

Thoughts

Reflexion and Analysis for the Indian Market

May 2018

F&B Industry – Growth Segments



Foreword

Food processing is considered as one of the fastest growing industries in India. The growth of the industry is supported by the availability of a large raw material production base. India is the largest producer of milk, bananas, mangoes, guavas, papaya, ginger, okra, second largest producer of wheat, rice, fruits, vegetables, tea, sugarcane and cashew nut and the third largest producer of cereals, coconut, lettuce, chicory, nutmeg, mace, cardamom and pepper globally.

Given the natural supply advantage and a population of 1.3 billion people (that spend a high proportion of their disposable income on food), there is a potential to nurture mutually beneficial relationships with global food processing, food retail and related supply chain organizations who could realize significant business growth opportunities in India, through new technologies, innovations and other methods of value additions.

In light of the above factors, and with total consumption of the food and beverage segment in India expected to increase from US\$ 369 billion to US\$1.142 trillion by 2025, output of the food processing sector (at market prices) is expected to increase to US\$ 958 billion for the same period. These estimates clearly evidence the vast market opportunity offered by the Indian food processing, food retail, transport, logistics and related infrastructure sectors to players in the food processing value chain.

| Snapshot of F&B growth segments | | |
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| Segments | Categories | Snapshot of growth |
| Breakfast cereals | Hot and cold cereals | Growth: 22% for 2011-16 Expectation: 28% for 2016-21 |
| Savoury snacks | Ethnic/traditional snacks; meat snacks; nuts and seeds; popcorn; potato chips; processed snacks | Growth: 29% for 2010-17 Expectation: 34% for 2018-21 |
| Ingredients | Seasonings, dressings and sauces | Growth: 8% for 2011-17 |

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| | | Expectation: 12% for 2018-21 |
| Pet Food Market | Dog, cat and other pet food | All the Indian pet food industry had recorded double-digit growth rate of 18% and above in 2017 |
| Naturally healthy beverages | 100% fruit/vegetable juice or superfruit juice, natural mineral water, spring water, RTD green tea, other naturally healthy RTD tea, malt-based hot drinks, other plant-based hot drinks | The India natural healthy beverages recorded a robust 22% growth rate in 2017 |
| Ready meals | Ambient ready meals and dried ready meals, chilled/frozen ready meals | Growth: 15% for 2011-17 Expectation: 19% for 2018-21 |
| Confectionary | Chocolate, gum and sugar confectionery products | Growth: 17% for 2011-17 Expectation: 22% for 2018-21 |
| Organic food | Organic packaged food and beverages | Growth: 17% in 2017 Expectation: 25% for 2017-21 |
| Dairy food | Milk, butter and spreadable fats, drinkable yogurt, cheese, dairy-based and soy-based desserts | Growth: 11% for 2011-17 Expectation: 19% for 2018-21 |
| Bakery | Breads and rolls, cakes, pastries and sweet pies including frozen cakes, pastries and pies, biscuits | Growth: 13% for 2010-17 Expectation: 17% for 2018-21 |

Why these growth segments represent a huge opportunity in India?

1. Affluence – increasing affluence of the ever growing working population with increase in disposable income

India is expected to become the most populated country by 2024.

The country's population pyramid is expected to “bulge” across the 15–64 age bracket over the next decade, increasing the working age population from approximately 761 million to 869 million during 2011–2020.

Consequently, until 2020, India will be experiencing a period of “demographic bonus,” where the growth rate of the working age population would exceed that of the total population. Around 64% of India's population is expected to be in the age bracket of 15–59 years by 2026, with only 13% of the total population in the age bracket above 60 years. India is poised to become the world's youngest country by 2020, with an average age of 29 years, and account for around 28% of the world's workforce. In comparison, during the same period, the average age is expected to be 37 years in China and the US and 45 years in Western Europe.

The number of middle-class adults in India will increase drastically. India ranked 8th among 215 countries in terms of the number of middle-class adults in 2015. India is expected to have a middle-class that will be larger than that in the US or EU. India's consumption would therefore be dominated by the middle class who are willing to experiment with the variety of food and beverages offered by the companies.

2. Urbanization – rising urbanization leading to changing lifestyles

This is leading to a change in lifestyles and food habits of consumers, who are shifting from traditional food to adjusting and adapting urban food habits. Further, increasing urbanization also results in increase in nuclear families, increase in percentage of working women, less time available for preparing meals and beverages at home and increasing consumption of food at eating joints, outlets, restaurants etc. This leads to increase in consumption of the high-growth segments food and beverages as consumers look for food that can be made quick and trusted for quality and health.



3. Dietary habits – changes in tastes and preference of Indian consumers

India has a variety of cuisines, with each region (north, south, east and west) having their own specialties. Indians like to experiment with new cuisines as they become more aware about products available in the market. These food habit changes translate into an increase in demand for a variety of ingredients and beverages which leads to different innovative products that would either meet the specific tastes or would meet the health requirements of the consumers. India's consumption of fats, sugar and salt has increased over a period of time which is reflective of the change in dietary habits. As per the report of the working group on Addressing Consumption of Foods High in Fat, Salt and Sugar– 2015, per capita consumption of sugar has risen from 22 g/day in 2000 to 55.3 g/day in 2010; salt intake ranged between 9 and 12 g/per capita/day; and total fat consumption increased from 21.2 g/day in 2000 to 54 g/day in 2010.

4. Tourism – increase in tourism in India and international travel

The number of Indians travelling within India has increased dramatically since 1997, rising from less than 200 million to 1.4 billion in 2015. The rise reflects a variety of factors such as increased car ownership, improved and less expensive domestic air travel, rising disposable incomes, improved accommodation, a strong rail network, high aspiration levels and increasing nuclear families.

Foreign tourist and business arrivals have nearly doubled over the past decade, rising to 8 million in 2015 (annual growth of 4.5%). Further, the number of Indians travelling abroad has also increased. Majority of the Indian consumers would prefer to carry snacks, confectionaries, beverages, biscuits, etc. while travelling. While they would try the local delicacies, the travellers, especially while travelling with family, carry packaged foods and beverages. Increasingly, Indians also carry and consume ready-to-eat foods or prepared meals when they are travelling abroad as they may not get the Indian taste in overseas countries at a reasonable price. Further, rise in foreign travel results in Indian consumers experiencing international cuisines.

5. Awareness and accessibility – innovative advertisements, rise in supermarkets and e-commerce boom



Advertisements on television and social media by the manufactures of the high-growth segments are making the Indian consumers aware about the new product launches along with their USP.

With rising awareness, the companies are ensuring that the products are also easily accessible for consumers to procure from their nearby stores, supermarkets or e-commerce websites.

Traditionally, food and beverages would be purchased from nearby local stores. However, in the past one decade, there has been a rise in the hypermarket/supermarkets especially in the urban areas wherein consumers can find everything new that has arrived. Families that have very little time for elaborate shopping find it convenient to shop for all household items, from bottled and packaged food items to fresh organic products, from one store.

Food stores have turned out to be highly favorable among middle class families too especially during the festive seasons, with lucrative promotions and offers increasing the sales of the stores.

With the population in Indian urban areas increasing, the number of supermarkets has also increased, providing consumers with a range of products under one roof and thereby increasing the awareness of the high-growth segment products and increasing their sales.

In India, the e-commerce revolution has become a reality. With billions in daily sales and staggering discounts, online shopping is making headlines and attracting both consumers and retailers. This is in contrast to a decade ago, when the prevalent opinion was that too many challenges such as low Internet penetration, limited payment infrastructure (i.e., restricted use of credit cards), consumer psychology and behavior, logistics and warehousing issues would prevent online shopping's emergence. Despite the challenges, online retail, or "e-tail," has grown at a breakneck speed of 50%–55% CAGR over the period from 2009 to 2013 to reach around US\$4.5 billion in 2014 in India. The sector is expected to see similar growth going forward driven by favorable demographic

6. Acceptability and trust – quality standards, health benefits

Consumers are increasingly seeking value and better outcomes from self-management of health and wellness. Therefore, certain sections of consumers do check the health benefits before buying. With the growth in e-commerce, supermarkets and food chains, the health benefits of associated packaged food and beverages are visible. Therefore, Indian consumers are increasingly consuming dairy foods, breakfast



cereals, healthy snacks, organic food, etc. due to their health benefits promised by the products or the natural ingredients used to make the products. Further, consumers trust branded products due to the quality standards assured by the manufacturers. Therefore, with increase in disposable income and awareness, Indian consumers are increasingly consuming the food and beverages of high-growth segments.

7. Festivals and occasions – growth segment products becoming part of the celebrations

India has a variety of festivals spread across the whole year that bring families and friends together to celebrate. These celebrations are incomplete without traditional foods and beverages especially traditional sweets, snacks, beverages, etc.

The last two quarters of the calendar year are the time when the festive season starts with Eid and Dussehra, continues with Diwali and is followed by Christmas and the New Year.

This is when food and beverage companies connect with the Indian consumers with their new product offerings for the festive seasons through innovative advertisements and marketing campaigns, lucrative discounts and offers such as buy one get one free. For example, Cadbury came up with a new ad campaign for their product Dairy Milk during Diwali through which they advertised chocolate as a substitute for the Diwali sweets. Coca-Cola India had in last quarter of 2016 released its Social Occasions campaign for the festival season featuring actor Deepika Padukone.

Conclusion

The Indian market is undoubtedly a very critical market for the global players in the fast growing food and beverages segment.

The seven strong demand drivers of the food and beverage industry of India are affluence of working population and increase in disposable income, rising urbanization and change in lifestyle, change in tastes and preferences, increase in tourism in India and number of Indian travelling within and outside India, increasing awareness and accessibility of new products and acceptability of these products during occasions and celebrations.

Further, India's strong macro-economic indicators, strategic location, India transforming into a manufacturing and research and development hub for global players, availability of labor at low cost, India's vision and commitment for



developing a world-class infrastructure etc. are all contributing to making India an attractive destination for global players.

With many of the global players in these segments having already established their strong footprint, India with a consumer base of over 1.25 billion people is the world's largest consumer market and offers an attractive opportunity to the players who are looking to now establish their footprint in India.

About Nymex Consulting

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