

INSIGHTS | IDEAS | BREAKTHROUGH

The Edge

by **wazir**
ADVISORS

Food Consumption Trends In India





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Food Consumption Trends In India

Food has always been an integral part of our culture and each region of the country has its unique cuisine deeply rooted to its traditions, lifestyles, religions, climates and agricultural conditions. However, as we are witnessing, each new generation is ushering socio-economic and cultural changes and this is now reflecting in their overall behavior including the food habits. The shape, size and construct of food industry is thus changing. This evolution is further supported by continuous improvements in food supply chain inclusive of product development, production, processing, distribution and marketing.

The Indian consumers, comprising of the largest Gen Y population in the world with a median age of 27 years are more experimental by nature, more inclusive and intermingling with different cultures and social structures, more time poor and money rich having started to earn at a much younger age and hence more inclined to spend on better and more aspirational things in life. The “New Indians” want to live their life well and have a deep desire to impress / influence peers and to be influenced by them, living in a highly connected social structure. These attitudinal and behavioral changes are reflecting across all categories, specifically food,

which has the largest share of the Indian consumer’s wallet.

Further, with the Indian economy expected to grow at almost 8% over the next decade, per capita income will also increase. Increasing wallet sizes will result in increased ability to pay as well as willingness to spend. As a result, the per capita food and beverage expenditure of INR 18,200 in 2016 is expected to grow at 10 – 12% CAGR over the next decade. Subsequently, the total food and beverage consumption expenditure of INR 24 Lac Crores in 2016 is expected to grow at 12 – 14 % CAGR over the same period.

The changes in Indian consumer and economy are explicit and so is the impact of these changes on the food market. For retailers as well as brands, this means a great deal. The aforementioned macroeconomic and attitudinal changes will drive the food consumption trends giving rise to significant business opportunities.

Wazir has identified 6 key consumption trends that will shape the future of Indian food market and present significant opportunities for new as well as existing businesses.

NEW INDIA WITH A MODERN OUTLOOK

Culturally

- Less rigid - More experimentative.
- Not afraid to try out
- More aware and engaged
- Appreciates inter-mingling of cultures and social structures
- Likes to take a wider view of things

Psychographically

- Aspires higher. Fewer things seem out of bound
- No longer ‘guilty’ about splurging on self
- ‘Have it, then flaunt it’ attitude
- Shift from traditional to modern in every aspect of life
- Bored with status quo

Behaviourally

- Spends more - Saves less
- Trading up on aspirational products and services. Trading down on basics.
- Aspires for brands
- Driven towards ‘experience’
- Change / Moving on is part of life

Economically

- More confident of future success
- Earning at a much younger age than their fathers
- Income distribution pattern changing from lantern to Eiffel tower

Trend 1:

Widening Palette, Yet Strong Regional Preferences in Food

The story of urbanisation in India is different from rest of the world. The migration to urban centers in India, is not happening as fast as it happened in China and is not limited to a few large cities as it happened in South Asian countries like Thailand or Indonesia. In India, it is the middle-tier or lower tier cities that are expected to see maximum population growth over the next decade, driven by migration from smaller towns and villages in the same region.

This augurs that the consumer food preferences though evolving, will still predominately remain very regional and localized, while the palate will widen. Thus, there will be a heightened opportunity in making packaged



and branded options in regional foods available to the consumers. The good news is that not only will the people from that specific region consume it, but those from other regions as well will try, driven by the need to experiment.

Companies that can modernize, traditional regional foods / recipes making them more convenient to use / consume will emerge as winners and the potential is immense. A case in point is Hector Beverages, which with its innovative twist on traditional drinks has created a niche market for itself. As a result, the company achieved a CAGR of more than 75% in revenue for the period 2013-16.

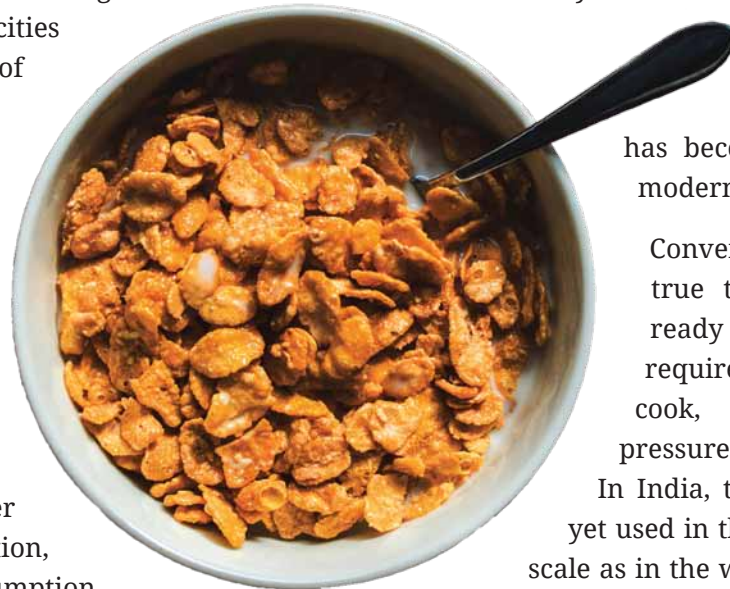


Source: Inputs From Published Data

Trend 2:

Urbanisation And Time Pressures Are Fuelling The Rise Of Convenience Foods

Due to urbanisation, the working population size across these cities is increasing and the type of occupations that the residents are indulging in is also changing. Further, urbanisation is resulting in the rise of nuclear households and increase in women workforce. All these shifts translate to a lifestyle that has lesser time availability and subsequent willingness to spend lesser efforts on food preparation, resulting in increased consumption of processed convenience foods. Supported by increasing incomes, the working population is thus evolving from traditional food habits to accepting, adjusting and adopting modern urban food habits. The steady decline in per capita consumption of cereals, staples and pulses in

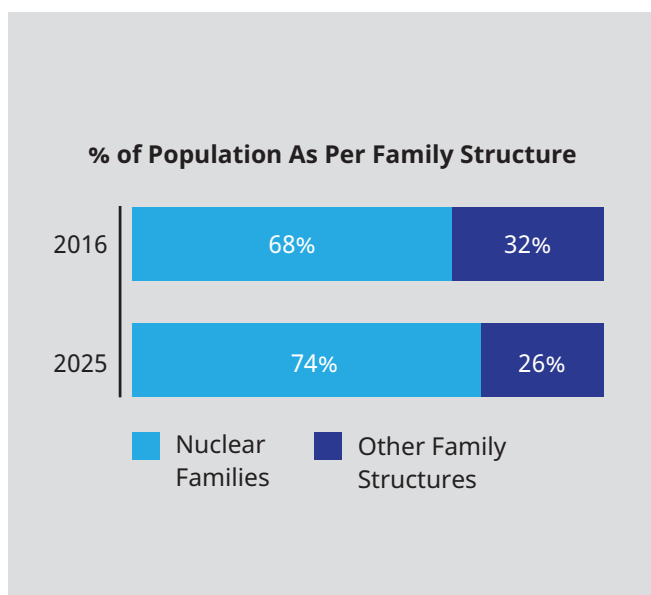


recent years is a testimony to same and consuming processed convenience foods has become a part of the modernization process.

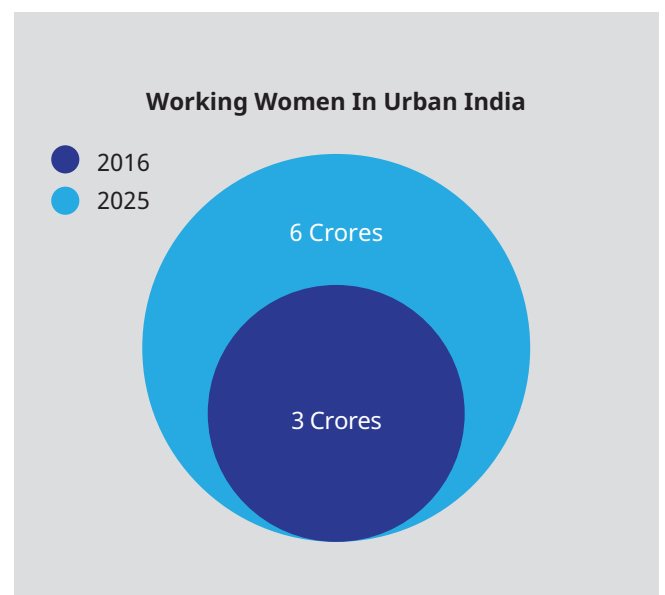
Convenience foods being true to their name are ready to eat / drink or require minimal effort to cook, thus taking off pressure to prepare a meal.

In India, these foods are not yet used in the same manner or scale as in the western food habits.

However, these foods are successful in carving out their niche in the lives of Indian consumers and their adoption is increasing every day, driven by time pressures and an increasing urge to experiment and try out new things.



Source: Inputs From Published Data



Source: Wazir Analysis

CONVENIENCE FOODS SPECTRUM

Ready-To-Eat/Drink (Can Be Consumed From Packaging With / Without Thawing)	Ready-To-Use (Requires Cooking / Frying / Reconstitution / Dilution Before Consumption)
Dairy Products (Milk, Flavored Milk, Sour Milk, Butter, Cheese, Spreads, Curd, Yoghurt Etc.)	Ready-To-Cook (Noodles, Pasta, Soup, Batter Etc.)
Sweets & Snacks (Gulab Jamun, Rasgulla, Peda, Soan Papdi, Chips, Namkeens Etc.)	Ready-To-Fry (Papad, Somasa, Potato Wedges, Kebabs Etc.)
Breads, Biscuits & Bakery Items (Flat Bread, Bun, Sweet / Savory Items Etc.)	Ready-To-Reconstitute (Ice-Cream Mix, Gulab Jamun Mix Etc.)
Retort Processed Foods (Curries, Dals & Many Other Meal Items)	Breakfast Cereals (Corn Flakes, Museli, Oats Etc.)
Frozen Foods (Frozen Snacks / Meals, Ice-Creams, Frozen Desserts Etc.)	Masalas (Recipe Mixes, Pastes Etc.)
Ready-To-Drink (Fruit / Vegetable Based Drinks With / Without Milk)	

Source: Inputs From Published Data

At present, majority of the categories in convenience foods are growing at 15% + CAGR. Except for a few categories like dairy, there exist very few pan India brands in others. Given the scope of opportunity, many of these categories could prove to be the biggest expansion opportunity for businesses which can dare to think different and large scale.

Many product categories also present a large opportunity due to the consumer shift from unpackaged to packaged and unbranded to branded items. As an example, the Indian sweets category having an estimated market size of INR

80-90,000 Crores has the biggest organized player in the category with less than 1% share of the market. This presents a huge potential for multiple players to co-exist in the market. Snacking is another category where many companies have come up in the last few years and there is still space for many more.

The convenience foods category is innovation and product development led and will be cornered by players who can maintain a quality-price equilibrium.

Trend 3: Portionization Is All Set To Gain Traction

The consumer buying behaviour in urban and rural India varies significantly. Functional, emotional and affordability factors translate to the choice of products and the pack sizes being bought at the respective places. However, portionization is a common trend that will gain traction going forward.

In urban India, particularly in metros and tier 1 cities, consumers are becoming not just cautious about what to eat, but also how much to eat. There is a continuous dilemma between the need to indulge and the guilt of indulgence. As a result, consumers are increasingly opting to buy multiple smaller portions / packs to control calorie intake per occasion. At the same time, led by quick onset of boredom, there is a high willingness to switch to / try all available choices / variants. Therefore, the portionization trend is visible across all indulgent food categories in urban India and will spread to other categories soon. This will also be supported by the consumer's need for "to-go" packs which can be eaten while travelling to office or other places.

In rural India, where consumers are still transitioning from unbranded to branded products, every purchase is evaluated in terms of value associated with the product resulting in smaller packs becoming more and more relevant. Subsequently, all key packaged food players particularly in beverage and snacks segments are offering smaller versions of the larger packs to gain deeper penetration and higher acceptance.

While portionization is starting to gain importance due to its salience across consumer segments, rising "individualism" and preference for what "I like" as against what "we like" will further strengthen the case. As an example, in ice-creams and frozen desserts, individual impulse single packs are growing and take home packs have been shrinking in consumption. Share of take home packs has decreased by 2% within the last 4-5 years and is projected to decrease further.

Further, many players across categories (e.g. Kellogs in breakfast cereals, ITC & Unibic in cookies etc.) have started bundling multiple individual packs of various variants in a single pack for consumers to try out different flavors and not get bored, while catering to the varying preferences of the families.



Trend 4:

Gourmet: Food Whose Time Has Come

The gourmet foods market took its time to establish, but is now soaring in India. The market which is characterised by distinctly flavoured, high quality, fresh and beautifully packaged food products stands at INR 15,000 Crores and is growing at a CAGR of 20%. The biggest buyers of gourmet foods are the urban / metro residents who understand the finer nuances and aspects of foods as they are well travelled, well versed with fine foods, possess refined palate and seek experience.

At the same time, cooking channels, reality cooking shows, food bloggers and food entrepreneurs are directly or indirectly supporting the gourmet food phenomena by educating more and more urban consumers about new cuisines that they can cook and eat at home. There are more than 150 food shows across Indian channels and quite a few rake very high TRPs. There are a multitude of food bloggers supported by food photographers who make it look even more exquisite. There is food tourism and “passion trails”. Food entrepreneurs are trying out gourmet trucks, inspired by the “Eat Street” and cooking classes are thriving, thanks to the enthusiasm stirred up by TV chefs. Food-related TV programs have spawned a cooking cult in India, and Nigella Lawson, Donna Hay and Gordon Ramsay are the talk of the town.

In line with the global trend, this culinary adventure is creating a whole new market for exotic food products and professional kitchen equipment. Gourmet home cooking has become fashionable and something that consumer want to flaunt in a socially connected world.

To leverage the potential, key retail chains are constantly revamping their product range. The idea is to maintain a product range that is forever unique, exotic and authentic. As an example, presently, Foodhall product range includes tomatillo to gluten free breads such as pizza dough, bagels to greek yoghurts, organic milk, tofu to gourmet chocolates, oils & vinegars, teas, mock meats and specialty cold cuts. The present product range is expected to see constant product additions as well replacements.

Instead of limiting themselves to key retailers, many gourmet brands are also recruiting new consumers by making their products available at select super markets, local food stores, etc. These

IMPORT ACROSS SELECT GOURMET PRODUCT CATEGORIES

Product Category	2014-17 CAGR In Import Value
Imported Beers	56%
Jam / Jellies / Preserves	30%
Meat (Fresh + Frozen+ Salted Etc.)	26%
Exotic Spices	24%
Waters (Including Mineral + Aerated)	19%
Fruits (Fresh + Dried)	17%
Fruit Juices	14%

Source: Inputs From Published Data

brands are breaking the myth of gourmet food being considered just an organized retail chain product. Such brands are hence growing faster than the market.

In the years to come, gourmet foods business will become more democratic. This is because, in order to capitalise on the rapidly growing consumer acceptance, brands will have to strive for price betterment, new product launches and geographic coverage. While on one side this market is being serviced by imports, on the other side many indian companies / entrepreneurs are now setting up manufacturing units for niche gourmet foods and are finding good demand in metros and in the hospitality sector.

Trend 5:

Health And Wellness Foods To Be Driven By Awareness, Acceptability And Trust

With rising awareness, a section of consumers has moved beyond the basic functionality associated with the food products. These consumers are seeking higher value or enhanced functionality to seek better health benefits. They are seeking food products with incremental nutrients, chemical free or organic ingredients, natural flavors, added fibres, low fat content etc. and are also willing to pay the premium for these, supported by increasing earning power and the increased willingness to spend on self.

This trend is manifesting in two ways. Firstly, there is an increasing trend amongst companies to add healthier options in their products range – e.g. companies selling staples and pulses are introducing polish free pulses, multi-grain atta variants etc.; those in juices are adding cold pressed juices; those in biscuits and baked products are introducing multigrain biscuits, ragi cookies and the likes. ITC has just launched Farmland, a range of packaged vegetables starting with low sugar potatoes with natural antioxidants. Organized retailers have been allocating incremental shelf space to healthier options within the standard food categories each year and these now contribute to about 10-20% of sales across various retailers.

Secondly, there is a high growth in certain pure play health and wellness foods categories. While the overall market currently stands at INR 10,350 Crores and is growing at 10-11% CAGR, there are many product categories that are growing much faster and are successfully replacing the traditional food options due to negative health impacts associated with them. These include green tea (50% plus CAGR), oat based products (15% plus CAGR) etc.

With the presence of very few brands, new entrants will stand a fair chance to leverage on consumer awareness, develop acceptability and garner trust. However, this opportunity demands to be catered with right product and right packaging which communicates the benefit profoundly to consumers. Recent growth of companies like Organic India, 24 Mantra etc. is reflecting consumers' willingness to move to healthier options at a premium.



Trend 6: Online Food And Grocery Retail Is Here To Stay

The Indian consumers are starting to live in an internet based world that is enabling them to have an online shopping experience across categories. The same is also happening for food and grocery which is yet to realise its true potential among Indian consumers. Today, the category stands at INR 3,900 Crores and is expected to grow at a CAGR of 45 - 50% till 2020.

Though the online players will continue to face tough competition from kirana stores that dominate the space, going forward the relatively higher degree of convenience, extensive product assortment, availability and competitive pricing offered in online retail will result in consumers considering it to be an effective channel. Though, the dominance of kirana stores will stay strong, the online retail is expected to gain its due importance in the eyes of consumers.

As online food and grocery retail space matures from demand side, the same is expected to happen at supply side too. Companies have realised that in a market like India, inventory based and mixed (inventory + hyperlocal) business model are more suitable in comparison to hyperlocal business model. This is because, companies with inventory are able to handle order management, product availability, delivery time and freshness of products delivered better in comparison to ones having no inventory. As an example, in past, BigBasket.com has performed better on all aforementioned parameters in comparison to hyperlocal delivery players. All such players have either shut shops or pivoted their business model.

Despite all, the companies which will continue to invest in inventory management, cold storage facilities, delivery network establishment are expected to emerge as market leaders in future.

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Wazir believes that business entities looking at entry or expansion into the food and beverage market, could leverage one or more of above trends. These trends will support all business ventures, given the strength of product and clear entry or growth strategy based on real consumer insights.



At Wazir, we specialize in advising Indian and International companies to conceptualize, create and compete in consumer facing sectors.

From Indian to international corporates, from Private Equity groups to family owned businesses, our work centers around enabling our clients make the right moves – from strategy, to implementation, to value delivery and in forging beneficial alliances.

We possess more than 1,000 man years of cumulative team experience across industries, geographies and economic conditions. We leverage this to value add and get that edge in your business. Powered by our deep insights into the Indian consumers, spread across age, social strata, gender and geography, we put the consumer at the centre of the decision making process and bring a unique outside-in perspective, imperative for success in a hyper competitive market.

The industries below have been our primary focus for the past several years.

Retail, Packaged Consumer Goods, Fashion & Lifestyle, Consumer Electronics, Beauty and Wellness Services, Food & Beverages, Automobiles, Education, Healthcare and Financial Services.

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Baqar is a seasoned retail professional and entrepreneur with over 15 years of experience in retail strategy and operations, covering sectors such as Fashion & Lifestyle, Food & Grocery and Consumer Goods. Baqar specializes in retail startups and driving growth, having been involved in eight retail startups in India and internationally, including those in the e-commerce space.

Baqar worked for over 10 years with a premiere Retail and Consumer Products consulting firm. As CEO, he then headed a men's value brand with 600+ stores and 125+ Shop in Shops. Baqar was a part of the startup team and the CEO of www.styletag.com, an e-commerce startup in the premium/designer fashion and lifestyle space. As Co-founder & CEO, he then started an online social discovery and commerce platform.

Baqar currently works as Business Director with Wazir Advisors, advising retail and consumer products clients on strategy, operations and M&As.



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