Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 11/13/2002

GAIN Report #IN2075

India

Retail Food Sector

Report

2002

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Report Highlights:

The Indian food retail sector is dominated by the traditional sector. Nevertheless, the retail food sector is gradually modernizing in the urban areas of India. While an overwhelming percentage of food items sold in India are produced locally, there has been an increasing presence of imported food and beverage products with the recent liberalization of the Indian import market.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1], IN

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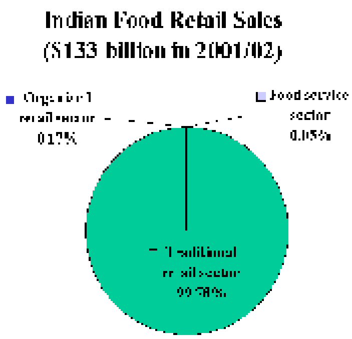
I. MARKET OVERVIEW

Status of Retail Sector : Retailing is not yet a structurally organized industry, probably a result of the poverty, sheer size of the country, its regional diversity, and limited infrastructure. According to some experts, food and beverage retailing in India has a market size of $ 133 billion and is growing at 3-5% per annum. Food products are sold by an estimated 6.5 million small grocery stores (mainly "Mom & Pop" or more accurately "Pop and Sons" stores) and wet market outlets spread out in small villages to large urban centers. The organized retail food sector, consisting of government/cooperative and private owned retail chain outlets, has been able to capture only a fraction of a percent of the total food retail sales.



Source: KSA-Technopak survey

There has been a slow but steady transformation in food retailing in urban areas as more corporate houses are entering with larger investments. Major investments still are not forthcoming as the government restricts foreign direct investment in the retail sector which retards the growth of the organized sector. Nevertheless, market analysts expect that the food retail share of the organized sector will grow to 2 percent by 2005. While there are no supermarkets in the western sense, there are a few privately owned ‘Indian Super Markets’(basically larger grocery and convenience stores) located in and around major cities. These stores with 3,000-6,000 square feet of floor space along with the self-service approach somewhat resemble U.S. supermarkets 40 years ago. There are even a few "chains" operating in the South. Although the exact size of this segment is not available, roughly 15-20 percent of the urban population shop in such stores. The number and size of these stores are expected to grow as higher-income consumers focus more on convenience and quality.

Food Market & ConsumerBehavior: Roughly 55 percent of Indians’ consumption expenditure is on food - mostly for basic items like grains, pulses, vegetable oils and sugar but very little for processed food items. However, recent consumer surveys indicate growing spending on high value products like milk, meat, eggs, and fruits and vegetables. Indians have a strong preference for fresh products and traditional spices and ingredients, which has greatly slowed the market penetration of American processed foods. However, with urbanization, rising incomes, more working women, the arrival of some food multinationals and a proliferation of fast food outlets and coffee cafes, acceptance of packaged food products is increasing.

Demand for speciality items such as chocolates, almonds and other nuts, cakes and pastries, sweetmeats (Indian sweets made mostly from milk, milk products, and dry fruits), etc., peaks during the fall festive season, especially at Diwali - the Festival of Lights. Imported food items that can be spotted in large retail stores in cities include ketchup, fruit juices, chocolates, biscuits, chocolate syrup, cake mixes, canned soups, pop corn, potato chips, canned fish, ice cream, canned corn, etc.

Lacking home refrigeration and purchasing power, most Indians shop daily at small neighborhood speciality shops or roadside vendors (i.e., fruits and vegetables in one shop, dairy products in another, groceries in a third, and meats and fish in yet another). Availability of many items, particularly fruits and vegetables, is very seasonal and people are accustomed to adjusting their diet to the season. Women do most of the shopping and make most of the food purchase decisions. Households able to afford Western imports usually have servants who buy, clean, and prepare the foods. Processed foods in great demand include ketchup and sauces, jams and jellies, table butter and ghee (melted butter), various *masalas* and curry powders (spice mixes), pickles, wheat flour, noodles, snack foods (mostly spicy Indian type), health drinks, etc. Most processed foods are sold in small containers due to customers' limited purchasing power.

Import Market: Although India has historically had a highly restrictive import market, since 1997 the Indian government has gradually lifted import licensing restrictions (which had effectively banned imports). On April 1, 2001, all remaining quantitative restrictions were removed, putting India in compliance with its WTO commitment. Nonetheless, the government continues to discourage imports with the use of relatively high tariffs and other non-tariff barriers. Import tariffs on most consumer food products range from 35.2 to 56.8 percent, a marginal decline from the previous year. Sensitive items such as alcoholic beverages attract much higher duties. Non-tariff barriers include onerous labeling requirements for prepackaged goods, compulsory detention and laboratory testing of each and every food item, etc., resulting in higher demurrage/other costs. Consequently, retail costs of imported food products are hiked up 3-4 times the FOB cost (see Appendix 1). Apart from these constraints, factors which dampen prospects for imported food include a poorly developed infrastructure (roads and cold chains), unorganized retailing sector, dated food laws, and non-transparent SPS regulations. Refrigerated warehousing and transportation facilities are limited and costly, resulting in high storage losses and wastes in perishable food items including imported food products.

Nevertheless, recent removal of quantitative restrictions offers potentially enormous opportunities for US suppliers to access the historically 'untapped' Indian market. Rising income levels and growing aspirations of Indian consumers make the market more vibrant. India has a large and growing middle class (200-300 million), although it's not to be compared with the "middle class" in the US and other western countries. However, there exists a segment of 20-50 million Indian consumers who can afford to buy imported food products. Market sources estimate that the spending of these consumers has been annually growing at 8-10 percent against the overall growth of 5-6 percent for all consumer classes.

Typically, most imported consumer food products (including US products) are transhipped through regional hubs such as Dubai and Singapore due to their liberal trade policies and efficient handling. Major importers are located in Mumbai, Calcutta, Delhi, and Goa. A large share (30-40%) of imported foods enters through illegal channels (smuggling, diversions of duty-free items for diplomats, leakages from duty-free outlets and berthing ships). With recent trade liberalization and declining tariffs, however, smuggling is likely to diminish. Under-invoicing is a commonly used practice to lessen the burden of import taxes.

Advantages and Challenges Facing US Products in India

Advantages	Challenges
A growing middle class of which around 20-50 million can afford imported products	Historically closed market and predominantly vegetarian tradition has lead to limited awareness about western style products in the Indian market.
Improving Indo-US political relations	Competition from Australia, New Zealand, and other suppliers with more advantageous geographic proximity
Increasing urbanization and growing numbers of working women looking for imported food	Imported products very costly due to high tariffs, dated food laws, corruption and inefficient distribution system.
Increasing media exposure to American products and lifestyle.	Diverse agro-industrial base offering many local products at very competitive prices
Indian view US products as high quality and safe	Importers, retailers and consumers lack brand awareness
A steady transformation of the retail food sector in urban areas	Difficulties in accessing the vast and untapped rural markets
Growing number of fast food chains and coffee cafes	Preference for fresh products and traditional foods

II. ROAD MAP FOR MARKET ENTRY

A: Organized Private Owned Retail Sector: Super Markets/Hypermarkets/Store Chains [1]

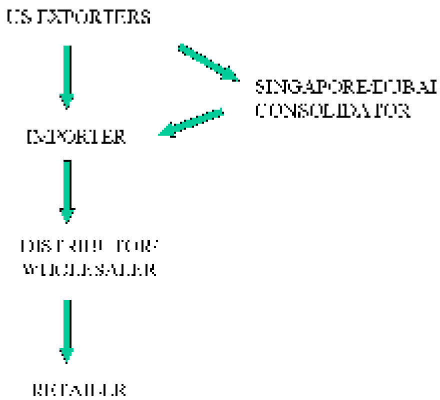
Entry Strategy

In the 'untapped' Indian market, it is critical for US exporters to survey existing and potential markets for the product before initiating export sales. US exporters are advised to review the FAS-New Delhi market reports (Section V). They should necessarily visit India to gain a first hand feel of the Indian market, preferably around one of the trade shows (see Promotion Opportunities Report). The exporters should contact FAS-New Delhi who can also assist them in setting up meetings with potential importers or representatives. Success in introducing your product in the market depends on good local representation. The local representative preferably may be the importer and distributor. Due to vast regional diversity in India, it is common to appoint more than one representative covering specified regional markets. FAS-New Delhi maintains listings of potential importers and also assists exporters to meet members of the Indian trade. The requirements key to success for exporters is to focus on 'reasonable' entry pricing of the product for effective coverage of the targeted consumer base in the price sensitive Indian market.

Market Structure

[1] The government/cooperative owned retail chain outlets typically do not retail any imported consumer food product. See Appendix 2 for description of major government & cooperative retail players.

Due to relatively limited number of outlets and, thus, low sales off take, most organized retailers source their imported products through distributors/importers. Established patterns are slowly giving way to more streamlined operations like importers sourcing mixed containers directly from country of origin and larger retailers sourcing products directly through importers. Most distributors have localized distribution limited to a large metropolitan city and adjoining smaller cities. These "Indian Super Markets" typically deal with more than 400 distributors/suppliers, each handling three to four products. The share of imported food products currently being handled by these food chains is relatively small, and consists mainly of almonds, fruit juices, ketchup, chocolates, sauces, speciality cheeses, canned fruits/vegetables, peas and beans, cookies and cake mixes.



Profiles of Major Private Owned Organized Retail Outlets

Retailer Name/ Outlet Type	Ownership	No. of Outlets	Locations	Purchasing Agent
Food World/Supermarkets & Convenience Stores	Local Joint Venture with Hongkong based company (RPG Group)	80*	Chennai/Bangalore /Hyderabad/ Pune/Few Cities in Tamil Nadu	Distributors & directly from few local manufacturers and importers
Nilgiri's/Supermarkets & Convenience Stores	Local (Nilgiris Franchise Pvt. Ltd.)	28	Bangalore/Chennai /Few Cities in South India	Distributors & directly from few importers.
Big Bazar/Hyper Market	Local (Pantaloon Group)	4	Mumbai/Bangalore /Hyderabad/Calcut ta	Distributors& directly from few local manufacturers and importers
Margin Free/Discount Stores	Local (Consumer Protection&Guidanc e Society)	325	Kerala/Tamil Nadu	Mostly from Local Manufacturer and Importer
Subiksha/Discount Stores	Local (Subhiksha Trading Services Pvt Ltd.)	112	Tamil Nadu and Pondicherry	Mostly from Local Manufacturer and Importer
Sabka Bazaar/Convenience Stores	Local (Home Stores India Ltd.)	32	Delhi & adjoining areas	Mostly distributors; directly from few local manufacturers
Vitan/Supermarket &	Local (Vitan DSI	13	Chennai/Bangalore	Distributors

Convenience Stores	Ltd.)			
Nuts & Spices /Convenience Stores	Local (Family Owned)	3	Chennai	Distributors
Adani Raoji/Supermarket	Local (Family Owned)	4	Ahmedabad	Distributors

Only since the early 90's, Indians have been gradually exposed to self-service supermarket shopping, mainly in the urban areas. Food and grocery chain stores in South India led the way to modernize retailing through chains like Nilgiris, Food World, Margin Free, etc. Organized retail sector developments in other parts of the country have been slow due to heavy infrastructure costs and other operational problems. Nevertheless, development in the south saw similar initiatives being taken in other regions in recent years. In the next ten years, India will see organized retailers entering smaller cities and towns. Most of these retail chain players have ambitious plans for expansion of their number of outlets in their existing areas and to venture into new regions. A few leading industry groups like Tata and Piramyd also have plans to venture into food retailing.

Most of these 'Indian Supermarkets' have a floor area varying between 3000-6000 square feet. In the last two years, some of the retailers have set up larger outlets with floor areas of 25,000-50,000 square feet which are being touted as 'Indian Hyper Market'. Typically, convenience stores of the organized chains have floor area 800 -1,500 square feet. Retail sales turnovers of even the leading players are comparably small by international standards. Sales turnover for 2001/02 (April/March) of larger groups like Margin Free is estimated at $ 110.5 million, Food World as $ 71.4 million and Nilgiris as $ 44.8 million of which only 65-70 percent is accounted by food products (source -KSA-Technopak Ltd.). Most of the customers coming to these outlets are from upper middle and middle income households.

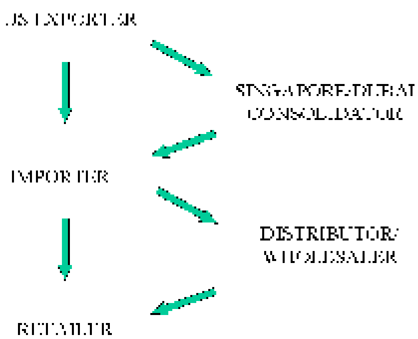
Gas marts are relatively new to India as petroleum companies like HPCL, Indian Oil and Bharat Petroleum have introduced branded outlets like Speedmart (around 60-65), ConveniO's (around 150) and In&Out Stores (around 100). While these outlets are several in number, most of these outlets have been contracted out by the oil companies to private individual or companies who run it independently. These outlets vend all sorts of impulse buys like chocolates, soft drinks, cakes and cookies, and potato chips have made limited inroads in major metropolitan cities as prices are high.

B: Traditional/Unorganized Market: Small Provisions Shops/Grocery Shops/Wet Markets

Entry Strategy

The importers and/or distributors to the traditional market are basically the same local representatives who supply to the organized stores. The entry strategy for the sector remains necessarily same as mentioned earlier.

Market Structure



The large traditional market segments pull most of their product from local industry with the overall share of imported food products being almost negligible. Imported consumer food products are restricted to traditional outlets in the upmarket segment of the larger cities that cater to higher income and upper-middle income classes of consumers. The only difference is that most retailers source it through distributors. A significant share of imported food products in the traditional market come through illegal channels. The share of imported food products currently being handled by these retailers is increasing because of their higher sales margin (15-20% vs. 6-12% for local).

Traditional Market Profile

The traditional 'Pop&Son' and wet market in India are similar to those in most developing and less developed countries. Of the roughly 6.5 million outlets, provision stores account for 32%, general store 14%, chemists 6% and kiosks and wet market the remaining share. Most of these outlets have very basic offerings: limited selection, lack of refrigeration, fixed prices, zero usage of technology, and little or no ambience. Floor space normally ranges from 100 to 300 square feet. However, with the introduction of the 'Indian supermarkets, some of the stores have modernized by expanding floor size and adding ambience like more display space, walking aisles, refrigeration, etc. Most consumers prefer the traditional market to larger supermarkets because of proximity, personal attention and lower prices. Traditional markets are also preferred by the servants who do much of the shopping for upper-middle and higher income families. Traditional markets are considered the source for the freshest food.

III : COMPETITION

There are no reliable data on imports of consumer food product for retail food sales in India. Official trade statistics are inadequate for analyzing imports by country of origin as most consumer food products are imported as mixed consignment from Dubai/Singapore and are not appropriately identified by their country of origin. Besides, 30-40% of the imported products are unaccounted as it comes through illegal channels. Based on the qualitative assessment of the market and information from market sources, Australia, New Zealand, the E.U., South Africa, the Middle East and other Asian countries are the main competitors to US imports, varying widely product by product.

Australia and New Zealand are two important countries aggressively promoting their products in the market. Recently, countries like Thailand, South Africa and a few E.U. countries have also organized trade promotional activities in India. Market promotions by other countries are mainly through in-store promotions, trade missions, trade servicing and food showcases.

The biggest competitor in retail foods is the Indian local food industry. Potential US exporters should understand that India's diverse agro-industrial base already offers many items at very competitive prices to meet local needs. The leading multinationals from the US and Europe have established food processing ventures in India and are offering a range of western style products at reasonable prices, though quality may be inferior. Most local products are priced lower than imported products due to high import duties. While some consumers are aware of quality differences and insist on world standards, most must sacrifice quality for affordable prices. The presence of imported food products even in a typical western-style supermarket could be just 3-4 percent of the total product offering.

IV. BEST PRODUCT PROSPECTS

A: Products Present in the Market Which Have Good Sales Potential:

Products	Selection Criterion
Almonds	Traditionally most popular dried fruit, high demand during festival season and increasing use in Indian food preparations
Fruits (apples & table grapes)	Seasonal shortages and increasing popularity of exotic fruits amongst Indian elite.
Dried green peas and chick peas.	Domestic shortages and increasing popularity of US brand products amongst Indian elite.
Sauces, spreads & salad dressings	Domestic non-availability and increasing popularity of imported products.

B: Products Not Present in Significant Quantities But Which Have Good Sales Potential:

Products	Selection Criterion
Chocolates/Biscuits/Cookies	Increasing popularity of imported products.
Fruit Juices/Jams/Jellies	Increasing health awareness amongst middle class and shortage of quality product locally.
Cheeses	Increasing consumer awareness due to growth in pizza and fast food outlets.
Tinned/Canned Fruits and Vegetables	Domestic non-availability and increasing popularity for imported products.
Dry fruits (prunes & pistachios)	Domestic non-availability and increasing health awareness amongst middle class.
Snack foods	Increasing popularity of imported products
Health/Diabetic Food	Increasing health awareness amongst niche end consumers and domestic non-availability.

C: Products Not Present Because They Face Significant Barriers:

As a result of the Indian government's concern to protect local producers, it discourages imports through use of higher tariffs and other non-tariff barriers (mostly phytosanitary measures). Consequently, it is difficult to export basic commodities like grains, dairy products and meat products. Import of beef is banned due to religious reasons. Imports of alcoholic beverages are severely constrained by high import tariffs and local taxes and a very complex licensing system for distribution and sales of liquor in the local market.

V. POST CONTACTS AND FURTHER INFORMATION

If you have any additional queries regarding this report or need assistance exporting to India, please contact the Office of Agricultural Affairs, New Delhi, at following address:

Agricultural Counselor
Foreign Agricultural Service
Embassy of the United States of America
Chanakyapuri, New Delhi - 110 021
Ph: 91-11-4198342, Fax: 91-11-4198530
E-Mail: agnewdelhi@fas.usda.gov
& agdelhi@giasdl01.vsnl.net.in

The following reports may be of interest to U.S. exporters interested in India. These, and related reports prepared by this office, can be accessed via the FAS Home Page, (http://www.fas.usda.gov) by clicking on "Attache Reports," and typing the report number.

IN9045	India : FAIRS Report
IN9082	Hotel Restaurant & Institutional Food Service Report
IN9083	Food Processing Sector Report
IN2012	Trade Policy Monitoring Report
IN2055	Promotion Opportunities Annual Report
IN2057	Exporter Guide Report
IN2068	Competitor Report

The Country Commercial Guide prepared by the Commercial Section of the US Embassy will also be of interest to exporters. This can be accessed through www.stat-usa.gov. Americans interested in doing business with India will find the following web-site very informative and useful: www.stylusinc.com/business/india/cultural_tips.htm

APPENDIX 1: Breakdown of Cost of Imported Processed Food Product for Retail Sales

Item	Rate	Mumbai Market	Delhi Market
1. FOB Invoice Price at US Port	$ 1/unit	**1.00**	**1.00**
- Sea Freight/Insurance, etc./1	5% of FOB Invoice Price	0.05	0.05
2. CIF Value at India Port (Mumbai)		**1.05**	**1.05**
- Basic Import Duty (BD)	30% of CIF Value	0.32	0.32
- Countervailing Duty (CVD)/2	10.4% of Max. Retail Price (MRP) Value/3	0.40	0.40
- Special Additional Duty(SAD)	4% of CIF Value+BD+CVD	0.07	0.07
- Clearing Charges/4	5% of CIF Value	0.05	0.05
3a. Landed Cost for the Importer at Mumbai		**1.89**	NA
- Inland Transportation Cost (Mumbai to Delhi)/5	3% of CIF Value	NA	0.03
3b. Landed Cost for Importer at Delhi		NA	**1.92**
- Octroi Tax at Mumbai /6	6% of Landed Cost	0.11	NA
- Importers Margin /7	18% of Landed Cost	0.34	0.35
4. Invoice Price of Importer for Distributor		**2.34**	**2.27**
- Central Sales Tax	4% of invoice price	0.09	0.09
5. Distributor Cost		**2.44**	**2.36**
- Local Sales Tax	16%(Mumbai)/8%(Delhi) of Distributor Cost	0.39	0.19
- Distributor Margin/8	11% of Distributor Cost	0.27	0.26
6. Distributor Sale Price to Retailer		**3.10**	**2.81**
- Retailer Margin	25% of retailer cost	0.77	0.70
7. Total Retail Price		**3.87**	**3.51**

Notes:

NA- Not applicable

/1: can vary from 4-6%.

/2: CVD of 16% charged on 65% of MRP value declared by the importer.

/3: MRP value of $3.87/unit declared by importer based on Mumbai costing.

/4: can vary from 4-5%.

/5: can vary from 4-6%.

/6: can vary from 5-7% based on the nature of product.

/7: can vary from 15-20%.

/8: can vary from 10-12%.

Calculations based on the assumed FOB value of $ 25,000 for a 20-ft container. Also note that items under chapter 20 are exempted from the CVD. Consequently, total retail price value of items under chapter 20 works out to be $ 3.01 in Mumbai market and 2.74 in Delhi market.

APPENDIX 2: Profiles of Government/Cooperative Organized Retail Chains:

Retailer Name/ Outlet Type	Ownership	No. of Outlets	Locations	Purchasing Agent
Canteen Stores Department/Discount Stores for Defense Personnel	Local (Ministry of Defense)	34 Depots and 3,400 Unit run Canteens	National	Directly from Local Manufacturer
Kendriya Bhandar/Discount Stores	Local (Ministry of Personnel)	119	National	Mostly from Distributors; Directly from few Local Manufacturer
Apna Bazar/Discount Stores	Local (Apna Bazar Coop. Ltd)	79	Mumbai/Maharashtra	Mostly from Distributors; Directly from few Local Manufacturer
Sahkari Bhandar/Discount Stores	Local(CCCW& R Store Ltd)	16	Mumbai (Maharashtra)	Mostly from Distributors; Directly from few Local Manufacturer

The government and the cooperative sector active in food retailing typically retails locally manufactured products. These stores sell products at discount rates, i.e., below the listed maximum retail prices and cater to select classes of consumers like:

- Canteen Store Department: exclusively for defense personnel
- Kendriya Bhandar: mostly government employees
- Cooperative Outlets: mostly cooperative members

These outlets have been set up with the mandate to provide goods and services to targeted consumers at reasonable prices. Products are packaged, both branded and unbranded, and the outlets generally do not offer fresh produce or frozen food.