

Thoughts

Reflexion and Analysis for the Indian Market

January 2019

The booming Indian Organic Market



Foreword

India's progress in the organic sector has been remarkable. India is emerging as a key player in the global arena, exporting over 300 products in 20 different categories to over 30 countries. Additionally, India is the largest exporter of organic cotton and houses the largest number of organic producers in the world. Alongside the developments pertaining to the global markets, the domestic market are growing at a rate higher than the global average and are expected to keep growing at a 25% CAGR through 2020.

The categorization of a product as organic implies two main things: first, it is free from toxic persistent pesticides, synthetic fertilizers, growth hormones and antibiotics or genetically modified organisms (GMOs). Second, stringent organic cultivation standards are followed, with respect to impact on soil, water and air. These value chain considerations have resulted in organic products emerging as the perceived responsible choice among consumers.

The global market for organic products is growing faster (CAGR 16%) than the global markets for conventional products (CAGR 10%). This differential growth rate is observed in multiple market segments, including food and beverages, textiles, health and wellness, and beauty and personal care among others. The rapid growth of the organic market can be attributed to various factors. The increasing emphasis on good health, proliferation of consumption-related ailments, an increased awareness regarding the health benefits of organic products among consumers, enhanced income levels and standard of living, together with government initiatives aimed at promoting organic products are key drivers of the exponential market expansion.

Organic scenario in India

The organic markets in India are largely spread across the food and beverages, health and wellness, beauty and personal care and textile industries. The highest growth is observed in the organic food segment, followed by textile, beauty and personal care. The current Indian domestic market is estimated at INR 40,000 million which is likely to increase by INR 100,000 – 120,000 million by 2020 with a similar increase in exports.

1. Organic food market

Organic packaged food and beverages is an emerging niche market in India and its primary consumers are high-income urbanites. The total market size for organic packaged food in India in 2016 was INR 533 million, growing at 17% over 2015, and is expected to reach INR 871 million by 2021.

India's exports of organic products increased by 17% between 2015-16 and 2016-17. In India the majority of the demand comes from tier 1 cities. Companies are witnessing notable growth as demand from metro cities increase with the entry of several new players in the organic food market such as Conscious Foods, Sresta, Eco Farms, Organic India, Mavdanya and Morarka Organic Foods to name a few.

2. Organic export markets

In addition to the growing domestic market, Indian is the second largest exporter of organic products in Asia after China. The increasing export market coupled with the Government's support is making organic cultivation in India highly successful. Indian organic food exports were estimated at US 299 million during 2015-16 with total volume of 234 MT. The major export destination were the US, European Union, Canada and New Zealand. It is assumed that most of the remaining quantity is sold in local markets. In other words, the sale of the remainder is uncategorized. Oilseeds comprised half of India's overall organic food export, followed by processed food products at 25%.

Challenges in the organic sector in India

The organic farming sector in India is entering a transformation stage due to an increase in new ventures that have begun to disrupt the market with their one-of-a-kind offerings. In an effort to promote a healthier lifestyle, these players are playing a pivotal role by providing consumers with wholesome organic produce.

Since the organic food segment is still at a nascent stage in India, both the Government and private players need to develop a strong policy framework that can benefit all involved. The organic farming industry holds immense potential to grow, provided it receives already investment and benefits from both existing and new initiatives like incentivizing organic cultivation, food processing, certification and regulatory ease and tax benefits.

1. Producer-level challenges



Certification process: issues like high certification costs, lengthy procedures, international validity, inadequate certifying agencies and inadequate supporting infrastructure facilities for verification are rampant in the certification process pursuing organic farming.

Certification standards: there is also a gap in the understanding of the certification or during the certification process of the farm or crop cannot be placed in the organic niche market due to the lack of an organic certificate.

Lack of standardization for the certification of different commodities: dairy products have a different standard while meat has a different standard. The process of standardization or organic coconut will be different from that of the value-added product of coconut.

Lack of incentives for farmers: the transit from conventional to organic farming is accompanied by high input costs and low yields in the initial years. The cost of going completely organic is quite high, due to the high cost of organic manure.

Lack of standardized organic agriculture inputs and subsidy on organic inputs: farmers also face an acute shortage of quality standardized organic agriculture inputs, which are often much more expensive than conventional agricultural inputs.

Lack of organic cultivation research and extension: the current research and extension on organic farming are much lesser than that on conventional farming. There is a lack of quality non-GMO seeds that are fit for organic cultivation.

2. Processor-level challenges

Supply chain issues: many farmers are apprehensive of organic farming since it involves high production costs. The emphasis on collection, transportation and storage of fresh organic produce is very high.

Lack of a proper organic supply chain is felt more acutely in hilly, tribal and remote areas that have a high potential for organic farming but have difficult terrain or underdeveloped infrastructure.

Global competitiveness: a major challenge India faces is that of increasing its share in the global organic food export market, in lieu of global competitiveness. There often exists a dichotomy between international quality and safety standards and Indian organic stand, which puts Indian produce at a disadvantage.

3. Consumer-level challenges

Lack of awareness among consumers: many consumers in India are still unaware of the health benefits of organic food products. The situation is worse in non-metro cities where consumers do not know the difference between conventional farming and organic farming. They are buying products labelled as natural assuming them to be organic.

The high cost of organic food products: the cost of organic food products in India is currently higher than that of conventional food items. Specialized farmer training cost, processing and inventory holding cost, and increased packaging, logistics and distribution cost, contribute to the high price of organic food products.

Limited availability of organic food products: the limited availability of organic food products in the market is also posing a serious challenge to the growth of the Indian organic food industry. There are very few retail shops in India that store and sell organic food items.

Way forward

The organic cultivation area has grown consistently at a CAGR of 6% and the organic market has been expanding at a greater pace, predicted at 20-25% for 2018 to 2020. A domestic market segment including mass organic products, mid-segment organic product and premium organic products and e-commerce platforms are opportunities that can be explored. The Government is optimistic about organic cultivation and farmers are encouraged through various schemes. However, there is need to have an organic policy and organic cell to monitor organic cultivation and schemes, and to take necessary step to discourage the use of fertilizers and pesticide, coupled with the promotion of bio fertilizers and bio pesticides to decrease the cost of cultivation.

Apart from organic food and beverages markets, health and wellness, beauty and personal care market opportunities have grown immensely and good examples of these are companies like Forest Essentials and Himalaya Herbal emerging as successful brands.

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