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## An Analysis of Some Key Segments of Food and Beverage Sector of India

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## 1. INTRODUCTION

In the past few decades, the food and beverage sector has flourished from a collection of mom-and-pop operations to a trillion-dollar business led by giant multinational corporations. Few companies like Coca-Cola and McDonald's can be found in all the corner of the world. The overarching theme dominating the food and beverage sector is blowing up the global demand and rapidly rising food prices. The instantaneous economic growth of developing nations such as China, India, Brazil and Vietnam gives billions of people the ability to indulge in ways previously enjoyed only by people of developed nations. This huge entry of consumers into the global food market has resulted in a fast and continuous increase in food prices, leading to increase in the global inflation.

According to a Corporate Catalyst India (CCI) survey, India is the second largest producer of food and has the potential to be the number one on the global food and agriculture canvas. Food Processing Secretary Ashok Sinha, stated that the Indian government has approved funds for establishing 15 mega food parks across the country. Food processing sector is one of the largest sectors operating in India which is highly

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fragmented. In total, there are more than 189 companies under Food and Beverage sector. Changing Consumer Preferences and increasing government regulation has impact on manufacturing and business strategies. In such a growing competitive market, customers demand customised product that is according to their taste. Quality is the most dominant factor that plays role in the success of a company in this sector.

As a result of globalization of industrial market and technological advancement, the competition in food industrial market is severe. It is important for organizations to identify new methods to maintain their competitiveness and sustain in the market. The overall growth of the sector comes from international expansion. The global firms like ITC, HUL, Britannia and Pepsi offer wide range of products which are high in quality and various Indian players like Haldirams, MTR and Parle leverage their position on competitive pricing and mass reach.

According to DIPP (Department of Industrial Policy and Promotion) report, F&B sector has attracted huge foreign direct investment (FDI) of US\$ 1,253.79 million from April 2000 to April 2011. The amount of FDI inflow for Food Processing Sector in India from April 2010 to November 2010 (in just 8 months) is US\$ 129.2 million.

India's food processing sector covers fruit and vegetables; meat and poultry; milk and milk products, alcoholic beverages, fisheries, plantation, grain processing and other consumer product groups like confectionery, chocolates and cocoa products, Soya-based products, mineral water, high protein foods etc. The most promising sub-sectors includes -Soft-drink bottling, Confectionery manufacture, Fishing, aquaculture, Grain-milling and grain-based products, Meat and poultry processing, Alcoholic beverages, Milk processing, Tomato paste, Fast-food, Ready-to-eat breakfast cereals, Food additives, flavours etc. Health food, health food supplements, Convenient Food and Branded Food are swiftly gaining vast popularity with the changing life styles of the consumers.

Social Media is acting as a boon for restaurant industry. Due to the rapid urbanisation culture and large working class in metropolitans as well as in tier II cities eating out at restaurants has become a simpler option for Indian food lovers. Customers usually explore new eating joints online, compare them and enjoy the food of their choice.

*Table 1*  
**Status of Indian Food Processing Sector**

1	Rank of Industry	5 <sup>th</sup>
2	Employment in Lakhs	16
3	Percentage of total industrial labour force	19
4	Total industry output in percentage	14
5	Output as percentage of GDP	5.5
6	Estimated Turnover (in Crore)	Rs 1,44,000
7	Unorganized sector (in Crore)	Rs 1,11,200

(Source: *A Manual for Entrepreneurs: Food Processing Industry, 2006*)

As depicted in Table 1, the food processing sector is one of the largest sectors in India. It is ranked fifth in terms of production, consumption, export and expected growth. The sector provides employment to 16 lakh individuals and contributes to 5.5% of Indian GDP. The estimated turnover of the sector is Rs 1, 44,000 crore.

## II. REVIEW OF LITERATURE

Michael J. McCarthy (2003) discovered an important public health story, touching an implication for food companies. This set of stories would benefit the advocates working to encourage the fiber content in American diets. Steve Demos (2003) explained why beverage marketers work hard to have vending machines in the schools. Demos' exemplified that with the placement of vending machines in schools, beverage suppliers are buying generations of customers.

Kraft, Campbell (2004) emphasised to create new products to capitalize on current diet trends like "low carb" even though they know the trends fade in about two years, well before the products will become profitable. According to them, in long run it will be cheaper to offer those items to consumers even if they do not make money than to pay lawsuits for not giving consumers choices.

El Zein et al. (2008) in a study exposed that 58% of the respondents (total 50 females) were involved in food and beverages processing and selling. Women found this activity suitable for them as many of them cook the food in their houses together with other domestic duties, assisted by other female family members. Besides, normally it takes them a relatively short time to sell their products at the market place and return home to resume other responsibilities for the rest of the day. In this way, they can earn money and manage their home as well.

Tambuan (2006, 2007) publicized that in manufacturing sector, most of the women entrepreneurs are in the food, beverages and tobacco sector, followed by textile, garment and leather, and non-metallic mineral products. In Indonesia, women entrepreneurs are more likely to be involved in these sectors than men, most of them own small shops or small restaurants or hotel.

Soni Kumari (2011) in her study conducted in Ranchi District revealed that Nisha Tulsian has been famous for being the only women entrepreneur of Dhanbad, She is successfully running a bakery business .She teaches girls and women the art of cooking as well to make them capable of getting employment.

Hagen (2002) examined that the supply chains of food and beverages are under increased competition and regulatory pressure to develop and maintain knowledge management systems which assure the

quality standards of food products. Brannback & Wiklund,(2001); Hagen,(2002); Sporleder & Moss, (2002) reported that the advancement of biotechnology in food sector is a factor which led to rigorous competition and an urge for quality assurance as some events came out in food supply chain, including the application of biotechnology in agricultural products and food processing. In food and beverage sector, the responsibility and traceability of food ingredients (Hagen, 2002), handling process (Hagen, 2002), preservation (Sporleder & Moss, 2002), and labelling (Sporleder & Moss, 2002) have become more considerable. They are important for the organisations who want to enter European market, because TTA (traceability, transparency, and assurance) protocols have been launched there.

Brannback & Wiklund (2001) opined that in current food supply chain, both customers and producers need more information and knowledge and there is a need for enhanced flow of information from supplier side to customers (Sporleder & Moss, 2002). Sporleder, (2001) revealed that the competition among various firms in food sector has been changed from tangible assets to value added and wealth creation through Knowledge Management. The knowledge management system of a firm includes brands, reputations, and customer and supplier relationship (Sporleder & Moss, 2002).

Alavi and Leidner (2001) believed that application of knowledge is more important than knowledge itself which helps a firm to have a competitive edge over another firm.

### III. OBJECTIVE OF THE STUDY

- a) To study the changing trends of Food and Beverage sector in India since liberalization.
- b) Segment-wise analysis of Food and Beverage sector considering four segments (Confectionary, Bread, Fun food and Snack, and Food Juices and Concentrates).

### IV. METHODOLOGY

- a) *Research Design*- In the study, exploratory research design has been used as conclusions are drawn on the basis of secondary data available. The data for the sales of key segments is collected from year 1990 to 2010. This entire time period is divided into two sub periods, i.e., Period I is from year 1990 to 2000 and Period II is from year 2001 to 2010.
- b) *Population*- The food and beverage sector consists of many segments such as Confectionary, Branded Flour (ATTA), Bread, Biscuit, Fun & Snack food, Fruit Juices/ Pulp & Concentrates/ Sauces/ Ketch ups, alcoholic beverages, milk and dairy products.
- c) *Sample*- The paper discusses only about four segments and these are Confectionary, Bread, Fun

- d) *Confectionary*- The entire Confectionery market can be divided into 7 major categories, namely Hard Boiled Candies (HBC), Toffees, Eclairs, Chewing gums, Bubble gum, mints and Lozenges. It is dominated by 2 major players, Cadbury India Ltd and Nestle India Ltd, which together account for about 90% of the total chocolate market.
- e) *Bread*-There are a number of producers in both sectors, organized and unorganized. The large organized sector players who are prominent in the high- and medium-price segments include Britannia, Modern Industries Ltd. Local manufacturers with numerous local brands cater to populous segment and contribute considerably in the bread segment.
- f) *Fun food & Snacks*- The culinary products including mainly wheat based products comprising of noodles, vermicelli, macaroni and spaghetti is gaining popularity. Lay, Kurkure, Uncle Chipps, Lehar Namkeen, Bischips, Star Nuts, Crispies, Peppy Soya wheels, Ruffles, Haldiram's, Fun Flips, Cheetos are the leading snacks brands in the market.
- g) *Fruit Juices and Concentrates*- There has been a steady rise in the capacity and production of the fruit processing units because of increased consumption. The leading fruit juice brands include Real, Onjus, Tropicana, Frooti, Jumpin. The fruit drinks are mainly based on oranges, mangoes, pineapples, grapes, apples, guava and tomato. They only differ in pulp content: the juices have over 85%, nectars (20% to 85%) and fruit drinks (less than 20%).

### V. RESULTS AND DISCUSSIONS

- a) *Changing trends of Food and Beverage sector since liberalization*

Since liberalization in 1991 till January 2004 proposals for projects of over Rs.87715 crores have been proposed in various segments of the food and agro-processing sector. The Government has provided many liberal incentives to encourage the Food Processing Sector.

Despite inflation, small domestic food companies continue to be bullish about India's consumption. A rate of penetration of packed foods of 5% only is potential enough for many and has become an important reason to expand the market and investments. For example, a Mumbai-based Capital Foods, maker of Smith & Jones and Ching's brand of noodles is looking forward to launch a range of products from ready-to-cook, ready-to-eat, snacks and beverages. The Indian food market is approximately Rs 2, 50,000 crore (\$69.4 billion). Value-added food

products comprise Rs 80,000 crore (\$22.2 billion). The food processing industry is witnessing a 20% annual growth rate. The unorganized, small players account for more than 75% of the sector output in terms of volume and 50% in terms of value. The major Indian and Overseas Players in the Food processing Sector are ITC Limited (Packaged Foods & Confectionery), Parle Products Pvt. Ltd. (Bakery and Confectionery), Agro Tech Foods (Snacks), Perfetti India Ltd. (Confectionery), Cadbury India Ltd. (Confectionery and Beverages),

PepsiCo India Holdings (Snacks and Beverages), Nestle India Pvt. Ltd. (Confectionery), Britannia Industries Ltd. (Bakery Products), MTR foods limited (Snacks and Icecreams), Godrej industries Limited (Beverages and Staples), Gits Food Products Pvt. Ltd. (Snacks and Dairy), Dabur India Ltd. (Beverages and Culinary), Haldiram's (Bakery products and Snacks) and Hindustan Unilever Limited (Beverages, Staples, Dairy) etc.

Table 2: Food and Beverage: Segment-wise Scenario

Year	Confectionery (Rs bn)	Bread (Rs bn)	Snack and Fun Foods (Rs bn)	Fruit Juices and Concentrates (Rs bn)
1990-91	8.2	6.42	16.6	0.22
1991-92	9.15	6.7	18.1	0.3
1992-93	9.6	7	18.6	0.42
1993-94	10.5	7.3	19.5	0.63
1994-95	11.44	7.65	20.5	1.03
1995-96	12.32	8	21.5	1.62
1996-97	13.36	8.8	22.6	1.68
1997-98	14.4	9.4	23.7	2.2
1998-99	15.6	10.15	24.9	3.3
1999-00	15.4	10.75	26.15	2.75
2000-01	16.5	11.9	27.5	2.48
2001-02	17.6	12.85	28.85	3.55
2002-03	18.9	13.85	30	3.95
2003-04	20.15	14.8	31.5	4.35
2004-05	21.7	15.85	33.2	4.8
2005-06	23	16.9	35	5.3
2006-07	23.75	17.9	37	5.8
2007-08	25.4	18.95	39.25	6.3
2008-09	26.8	20	41.75	6.85
2009-10	28.2	21.1	44.5	7.4
<b>Growth Rate for Period I</b>	1.69	2.08	1.64	2.25
<b>Growth Rate for Period II</b>	1.66	1.65	1.92	1.39
<b>Total Growth Rate</b>	2.02	3.54	3.12	3.21

(Source: Ministry of Food Processing Industries, MOFPI)

As depicted in Table 2 the results highlight highest growth in bread followed by Fruit Juices and Concentrates. Confectionery segment has grown at a slightly lower rate than other segments of food and beverage Sector. What is surprising in the results is that all segments report a higher growth rate in the first period viz. period I from year 1991-2000 as compared to second period, i.e., from year 2001-2010. One of the reasons could be recessionary trends in the second period that hit the entire world. Thus the period immediately following new economic policy of 1991 has

been associated with higher growth as compared to the second period of analysis.

According to IBMA (Indian Biscuits Manufacturers' Association), the production of Biscuits and Bread witnessed steep decline in 2008-09. This is due to precipitous hike in cost of production on account of increase in prices of major raw materials, i.e. Wheat Flour Veg. Oil, Sugar, Milk, Packaging Materials, Fuel, Wages, etc. Recent increase in prices of Petrol/Diesel in May 2008 has further resulted in cost push.



The growth in these segments during the first period is more as compared to that of second period like in Confectionery segment, it is 1.69 percent during 1990-2000 but it is 1.66 percent during 2000-2010. The growing list of factors include government subsidised food parks, tax breaks, increased FDI (foreign direct investments) and foreign food retailer interest, increased spending on the supply chain infrastructure, a burgeoning middle-class with fast growing disposable incomes and changing consumption patterns, modern retail formats, changing shopping behaviour and international road shows by the government.

## VI. KEY OPPORTUNITY AREAS

As per UN projections, the global population is expected to grow from the current 6.8 billion to 9 billion by 2050. As a result, global food production will have to increase by 70 percent to feed the additional 2.2 billion people, thereby providing strong growth potential for F&B companies.

The Indian food market is set to more than double by 2025. The market size for the food consumption category in India is expected to grow from US\$ 155 billion in 2005 to US\$ 344 billion in 2025.

The Government has set an investment target of Rs 1, 00,000 crore for the food processing sector by 2015. This is expected to almost double the country's presence in the global food trade to three per cent. This investment of one lakh crore will, undoubtedly, propel the growth of this sector, and put it at the higher growth trajectory.

According to a report published by market research firm RNCOS in April 2010, "With the rapidly growing Indian middle class population and their changing lifestyle, India is going to be one of the fastest growing food and beverage markets in the world. The Indian food and beverages market is projected to grow at a compound annual growth rate (CAGR) of about 7.5 per cent during 2009-13 and may touch \$ 330 billion by 2013. Also, not only the bona fide restaurant chains but even the Indian fast food market is expected to grow at a rate of 25-30 per cent annually".

The demand in key segments of Food and Beverage sector during 2014-15 is expected to increase to a significant level. The expected demand in 2014-15 for Confectionery is Rs 36 billion, Rs 26.90 billion for Bread, Rs 62.5 billion for Snacks and Fun foods whereas it is Rs 10.90 billion for Fruit Juices and Concentrates. With the introduction of Goods and Services Tax (GST) slated for 2012, the sector is expected to look forward to relief in the incidence of higher taxation burden.

## VII. CONCLUSION

With globalization of industrial market and technological advancement the market size of Food and

Beverage Sector has widened. Increased FDI inflow, government subsidised food parks, tax breaks are other reasons for the growth of this sector. Among the four key segments, i.e., Confectionary, Bread, Fun food and Snack, and Food Juices and Concentrates; the highest growth has been seen in the bread segment and the expected demand in 2014-15 for bread is Rs 26.90 billion.

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