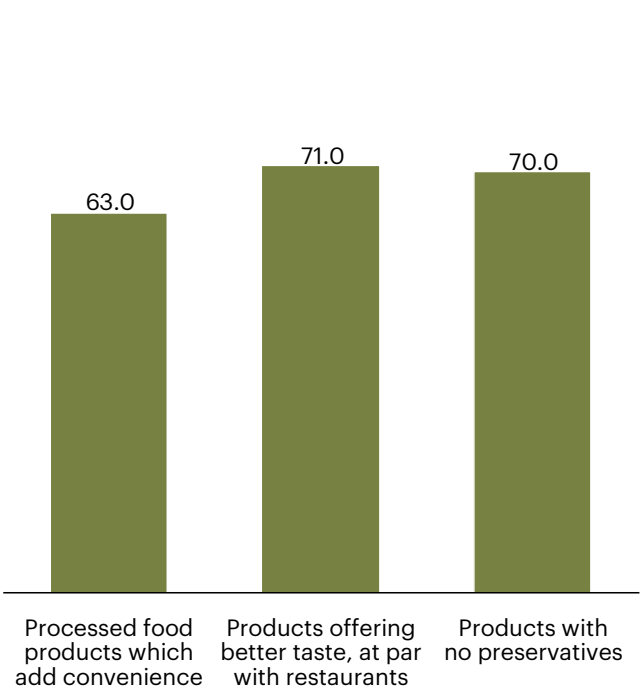
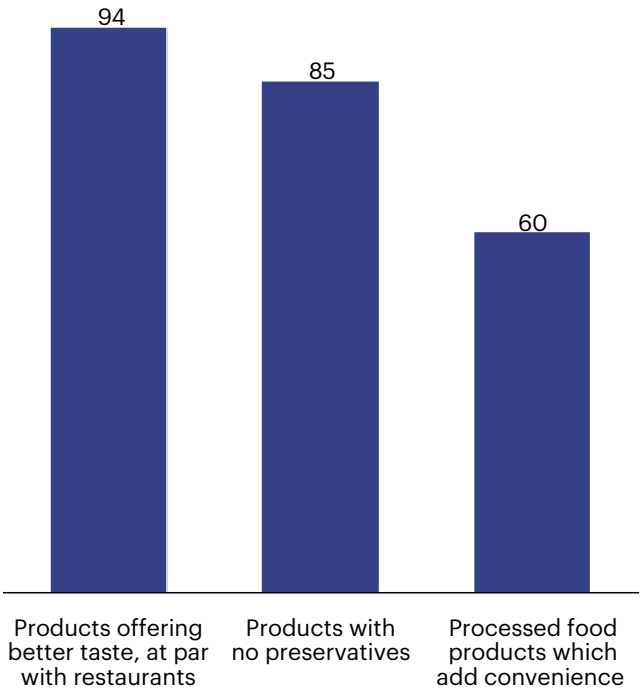


Fig 13: Willingness to pay premium by Sec C & D

(% of Sec C & D respondents)



Customer is increasingly focusing on value as compared to price

The traditional Indian consumers' focus on price & affordability is giving way to comparing benefits of a particular product against its price. Our dip-stick survey indicates 60-70% of consumers are willing to pay a premium today for products where they perceive value (fig. 12). The trend is visible also among sec C and D consumers although what is perceived as value is very different (fig. 13).

Quality, safety & hygiene, affordability, healthy and availability are some of the major sources of value. However, impulse purchases are still influenced most by the retailer and how exciting the product packaging is.

These factors come into consideration only if the consumer likes the taste of the product. Taste remains the strongest source of perceiving value even today.

It is important for organizations to make the right investments in product innovation and provide the optimal price- value offering. A winning value proposition would have to balance taste, indulgence, affordability and health among other sources of value.

It is also increasingly important to create proper awareness and communicate the value proposition to consumers. Growth of several categories like cereals, soups, juices have increased rapidly after appropriate communication campaigns were conducted.

Case study 1: Ferrero Rocher is a successful premium chocolate with 6% share of the Indian market. Their premium, high quality chocolates are ideal for gifting during festivals. Consumers perceive the value of the taste and brand and are helping Ferreto Rocher grow at 30-35% CAGR.

Case Study 2: Dominos is highlighting the affordability of its Pizzas through the "Pehli Kamai" campaign for its 'Pizza Mania' selling at INR 44 per unit. The campaign is hugely successful in attracting new customers and also driving frequency of regular customers.

V

Increasing focus on food quality, safety & hygiene

Fig 14: Issues faced by consumers

(% of respondents)

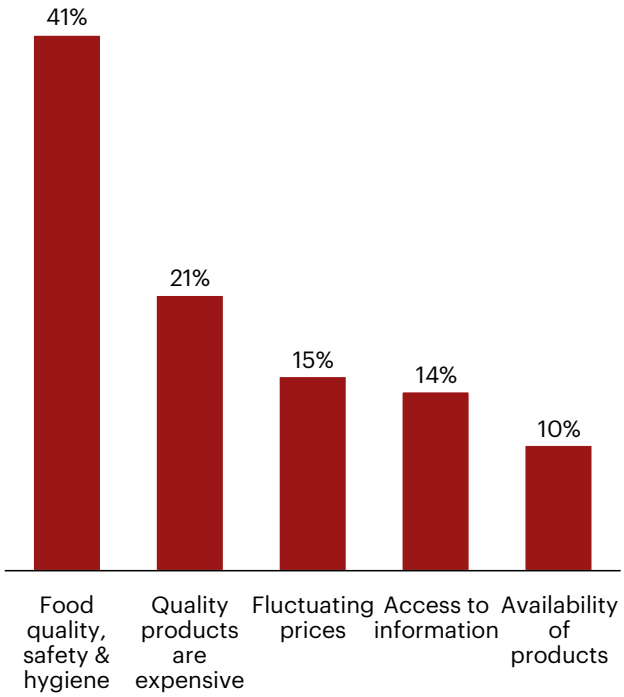
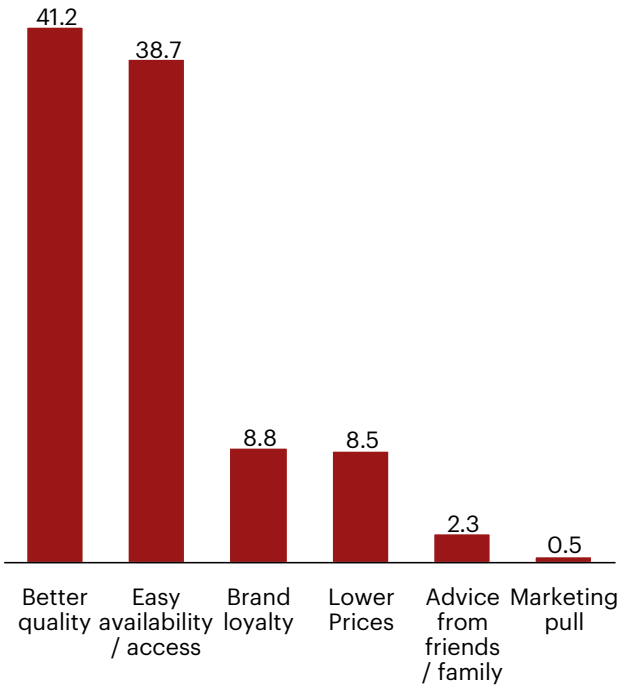


Fig 15: Purchase drivers

(% of respondents)



Increasing focus on food quality, safety & hygiene

Food quality, safety and hygiene is a major issue for consumers today (fig. 14). Over 80% respondents in a TUV-SUD survey conducted last year had experiences with unsafe products.

Consumers today are willing to pay a premium for quality and safe foods, a trend that is increasingly visible across different socio-economic sections. Our dip-stick survey indicated that sec C and D consumers rank quality, safety & hygiene very highly, second only to easy accessibility and prices (fig. 15).

Between safety and brand, safety appears more important to consumers. As per the TUV-SUD survey, 93% of consumers are willing to pay a premium for products that are superior in safety. For known brands, safety labels and certification reinforce consumers' brand preference. Labels and certification also help unfamiliar brands since about 83% of consumers tend to look for such information.

This presents an unprecedented opportunity for processed & packaged foods companies to offer safe & hygienic products and differentiate themselves in the marketplace. It has the potential to separate the winners from losers in the short to medium term, though in the longer term, with proper government regulation and safeguards, safety & hygiene would likely become table stakes.

Case in point: Go Gola- the hygienic ice gola[1]

Mumbai based Go Gola has branded this traditional ice-candy in its hygienic avatar. The company recognized the need for hygiene & safety and opened its first store in 2008. It tasted success in its very first year of operation and within a year expanded to 8 more locations. Go Gola prices its 'golas' at INR 10 more than that charged by the street vendors. It is known for using mineral water and maintaining high hygiene standards

1. Gola is made of crushed ice, which is clumped together in the form of a lolly. Also called 'Chuski' in the north

3

An assessment of key consumer trends and understanding of key challenges / issues ...

Consumer Trends	Challenges / Issues	Priority Industry imperatives	Priority Government imperatives
New consumption occasions emerging Consumers increasingly shifting towards processed foods Increase in demand for traditional foods items in packed form	• Limited innovation around trends driving demand e.g. traditional foods • Limited awareness of advantages of processed food • Low share of food processing industry will not be sufficient to meet upcoming demand • Complex approval process for setting up a food-processing unit, thereby limiting participation of innovative entrepreneurs	• Focus on breakthrough innovation around – Core meal occasions – Traditional foods – Product for the masses – Healthy products	• Encourage innovation in food processing sector – Set up a single window clearance for investments – Simplify new product approval process – Offer special incentives and exemptions for small entrepreneurs/MSMEs – Usher in latest technology
Increasing focus on value as compared to price	• Industry focus on delivering price-led value proposition, with low emphasis on creating and communication value • Poor procurement and supply chain infrastructure leading to value loss • Limited transparency in wholesale markets leading to inflated raw material prices	• Strengthen price-value equation and communicate the same – Invest and develop strong linkages across the supply chain – Leverage Public-Private partnership to enhance effectiveness of farm extension services	• Establish a National Common Market to increase transparency and efficiency • Support private sector through various partnerships across the supply chain
Increasing focus on food quality, safety & hygiene	• Lack of clarity in the current act • Infrastructural and manpower limitations • Lack of awareness on food standards, for small food producers and processors • Lack of a strict enforcement by state govt. • Absence of private/ self-regulation in the industry	• Differentiate through quality, safety and hygiene – Target specific segments through a quality-led value proposition – Adopt private/ self-regulation to achieve high quality standards	• Revamp and harmonize food safety laws, while focusing on enforcement • Establish a National Common Market to increase transparency and efficiency

.... highlights multiple imperatives for the industry and the government

The Indian consumers' needs are evolving and they are looking for high quality, innovative products that deliver a strong value across criteria like health, convenience etc. New consumption occasions are emerging and the consumers are shifting towards higher share of processed foods, even for traditional food items. Going forward, the trend is likely to continue. This presents an unprecedented growth opportunity for the processed and packaged foods industry over the next 7-10 years.

However, several challenges remain that must be overcome by the industry and government, for this opportunity to be fully tapped. Our interactions with stakeholders through various forums suggest that many of these challenges are well understood & documented and specific initiatives are being undertaken to address them.

Even the A.T. Kearney-FICCI report on "Feeding a Billion People: The Role of Food Processing Industry" highlighted this aspect through a set of 11 imperatives:

i. Increasing commercial viability of production - Models like contract farming, corporate farming etc. help create scale in production and enable a farmer to invest in new technology and enhance productivity
ii. Public-private partnership – Govt. financed farm extension services, which are delivered through private enterprises or Non-Govt. Organizations (NGOs), can help in enhancing effectiveness
iii. Increasing commercial viability of organized supply chains - Collaboration among retail players, logistics operators and support from the government will help drive efficiency of supply chains
iv. Focus on high-nutrition products – Innovative models that can be implemented at a large scale at low costs, is a focus area for government as well private sector
v. Consolidated policy for food and food processing - ensuring various initiatives across the departments are aligned to the overall goal of ensuring availability, affordability, awareness, quality and safety of food
vi. Simplifying the regulatory environment and approval process along three key focus areas:
    1. Accelerating standardization of regulation across states
    2. Aligning India's food safety regulations with globally accepted standards
    3. Simplifying the product approval process to spur true product innovation

3

Although the industry and the government have started working on a number of these imperatives...

Fig 16: Expected impact of initiatives on the market for foods

	Availability	Affordability	Awareness	Quality and safety
Increase commercial viability of production	●	●		
Leverage private-public partnerships to enhance effectiveness of farm extension services	●	●		
Increase commercial viability of organized supply chain		●	●	●
Focus on high-nutrition products		●	●	●
Develop a consolidated policy for food and food processing	●	●		●
Simplify the regulatory environment	●	●		●
Revamp food safety laws focusing on enforcement				●
Increase transparency of price, volume, and inventory in wholesale markets		●		
Invest in R&D and technology to improve yields and reduce waste and nutrient drop	●	●		●
Implement effective skill development programs	●	●		●
Create market demand through better awareness of quality and safety			●	●

Greater public-private partnerships | Policy and regulatory support | Higher transparency | Innovation and skill development

… progress has been slow and there is a need to focus on accelerated implementation of select high impact initiatives

vii. Revamping food safety laws focusing on enforcement
viii. Increasing transparency of price, volume, and inventory in wholesale markets
ix. Investing in R&D and technology to improve yields and reduce waste and nutrient drop
x. Implementing skill development programs, with focus on effective implementation and monitoring
xi. Creating market demand through better awareness of quality and safety through a PPP model

However, success so far has shown mixed results due to the scale of the industry, limited resources & implementation gaps. Hence, there is a **need to focus on select high impact initiatives & accelerate their implementation:**

Priority initiatives for Industry

i. Focus on breakthrough innovation to tap into potential opportunities
ii. Differentiate through food quality, safety and hygiene
iii. Strengthen price-value equation and communicate the same

Priority initiatives for Government

i. Set up a virtual national common market
    1. Minimizing physical and fiscal barriers to enable free movement of agricultural produce
    2. Transparency of rates and volume across markets
    3. Leveraging technology to generate higher efficiency
ii. Revamp and harmonize food safety and quality laws, with a focus on enforcement
iii. Encourage innovations in food processing sector
    1. Setting up a single window clearance for investments
    2. Simplifying the new product approval process
    3. Attracting entrepreneurs / MSMEs into agro-processing by offering special incentives and exemptions
    4. Usher in latest technology in agro-processing

Part 4

Imperatives for the Industry

4

Innovation is a significant vehicle for growth of the Food Processing Industry

Fig 17: Innovation as a vehicle for growth

Innovation in...	Select Examples
Ingredients/inputs	Mother Dairy introduced frozen peas to the Indian consumer and is today the market leader with its Safal brand
Core meal products	ADF Foods manufactures ethic ready-to-eat curries, frozen foods, Indian pickles, chutneys etc. under brand like Ashoka. Although it has largely been focusing on international markets which contributes to ~90% of its revenues, it is starting to see significant traction in the domestic market and expects to take this share up to 40% in next couple of years
New segments	Valio, Finland's biggest dairy company, identified that ~20% of the Finnish, ~50% of Mediterranean and almost the entire population of several parts of Asia was lactose-intolerant, i.e., unable to consume milk. Today, Valio produces and sells more than 100 different lactose-reduced products which rank highly on taste as well.

Frozen foods- a high growth market

Frozen foods market in India has shown a double digit growth rate in last few years reaching a size of ~INR 1900 crore in 2012.It has the potential to grow three times in next 5 years. Frozen vegetables & snacks together make up more than 65% share of the market. Critical success factors for this market are:

1. Incorporation of regional tastes
2. Correct price value equation - low cost, smaller pack sizes may be more popular
3. Raising awareness about quality, value & usage of product

Oats - innovation led growth

Oats occupies a 26% share in the INR 720-crore breakfast cereal market witnessing a 38% growth in the last one year itself.

This is a category that developed out of the realization that given the inherent health benefits of oats, tastier options will be a winning mix. Not only did companies innovate on this concept, they also educated consumers which led to the tremendous growth of oats.

Banking on taste as window of opportunity, there has been a rise in interesting mixes and different flavours- Quaker Oats' masala, Saffola's lemon variants, Kellogg's tomato salsa and pudina variants, Horlicks masal oats are just a few of those.

Companies need to focus on breakthrough innovation to tap into potential opportunities

Innovation by the industry is a critical step towards enabling step changes in demand for processed foods. Hence, there is a need to identify all potential opportunities and look at innovating around the same.

Innovate around core meal occasions

Indian consumers have a high inclination towards traditional Indian meals and core lunch & dinner are a significant portion of their overall spend. This presents an opportunity to grow share of processed food in these categories by innovating along three key dimensions:

1. **Innovation in ingredients / inputs** - Opportunity to innovate on products such as frozen/cut vegetables which add convenience, spices/other regional to satisfy regional tastes of the mobile population. Frozen foods market offers significant opportunities for growth (fig. 17 caselet on Safal)
2. **Innovation around the core meal products** - Semi cooked chapatis, curries, drinks etc., ensuring that the taste is close to the Indian palette (fig. 17 caselet on ADF Foods)
3. **Innovation around unmet customer needs** - Identify unmet core customer needs for specific customer segments and innovate to create a differentiated product. E.g. milk products for lactose intolerant population (fig. 17 caselet on Valio)

Innovation in creating healthy alternatives to existing foods is still an opportunity area and can help unlock growth. However, these innovations cannot come at a compromise to taste- consumers are likely to reject those.

So far, organizations have been growing on the back of favorable demographics & rising disposable incomes. However, the sweet spot lies in serving the 700 million-strong group of consumers in rural India. Hence, it is critical for organizations to follow a portfolio approach to ensure they have a good mix of products to target the higher end segments (to drive margins) and to target the masses (to drive revenues). Innovations for the masses need to be centered around core products of regular use. An example of an opportunity for innovation for masses is in traditional Indian sweets which have faced an issue of short shelf-life due to use of milk-based derivative called “khoya.” New product development can come up with a "khoya" substitute which would balance taste & shelf-life.

To truly make an impact and gain scale, industry needs to think about developing a holistic portfolio of food products across price points to profitably serve the population.

4

Differentiation through food quality, safety and hygiene is a significant opportunity

Fig 18: Drivers for a planned purchase

(% of respondents)

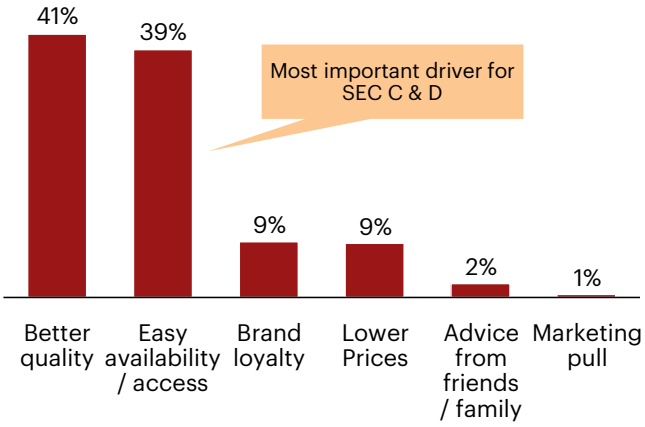


Fig 19: Differentiation through quality & hygiene- the case of Jumbo King

The **Jumbo King food chain** ventured into the business of selling vada pav, a popular Maharashtrian food item, by positioning its offering as being more hygienic and of better quality than street food. From one outlet in 2001, it has reached 65 outlets, with a turnover of INR 25 crore.

Fig 20: A model for self-regulation- the case of Netherlands

Netherlands: A Model for self-regulation

Private regulation by the food industry is seen in the Foundation for Quality Guarantee in Veal which was established in 1990 at the initiative of the Dutch veal-calf industry in order to guarantee "clean" meat to consumers. The companies in the industry voluntary joined this certification scheme and are subjected to its inspections and controls. Samples of urine and calves' milk are tested in an independent laboratory for the presence of banned substances such as growth promoters and pharmaceuticals.

Food quality, safety and hygiene can help create "winners" in the short-to-medium term

Clear movement towards quality food, especially for SEC A & B, provides an opportunity to differentiate

The dipstick survey highlighted quality as the most critical decision criteria, while making a planned purchase of a food item (fig. 18). Hence, quality is a critical lever, which can be used to drive differentiation.

The direct implications of this opportunity for the food processing industry are:

Potential to identify and target segments through a quality-led value proposition

Need to offer high quality products at par with peers to stay competitive. The existence of several success stories of mass brands (fig. 19 caselet on Jumbo King) proves that this trend is significant and presents opportunities to succeed.

Need to put adequate checks and move towards self-regulation

There is also a strong need for the industry to put in place adequate checks to ensure maintenance of high quality standards. Failure to maintain safety & hygiene in products has led to some of the biggest brands facing severe loss of value. Self-regulation by the industry (fig. 20 caselet on food regulations in Netherlands) can play an important role in ensuring food safety, as is the norm in a number of developed countries. This requires an inherent drive to 'make a change' in the industry.

Need to improve customer awareness & remove misconceptions around packaged foods being unhealthy

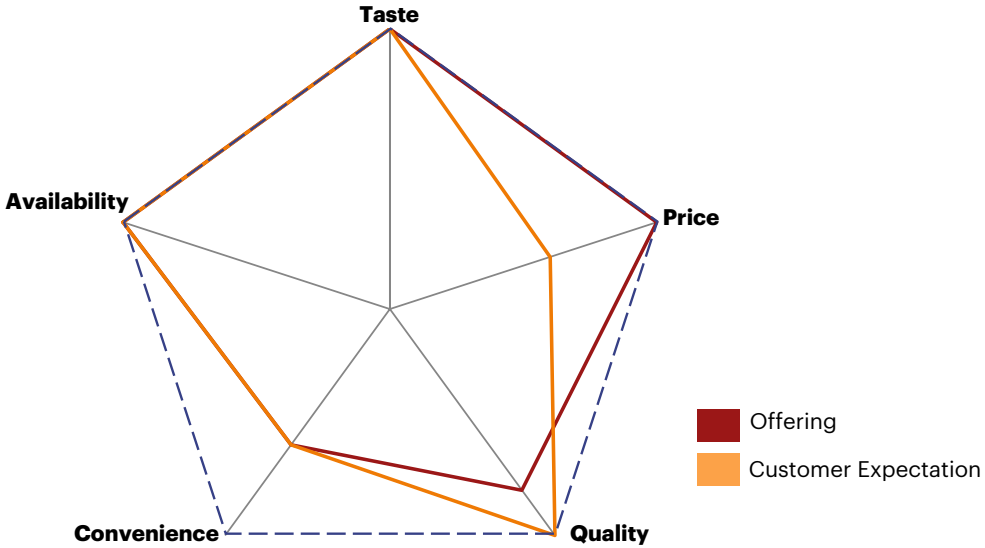
There are significant concerns on packaged foods being unhealthy, which leads to lower uptake across both urban and rural areas and across socio-economic classes. Hence, there is a need to address these misconceptions. In urban areas, the focus needs to be on alleviating concerns related to preservatives and highlighting benefits due to minimization of adulteration. In rural areas, the focus needs to be both around highlighting benefits of minimization of adulteration and the benefits of fortification in processed foods.

4

Getting the Price-Value equation right especially in price sensitive segments is critical, as is appropriate communication to the target segment

Fig 21: Price value framework

Illustrative



Case example: Oreo Cookies - Imported Oreo was initially launched in India at a price of INR. 50 for a pack of 14. But sales didn't take off because of limited availability, product awareness and the high price tag. Soon, it realized that product localization including competitive pricing, proper communication and wide distribution network are going to be the key for success in India. Hence, it localized the product using locally available ingredients, made adjustments to suit Indian taste, priced it aggressively (INR 20 for a pack of 14) and launched the product in multiple sizes while leveraging the strong reach of Cadbury network. The product really took off and it was able to garner large share from market leaders.

This requires focused efforts by the industry, across the entire supply chain

Taste, price and quality are the key parameters which define the price-value equation for the customer

Overall there are five determinants of consumer choice in food industry: Taste, Price, Quality, Convenience and Availability. Although taste is one of the key decision parameters, customers typically do not indicate it to be the key driver of their decision-making process. Beyond taste, our dipstick survey result indicates price and quality being the most critical parameters at the overall food level. Hence, these three are the most critical parameters to optimize. For specific categories and products, this equation might vary and hence needs to be studied in detail.

Customers have also indicated their willingness to pay a premium if offered a clear differentiation in terms of convenience, taste or health. Hence, it is important to focus on creating the appropriate price-value equation for the customer and communicate the same in a crisp and clear manner.

Strengthening price-value equation, especially in price sensitive segments requires focused effort across the value chain

In order to strengthen this price-value equation, there is a need to generate value across each leg of the supply chain, and pass this onto the customer. There are multiple levers which could be used for the same:

1. Developing back-end linkages with farmers
2. Value engineering
3. Localization of ingredients and efficient sourcing
4. Investing in efficient back-end infrastructure
5. Partnerships / collaboration along the supply chain etc.

4

Developing strong linkages across the supply chain and investing in back-end infrastructure ...

Fig 22: Enhancing commercial viability of organized supply chains – the case of Thailand

Thailand situation	Program approach	Impact
• Fragmented, unorganized fruits & vegetables market – around 90% "wet" • Limited share of modern retail in fresh produce market - ~11% of fruits & vegetables buyers and ~7% of fresh produce trading	**Industry** • JV of Dutch retailer Ahold and Thailand's Central Retail Corp. set up 'World Fresh' DC – Streamlining of upstream and downstream linkage driven by competitive pressure and recessionary pressures – Adoption of farming certification standards to develop preferred suppliers • 'Thai Fresh Project' initiated by consortium of Golden Exotics and KLM Cargo – Distribution & packaging center established with scientific sorting, cold storage facilities – Post-harvest centers established at provincial level for producer monitoring **Government** • US Dept. of Agriculture and logistics player EMO Trans sharing best practices for cold chain infrastructure and professionals • Agro industries included within group of industries offered special tax incentives • Incentives such as tax holidays, import duty exemption on machinery etc.	• Export growth exploded from stagnation over 8 years from 1990 to 1998 to ~25% CAGR nearly quadrupling in size by 2006 • Streamlining of flow of fresh produce from DCs to retail outlets • Development of integrated cold supply • Adaptation of modern farming practices due to downstream quality and safety requirements

Fig 23: Enhancing commercial viability of production through contract farming

Private enterprise	Overview of Model	Benefits to Private players and Farmers	Geographical Scope
Mahindra Krishi Vihar	• Supply of quality inputs, technical guidance for rice production • Purchase of produce at predetermined prices	• Assured availability of produce at fixed prices • Assured quality	• Chhattisgarh
Himalayan International limited	• Supply of farm practices and inputs for herb production • Quality monitoring	• Assured availability of produce at fixed prices • Assured quality	• Himachal Pradesh
Tata Chemicals along with SBI	• Supply of farm inputs and practices for grape production	• Assured quality • Easy availability of crop loans • Farmers can also sell to local markets	• Maharashtra
Frito-lay India	• Supply of farm practices and inputs for potato cultivation	• Assured availability of produce at fixed prices • Assured quality • Higher farm productivity	• West Bengal

… can help create significant value, which can be passed on to the customer

Establishing linkages with key stakeholders across the value chain can create value in multiple ways

1. Backward linkage models like contract farming provide greater control on quality and supply for private players, while also ensuring a guaranteed price for the farmer (fig. 23 caselet). E.g. McDonald's contact farming for Potatoes in West Bengal helps produce right-sized potatoes to develop the perfect French fries
2. Providing extension services to farmers including technical know-how, quality seeds etc. can help develop high quality output. For e.g. Mahindra ShubhLabh Services Ltd. provides assistance on grapes farming in Nashik. PPPs can play an important role in making these services effective. Govt. financed extension services, which are delivered through private enterprises or Non-Govt. Organizations (NGOs) have been very effective
3. Back-haul optimization / load sharing with a non-competitor can help generate value in logistics etc.

Investment in back-end infrastructure can help reduce wastage and deliver a high quality output

Key imperatives to make this work include:

1. Collaboration among manufacturers, retail players, logistics operators and support from the government can effectively drive organization levels and efficiency of supply chains (fig. 22 caselet on Thailand).
2. Private players also need to drive consumer demand to make infrastructure investments viable. For example, to increase viability of cold storage infrastructure, spur demand for frozen produce by raising awareness.
3. Government supported specialized models to support investments. For example, changes to viability gap funding models, land acquisition requirements & PPP operating models can help ensure greater commercial viability.

Efficient linkages for driving private labels

Reliance fresh, with a footprint of nearly 700 stores across India, uses the Direct procurement mechanism for obtaining fruits & vegetables for retail sale.

ITC's food & grocery focused "Choupal Fresh" stores extend the company's backward farm linkages into delivery, supplying produce to the customers sourced from their Direct procurement centers.

Part 5

Imperatives for the Government

5

A National Common Market (NCM) is a virtual market with increased transparency of wholesale markets and an efficient supply chain

Fig. 24: EU single agriculture market: An example of a successful common market

Objective	**Started in 1950s to:** • Promote economic and social progress • Guarantee self-sufficiency in basic food stuffs **Evolved in 1990s to:** • Improve the income levels of people engaged in agriculture • Promote rational use of resources, particularly labour • Improve food quality and safety • Improve competitiveness in agriculture
Key Features	• 28 member states, including EU-N10 • Free movement of goods with common external tariff and common regimes for almost all agricultural products • Market orientation of agriculture

Impact

- Strong growth in range of agricultural products and foodstuffs - EU became 2nd biggest exporter of agricultural products (EUR 61 bn in 2002)
- Buffered European agricultural market against major fluctuations in the world market
- Provided market stability through a policy of staggering supply, surplus disposal or by diversifying supply
- Access to the EU Single Market directly increased demand for EU-N10 products
- For EU-N10 agricultural incomes grew at 21% per year, much faster than wages and salaries for the economy as a whole at 6% per year, over last 10 years



The EU single agriculture market, where a good originating in one Member State can be stored in another and marketed in a third

EU-N 10: Ten new member states who joined in 2004

The NCM will help remove physical and fiscal barriers and encourage free competition

There are significant barriers to free movement of agricultural produce leading to creation of micro-markets and inhibiting free competition.

Hence, there is a need to move towards a NCM which:

- Is a virtual market which covers all physical markets for buying & selling and has transparency of price, volume & inventory across markets
- Enables several buyers to participate in the purchase process where all products will be visible centrally and will be shipped to the buyer's location, post purchase
- Minimizes physical barriers between states, thereby ensuring fast movement of products
- Fosters healthy competition by minimizing state-specific taxations and entry taxes
- Ensures better price realization for farmers & a lower price for buyers through elimination of middle-men

To make it a reality, a number of regulatory and infrastructural challenges will need to be resolved:

- A barrier-free market coupled with removal of controls, licenses, intermediaries and state-imposed levies
- Removal of disparity in legal regulations governing trade of agricultural commodities in different states including removal of regulated markets under APMC
- Technology enabled provision of market information centrally & enhancement of transparency of price, volume and inventory in wholesale markets. For e.g., in Thailand's Phitsanulok Agricultural Central Market, weighbridges are computer linked enabling immediate invoicing for tolls & ensuring reliability of volume data
- Improvement of infrastructure especially cold storage for better movement of perishable goods
- Development of a standardized grading mechanism for each commodity
- Formation of Producer Organizations among farmers to enable economies of scale in procurement, technology adoption and marketing; this will also ease complexity for enterprises related to working with a large number of small farmers
- Implementing GST will be a step in the right direction. A specific review of taxation for food products at important price points like INR 5 and 10 will significantly enhance its affordability and availability for the masses

5

Food quality & safety is the most important consumer issue today

Fig 25: Food adulteration rate, India

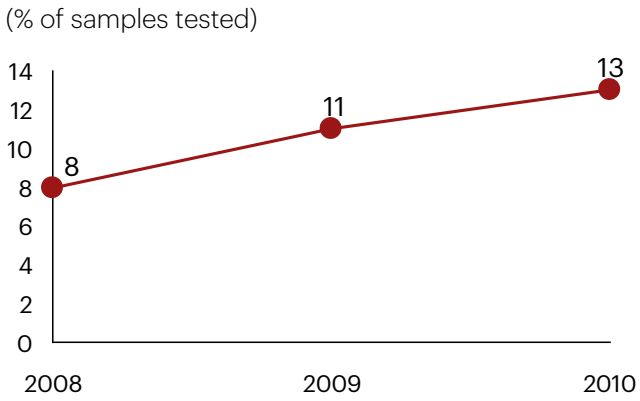


Fig 26: Food safety issues stemming from risky practices

Food safety issues stemming from risky practices,

- Use of chemicals and pesticides etc. for delaying the ripening of fruits & vegetables
- Adulteration of foods with different types of additives
- Unsafe food handling by street vendors

Fig 27: Enhancing quality and safety in the wet poultry market- the case of Vietnam

Vietnam Situation	Program Approach	Impact
• Consumption patter similar to India-80 percent of chicken purchased in Wet market • Limited preference for processed chicken as 'wet market bird' considered safer and better • Significant risk of Avian Influenza led to a pilot project to enhance safety of wet market	• Certification program introduced, offering select farmers a chance to market their birds with an assurance of quality and reduced disease risk • Quality standards monitored by veterinary officials	Customers were willing to pay average of USD 0.63 higher for safer birds that ensured profits for the farmer

There is a need to revamp food safety and quality laws, while focusing on enforcement

Food contamination is a major concern in India (fig. 25 & fig. 26)

There have been several reported cases of contamination & infestation in the recent past, with many more incidents which don't even get reported. For example, in the Bihar school meal poisoning incident in 2013, 23 students died and several dozen fell ill due to pesticide contamination in cooking oil. The dipstick survey also indicated food quality, safety and hygiene as the biggest issue faced by the consumers. Hence, there is a need to urgently address this concern.

Challenges and Imperatives for the Government

- **Lack of clarity in the current act** – The Act mentions several concepts like 'Food Safety Management System' etc. which need to be understood, articulated and elaborated very progressively calling for a major shift in the mindset of people, both from the regulatory agencies as well as the food processing industry.
- **Infrastructural & manpower limitations** – Majority of the laboratories in India are not fully equipped and are not able to identify a number of contamination issues. There is a need for up-gradation of laboratories in terms of infrastructure and sophistication, as well as a need for developing skilled manpower in the area.
- **Lack of harmonization with international standards** – There Is a need to simplify food safety standards by harmonizing Indian standards with globally accepted Codex standards. This would require contribution from every stakeholder, including the industry.
- **Challenges in enforcing food safety because of complexity in Indian food chain** – There is a need for the govt. to focus on developing innovative solutions for ensuring food safety, while encompassing the unorganized & organized sectors. This is critical given the scale of complexity in Indian food chain (fig. 27 caselet on Vietnam).
- **Lack of a strict enforcement by state govt. including a lack of awareness** among producers and processors is also a big challenge. There is a need for state govt. to take a tough stance on this issue as well as educate people involved in the food value chain.

5

Encouraging innovations is critical to make significant push on processed foods

Fig 28: ~38 approvals are required to establish and operate a food processing setup, a few of them are listed below

The below table enumerates the general licenses/approvals/registrations required to establish and operate a food processing industry in India		
Approvals/Clearances Required	**Department to be Approached and Consulted**	**Notes**
A. Setting up legal existence of the entity:		
Company Name Approval letter, DIN and DSC	Registrar of Companies (ROC)	DSC Digital signature certificate,
Certification of Incorporation of company.	Registrar of Companies (ROC)	
Registration for Permanent Account Number (PAN)	Central Board of Direct Taxes	Note 1
Registration for Tax Deduction and Collection Account Number (TAN)	Central Board of Direct Taxes	Note 1
B. Pre construction phase:		
Environmental Clearance	Ministry of Environmental and Forest (MoEF)	
Sanction of power connection	State Electricity Board	
High Tension/Substation requirement for Power	Approval from Chief Electrical Engineer, PWD	
Provisional Fire Safety Approval	State Fire and Safety department	
Sanction of Water connection/Permission for ground water use	Central ground water authority(for underground water use)	
Coastal Regulatory Zone Notification compliance (depending on proximity of the project from the coast)	Competent authority	
C. Post construction phase:		
Grant for BIS License	Regional Office of the Bureau of Indian Standards (BIS)	
Final Fire Approval	State Fire and Safety department	
Building Completion Certificate (BCC)	Local Municipal Authority	
D. Post Commencement of Operations:		
Registration under Value Added Tax /Sales Tax	Department of Sales Tax (DOS)	Note 1
Profession Tax Registration	Department of Sales Tax (DOS)	
Trademark Registration/ Brand Registration	Controller General of Patents Designs and Trademarks	

Single window clearance and a simplified product approval process would encourage new industries and products

Overall yield and productivity across the food value chain is low for India. However, the need to "feed the billion" makes it imperative to address this area on high priority. One of the critical enablers is to encourage innovation from multiple sources – large corporates as well as small entrepreneurs. In addition, encouraging adoption of latest technology is important to extract the maximum out of resources on hand (assets, manpower etc.). Overall, we believe there are four key imperatives for the same:

1. Setting up a single window clearance for investing in food processing industry

The process of getting approvals to establish and operate a food processing setup in India in fairly complex, with around 38 general licenses / approvals / registrations required. Additionally interaction with ~30 distinct government departments and lack of clear timelines make it more difficult. Hence, there is a need to:

i. Establish a single window clearance system including removal of any state specific requirements

ii. Define a clear timeframe for approval, at each step of the process

iii. Set up IT based system and processes to offer complete transparency on the status of pending application and other regulatory requirements

iv. Ensure timely resolution of disputes through a single window addressal and fast-track dispute resolution

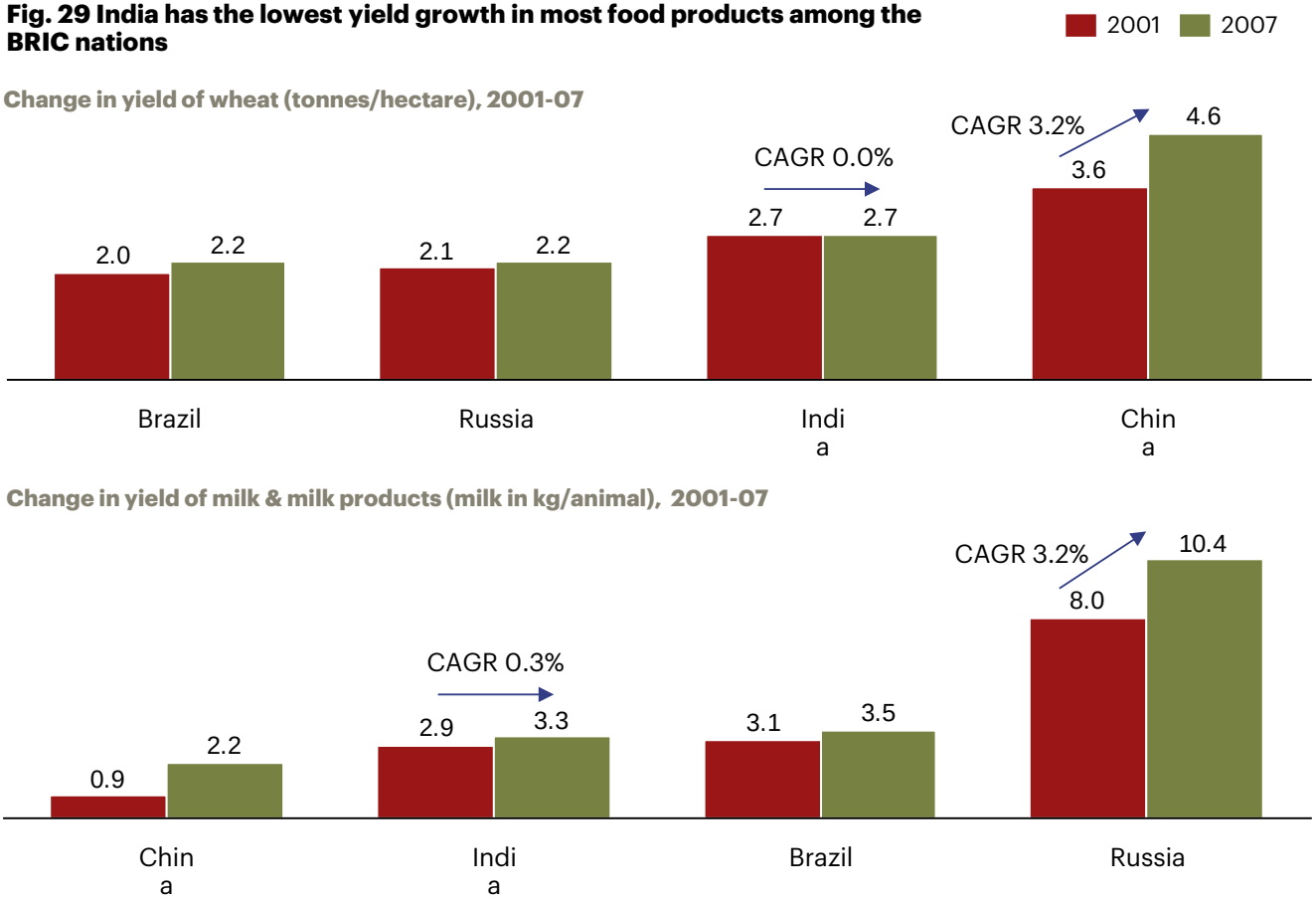
2. Simplifying the new product approval process

Industry believes that the process of getting approval for a new product is complex, especially when it includes some lesser known ingredients. Also, the time required for getting the approval varies significantly, which at times leads to loss of competitive advantage. This acts as a big deterrent for companies to focus on fundamental innovation. The government needs to ensure an eventual switch over to an ingredient based authorization system that is fully integrated with Food Licensing System and Food Import Clearance System.

5

Need to increase overall yield & productivity by encouraging new talent and investments in technology

Fig. 29 India has the lowest yield growth in most food products among the BRIC nations



Attracting new talent and technology is critical to foster fundamental innovations

3. Attracting entrepreneurs / MSMEs into agro-processing especially in Indian ethnic foods

Special incentives and exemptions for small entrepreneurs are needed to attract them to agro-processing. This is critical to drive fundamental innovations on products, processes and business models.

4. Encouraging latest technology in agro-processing

Agro processing in India is outdated leading to issues of low yield (fig. 29), high processing losses (~10% of food grains produced lost in processing and storage) and inability to meet end consumer expectations (e.g. customers demand a precise texture & colour in tomato paste, fruit pulp in jams etc.). Also, there is a lack of technological solutions for making traditional Indian products which leads to significant inefficiencies.

All these requirements need adoption of latest technology & focus on applied research. To enable this:

i. Extend incentives only for new technologies and scrapping it for older ones
ii. Encourage technology implementation, even at small scales such as village level. E.g. village societies in dairy farming are encouraged through subsidies to install chilling units and make use of new technology
iii. Invest in applied research on technology to:
    a) Automate manufacturing process for traditional Indian products
    b) Reduce dependence on imported technology for establishing export oriented units

The government should also explore setting up an India-specific research center with high commercial orientation which would work closely with customer, industry and global peers to carry out breakthrough research

Finally**, a re-look at the tax structure for products, especially products of daily necessity which are accessed by the masses,** can also encourage innovation. A shift in the overall cost structure through reduced taxes and possibility of servicing a mass segment can encourage industry to pay more attention to these products.

5

Strong program management can enable efficient execution

Fig 30: Government Transformation Programme- Malaysia

Government Transformation Programme (GTP)

- Program to fundamentally transform the Govt. into an efficient and citizen-centric institution
- Focus on 7 developmental goals, called National Key Results Areas (NKRAs) covering areas such as crime, corruption, education etc.
- Divided into 3 distinct phases – kicked off in 2010 with the immediate goal to arrest the decline in the NKRAs and with the ultimate aim to take Malaysia to a developed nation status by 2020

Performance Management & Delivery Unit (PEMANDU)

- Set up as a unit under the PM's Department to manage implementation, evaluate progress, facilitate as well as support delivery and drive progress of GTP
- Meant to catalyse the changes in public sector
- Comprised of a high-performance team, uniting talent from both public & private sectors

A unique & internationally recognized initiative

- Focus on seven NKRA's and designed to work towards Big Fast Results (BFR)
- Put to rest the programmes that never get off the ground because of unrealistic goals or lack of buy-in
- Open and transparent about goals and what has been achieved
- Significantly transformed Malaysia over past 3 years (reduction in crime, bringing drinking water, electricity, roads etc.)



In June '14, PEMANDU received international acclaim and recognition as one of the premier units delivering and empowering change in governments around the world

A program management office is essential to drive implementation of FPI Transformation Program

There is a need to set up an implementation-focused Program Management Cell which works in close coordination with a Central Coordinating Committee, to deliver the initiatives in a timely manner. For this, the initiatives need to be woven into an overall Food Processing Industry Transformation Program with multiple stages of delivery.

This cell would oversee the implementation, assess the progress and facilitate / support the overall delivery, while the overall implementation and delivery responsibility will still reside with individual Central & State departments. The committee would report to a higher authority (PM office / Cabinet ministers etc.) on a regular basis.

(Fig. 30 Case Example: Performance Management & Delivery Unit (PEMANDU) for Malaysian Government Transformation Programme (GTP))

A single ministry from farm to fork would enable higher implementation effectiveness

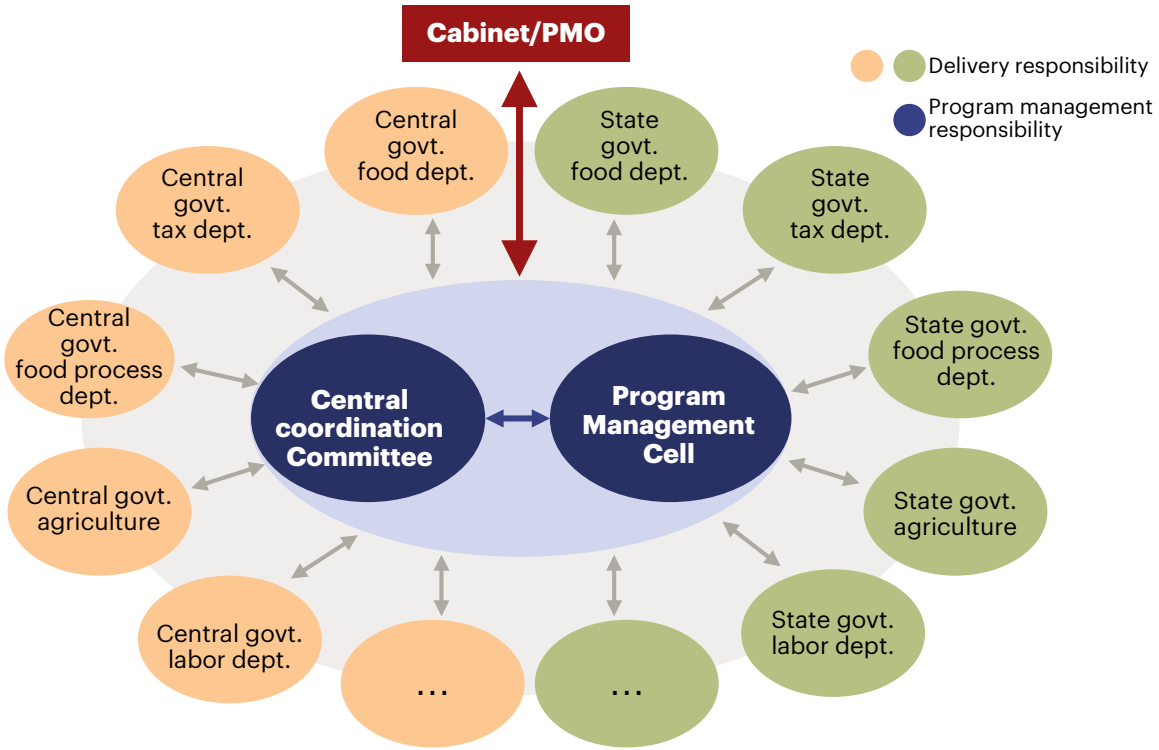
A comprehensive and consolidated policy and ministry will ensure that various initiatives across departments are aligned with the overall goal of ensuring availability, awareness, affordability, access, quality and safety of food. It will provide action agendas for all stakeholders in the food value chain—government, producers, supply chain partners, food processing companies, and distribution—to focus on prioritized areas.

Bringing together various government subsidies, direct public spending on R&D, and tax revenues on food would provide a better balance. Alternatively, government can redirect subsidies to improve nutrition per gram of food rather than total available quantities of foods through investments in the processing sector. Such a cross-value-chain view would only be feasible under the guidance of a consolidated food and food processing policy. Government has an important role to play in the non-perishable segment to ensure the sustainability of farmers and the affordability of food. Issues with incentive structures create demand supply mismatches in some food categories, resulting in excesses for certain food outputs and inadequate production in other areas. A comprehensive national plan set up by a consolidated ministry will help improve these demand-supply imbalances.

5

Proposed Program Management Cell Structure and Roles

Fig 31: Proposed management cell structure & roles



A program management office is essential to drive implementation of FPI Transformation Program

The following are key success factors (KSFs) for the program:

i. Setting up a high performance "Program Management Cell" by combining the best talent from government and private sector

ii. Finalizing the initiatives up-front in consultation with all stakeholders (various departments like food, food processing, agriculture, labor, tax etc., across central and state government)

iii. Developing an overall multi-stage delivery master-plan, with clear identification of dependencies and "realistic" implementation timeline

iv. Finalizing the precise KRAs (Key result Areas) at a granular level – for the overall program and for individual departments

v. Regular tracking of progress and public reporting of outcomes and performance against KRAs

6

Conclusions and Way Forward

The Indian consumers are evolving and so are their needs.

Driven by various industry and government initiatives around developing and bringing in new products, increasing awareness around processed foods and improve availability as well as accessibility, the share of processed foods is increasing.

Having said that, more consumption occasions are emerging, customers are looking for even higher quality, safety and innovation in products along criteria like taste, healthy, convenience etc. Hence, the trend on growth of processed foods is likely to continue moving forward, and this presents an unprecedented opportunity for the food industry over next 7-10 years.

However, several challenges remain that must be successfully overcome, for this opportunity to be fully tapped. Although the industry and the government are working on a number of such initiatives, progress has been slow and there is a need to focus on select high impact initiatives and accelerate their implementation.

We believe that the Industry needs to focus on breakthrough food innovation, differentiating through food quality, safety and hygiene and strengthening price-value equation. On the other hand, the government needs to work towards developing a virtual National Common Market, revamping the food safety and quality laws, with a focus on enforcement and encouraging innovations by easing up the approval process and attracting latest technology.

Focused implementation by various Central and State departments in collaboration with the Industry, and monitored by a high performance Program Management Cell can help drive this agenda in an accelerated manner. This will help in satisfying the next level of evolving consumer needs and also take the Food Processing Industry to the next level of growth.

About the study

The food processing industry in India is at the cusp of entering an era of unprecedented opportunities & explosive growth. To seize these opportunities it is critical to understand the evolving Indian consumer behavior and subsequently play a significant role in shaping future consumer evolution.

In this context, FICCI and A.T. Kearney undertook a joint study to answer the following questions:

- How are the food consumption patterns and preferences of Indian consumers changing?
- What is their likely impact?
- How should organizations prepare?
- How should the Government play a role?

This report highlights the findings of this study. The study is based on in-depth research, A.T. Kearney's expertise in the sectors, and multiple conversations with key industry and government leaders in India. We also conducted a dip-stick consumer survey across a sample of 400 urban & semi-urban consumers to surface and validate emerging trends.

There are many trends that are likely to shape the future of the food processing industry in India and many means of capitalizing on this growth opportunity for the industry & government. We have picked the key trends & initiatives that we believe will have the most impact and have highlighted them in this report.

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The authors would like to thank Anurag Mantry and Smita Singh for their valuable contributions to this paper.

Acknowledgements

Mr. Siraj Hussain (Secretary, MOFPI)

Mr. G. Gurucharan (Additional Secretary, Department of Consumer Affairs)

Mr. J.P. Meena (Additional Secretary, MOFPI)

Mr. U. Venkateshwarlu (Joint Secretary, MOFPI)

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Who We Are

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Our Commitment

To deliver superior, sustainable results for our clients and each other, we will build on our rich legacy and full range of consulting services as we:

Connect across all borders and boundaries, driving global innovation and collaboration.

Lead in all that we do to ensure our clients lead in all they do.

Sustain success by nurturing our people while harmonising limited resources, social responsibility, and profitable growth.

By doing good, we will do well for our clients, ourselves, and our community. We do this with passion for people, ideas and the world in which we live.

Our People

3,000 employees worldwide, with 2,200 consultants who have broad industry experience and come from leading business schools. We staff client teams with the best people from across A.T. Kearney.

About FICCI

Established in 1927, the Federation of Indian Chambers of Commerce and Industry (FICCI) is the largest and oldest apex business organization in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views, and influencing policy.

A non-government, not-for-profit organization, FICCI is the voice of India's business and industry, drawing its membership from the corporate sector, both private and public, including small- and medium-size enterprises and multinational corporations. FICCI enjoys an indirect membership of more than 250,000 companies from various regional chambers of commerce, and provides a platform for sector-specific consensus building and networking and as the first port of call for Indian industry and the international business community.

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 Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialized services and global linkages.

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