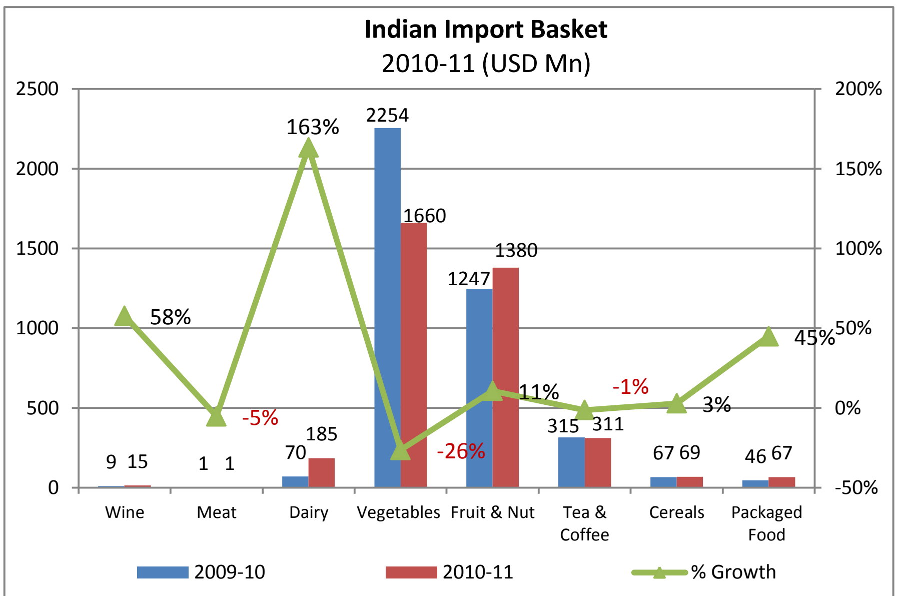
Made in Foreign: The Lavish Indian Market of Imported Food & Wines

Wine corked at Nasik valley is still not able to fetch the premium which the sparkling bottles of red wine from Italy or France are getting on modern retail shelves. The imported tag automatically adds the exceptional sense to the wine cruet. The same mechanism is followed in many other food product categories, like cheese, fruits & vegetables, meat products, creams etc. In most of the Indian urban cities, small grocery stores to lavish hyper markets, everyone is involved in pushing imported food products. On an average 10-15% of the total organized retail space is captured by imported food produce. Since the margin is better, so is the acceptance; Washington apples, Australian Kiwifruit, Swiss chocolates, French cheese, Italian wine & pastas, are no more a niche for the metro Indian shopper. In comparison to local products, imported goods are heavy on the Indian wallet as the aligned taxes & duties are pushed towards customers. Still the “Made in Foreign” tag is penetrating fast in to the Indian shopping basket. The rising aspiration of urban Indians has paved the way to adopt the tastes from all over the world into their kitchen. Increasing globalization, urbanization, rising income, growth of organized retail, changing lifestyles and food habits have welcomed many sophisticated food manufacturers across the globe. The grass is not greener all the way, heavy import duties and lack of infrastructural support still restricts entry of many international players on the Indian terrain.

Imported products have witnessed a higher acceptance in urban Indian pockets. The experimenting nature of the shopper is encouragement for the importers and the formats offering imported & gourmet foods. By dissecting the imported food & wine segment of India, it can be clearly said that Dairy is the future, followed by wines & packaged foods. This year dairy imports have witnessed an unbelievable growth of 160% from last year, cheese, creams & dips are some of the major products boosting this growth. The USD 185 million imported dairy market is led by products from New Zealand & Australia, these two destinations form 85% of the total foreign dairy products in India. Other emerging destinations for dairy imports are Denmark, France & China with impressive growth rates over last year.



Rounded-off Figures, Source - DoC, GOI , Technopak Analysis

The second fastest growing import category in India is the wine sector, which expanded 58% since last year. A total import of USD 15 million is majorly from France, Italy, Australia & Singapore. These four destinations constitute about 60% of the total market. Australian wine is the new favorite among Indians, import of the same has witnessed a hefty growth of 80% from last year.

The third category that is growing at a fast pace is packaged food. This segment witnessed a growth of 45% over the last year. Sauces, pastas, chocolates & cocoa products are the major drivers of imported packaged food segment. Chocolates & cocoa products contribute ~55% of the total packaged imported food market in India. Singapore, Malaysia, Netherlands & Italy are the major destinations for chocolates & cocoa preparation in India. The four countries contribute for ~60% of the total imports. Singapore has witnessed ~100% growth in demand as compared to the Indian market followed by Italy & Netherland, which have witnessed a demand growth of 60% & 55% respectively.

Fruit, vegetables & nuts are the major contributors to the imported food basket of India, The three segments jointly form ~80% of the total food & wine imports. The sector has witnessed a dip of ~13% over the last year from USD 3.5 Bn to USD 3 Bn imports on Indian soil. Fruits & nuts as a category is growing with a CAGR of 11% but the vegetable category has descended to a low of 26% from last year. The biggest category in imported food & wine segment is formed by “vegetables” (~45%), has witnessed a fall from last year. The negative growth is not only associated with vegetables, but meat products, tea & coffee as well. Many international manufacturers are still trying to figure out the Indian market & the association with importers to introduce their product portfolio. However, the success rate is not very impressive. Many expansion & entry plans are still at hold from various companies abroad because of several constraints & chaos associated with the Indian market. Some of the key challenges faced by these international giants are:

- **High import duties & aligned tariffs**

  A high import duty on majority of food items along with the non-tariff barrier continues to create an obstruction for importers and manufacturers. The added cost gets transferred to the consumer & hinders the adoption of imported food. The import duty structure ranges from 26% to74% for imported food & wine segment in India. Regular interventions & recommendations are made towards lowering the duties by different importers associations and trade commissions. However, the Indian government has intervened by amending the duty structure of various food items from time to time, depending upon market conditions and requirements. Food inflation has also lowered some import duties resulting in an almost negligible import duty on wheat, rice, corn and crude vegetable oils. The applicable duties cover basic duty, Countervailing Duty (CVD) & Special Additional Duty (SAD) or special CVD.

- **Lack of infrastructure support resulting in high lead time**

  The poor infrastructure support in terms of transport & storage facility acts as one of the major laggards for imported food segment. The integrated cold chain framework is still at a nascent stage in India & the huge demand & supply gap of support infrastructure acts as a constraint in the supply chain of imported goods.

- **Supply chain constraints blocking the reach beyond metros & mini metro**

  Majority of India lives in rural & semi-urban areas, the supply chain constraints coupled with poor infrastructure support makes it impossible to reach such markets. The huge chunk of Indian consumers remains untapped resulting in poor growth of the segment. Factually the target segment of imported food houses in metros & mini metros, however if the support infrastructure is in place, the market can be expanded to other cities.

- **Stringent Food laws**

  For international manufacturers India is a land of stringent food laws which makes it very difficult to enter & sustain in the Indian market. Various Ministries abide by various rules & regulations to ensure entry & availability of safe products for the consumers. Exporters have to follow an array of food laws covering use of additives and colors, labeling requirements, packaging, weights and measures, shelf-life and phyto-sanitary regulations. To consolidate different laws pertaining to food & aligned products, Government of India has framed “Food Safety and Standards Act, 2006” (FSSA). It concentrates on consolidating various food laws and works as single regulatory agency in place of current multiple regulatory agencies.

- **Diverse food habits across the nation**

  Food is like a religion in India, the different cultures make it a home for an array of cuisines. The nation is known for diversified & distinct food habits throughout the globe. The assorted food habits work as an opportunity as well as a challenge for food manufacturers sitting abroad. Customizing the product offering according to the Indian platter has gained popularity in recent times, but the same is limited to food services. Catering to the diversified food habits & fulfilling the expectations in terms of quality & affordability will remain as a laggard for the imported food segment in India.

- **Preference for fresh and traditional foods**

  "Fresh is better" serves as a cacophony for food processors in India. Apart from such misconceptions, the Indian consumer is also still very much aligned with traditional food, depending on region & culture. The awareness level & adoption of processed and packaged food as safe choices are picking up in India, but still serve as a challenge.

- **Affordability Vs Availability of similar or better products at competitive prices**

  India serves as the food basket of the world; it leads the production charts in the perishables & grains category. However the level of processing is low but it has picked up in the recent past & the industry is witnessing a year on year growth of 7-10%. Indian manufacturers are much aligned with the consumer's need, as the offerings are more cost competitive, than imported products. Availability of similar or better quality products continues to serve as a challenge for imported goods in India. On the other hand, better quality imported produce also sets a benchmark for Indian manufacturers to raise the quality level matching the cost effectiveness.

Apart from the above mentioned challenges sourcing also comes as a major constraint in front of retailers & manufacturers. The direct sourcing module is still nurturing in India, only few formats like Le Marche adopt partial direct sourcing from manufacturers around the globe (Thailand, Spain, Italy, etc). The direct sourcing approach has only worked for the large retailers, with either hyper formats or gourmet selections. Apart from these hi-end retailers (Gourmet/Hyper), all other retailers depend on the distributor cum importers mode for sourcing of imported food & wines. This helps retailers in overlooking the import structure, associated paper work and regulatory licensed procedures. The cost incurred in maintaining the importer/distributor mode can be easily charged to the end consumer, as imported food anyway carries a pre-conceived notion of "Premium" to it. If the above mentioned challenges can be addressed, then the sky is the limit for imported food & wines in India.

The key opportunity areas in the future will revolve around direct sourcing, planting local bases, price betterment, introducing new products & reaching the untapped market. Apart from these vast opportunities "affordable premium" will be the next big opening.

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