



# FOOD RETAIL INDUSTRY ANALYSIS



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## Overview

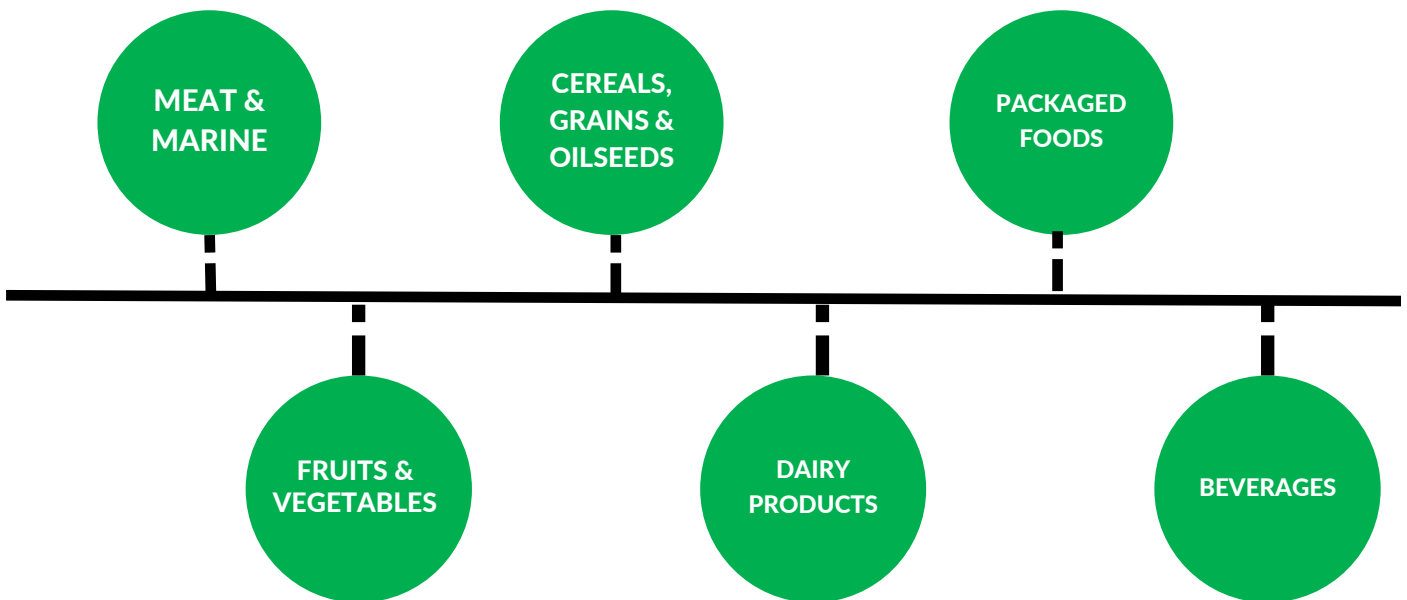
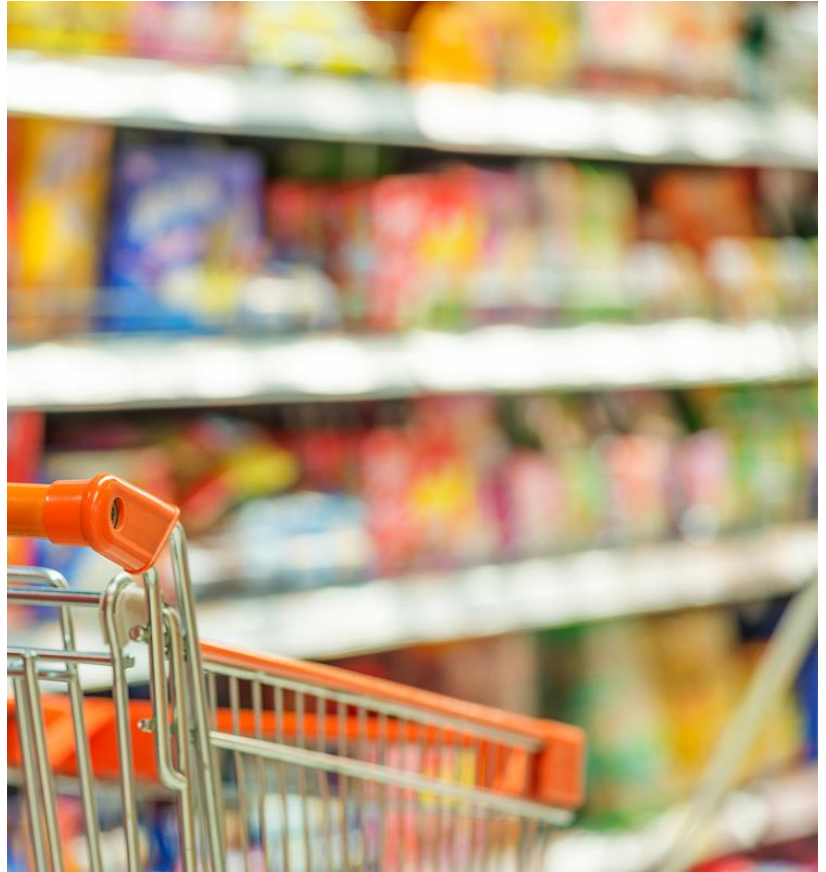
The Indian retail ecosystem is known for its complexity, with more than 12 million retail outlets, a million wholesalers and distributors, and a multilayered structure. Moreover, it is a highly segmented industry with several formats ranging from small independent stores to supermarket chains available. This highly crowded market has seen significant changes over the recent years, driven by the constant uncertainty and evolution of preferences and lifestyles of consumers, one of the most significant being 10-minute deliveries. Further, the industry saw an exceptional rise in gross sales volume during the Covid-19 pandemic.



# Market Size

# Market Size

The current Food Retail market in India is touted to be as large as INR 46.65 Lakh Crores. The pandemic-induced lockdown saw an uptick in in-home consumption, giving an impetus to the growth story of this large category. By product, the Food Retail Market may be broadly bifurcated into the following categories:



## Packaged Foods



A major subcategory, packaged foods include every product available to the final consumer in the 'ready-to-eat' format. The segment is estimated at INR 3.6 Lakhs Crores forming a large market segment within the Food Retail industry.<sup>1</sup> According to key opinion leaders in the industry, 2020 has triggered the behavioral change, accelerating the per-capita consumption adoption of packaged food in India. Of late, the demand for packaged snacks has thrived as a result of innovative packaging techniques, the easy-to-consume nature of products, accessibility & perceptions around hygiene.

## Fruits & Vegetables



India is a natural reservoir of varied fruits and vegetables. With the burgeoning GMO developments, several hybrid varieties of fruits & vegetables are also available in India. India exported fruits worth INR 5,593 crore and vegetables worth INR 5,745.54 crore, during the financial year 2021-22.<sup>2</sup>

## Meat & Marine



This segment includes Red Meat, Poultry (White Meat) & Sea Food. India's chilled packaged raw meat market was estimated at INR 5,696 Crores in 2020.<sup>3</sup> The urban fish and seafood market was valued at INR 65,000 Crores in FY 2022 and is anticipated to have a CAGR of 18% from FY 2023-2027.<sup>4</sup>

## Cereals, Grains & Oilseeds



The total production of Food grains in India in FY 2021-22 was 314.51 million tonnes, reportedly higher by 3.77 million tonnes compared to FY 2020-21.<sup>5</sup>

## Dairy Products



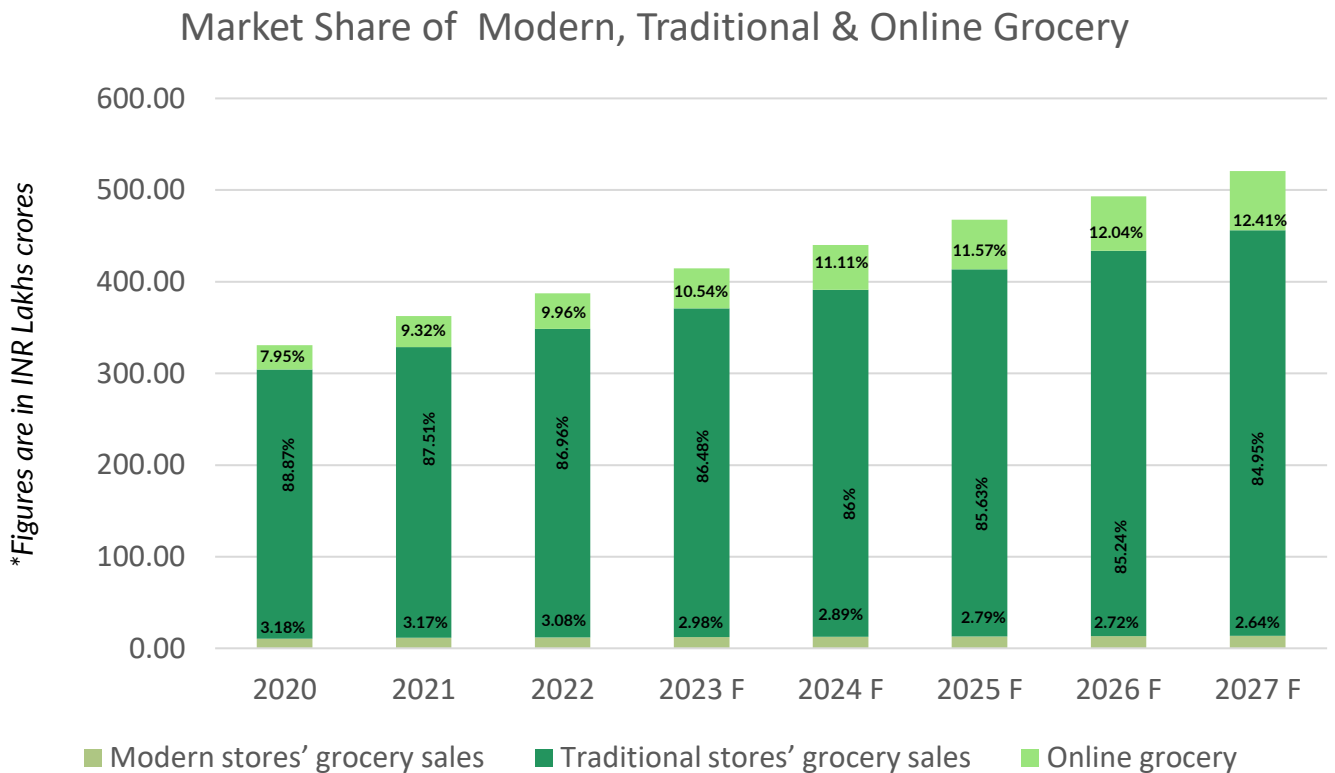
The Indian Dairy Products industry, consisting of milk and milk-based products, was valued at INR 14.89 Lakhs Crores in FY 2022 and is expected to grow at a CAGR of 13.2% during FY 2023-2028.<sup>6</sup>

## Beverages



Beverages includes both alcoholic (beers, wine & spirits) and non-alcoholic beverages (bottled water, fruit juices, functional drinks, tea & coffee, and others).

The industry can also be analyzed by distribution channels, that is Modern Retail (includes Hypermarkets and Supermarkets), Traditional Retail (includes local kirana stores) & Online Grocery from FY 2020-2027. It can be seen how the share of online groceries is increasing over time, compared to the modern and traditional grocery stores.



Source: [Pubsonline.informss<sup>7</sup>](https://pubsonline.informss.com/)

# Key Future Trends



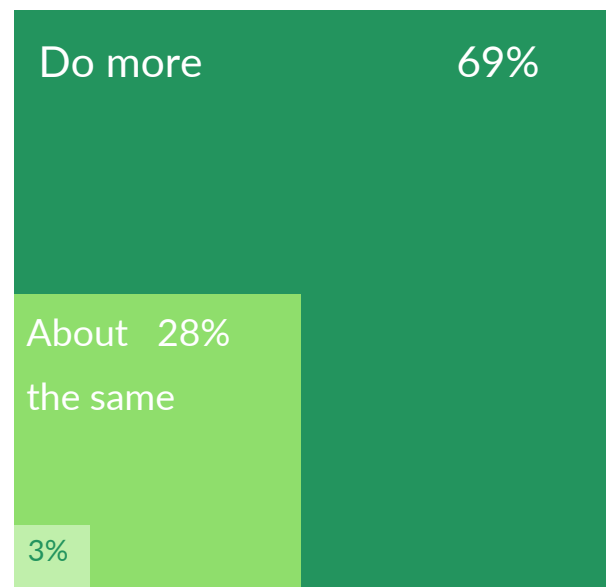
## Key Future Trends:

- **Health Truly Is Wealth**

Larger companies have been monetizing the paradigm shift of consumer’s preference towards branded products over unbranded ones. Consumer choices are inclined towards products made in hygienic conditions with acclaimed healthy ingredients. Even in the necessities segment, a trend of **premiumization** is on the rise. Products like sugar, salt, and curd, which were traditionally unbranded, are now being purchased through brands like Madhur Sugar, Puro and Mother Dairy Yogurt, respectively, offering superior quality products at a premium price. In a study done by McKinsey, the results showcased that 69% of the total respondents focused more on the health aspect while shopping for groceries. Also, respondents leaned towards increasing their spending on organic products, low calories, high protein, low fat, and naturally healthy food products, by almost 50% on average, indicating a major shift in consumption patterns.

### Grocery shopping eating and nutrition in 2021 compared to 2020

% of respondents



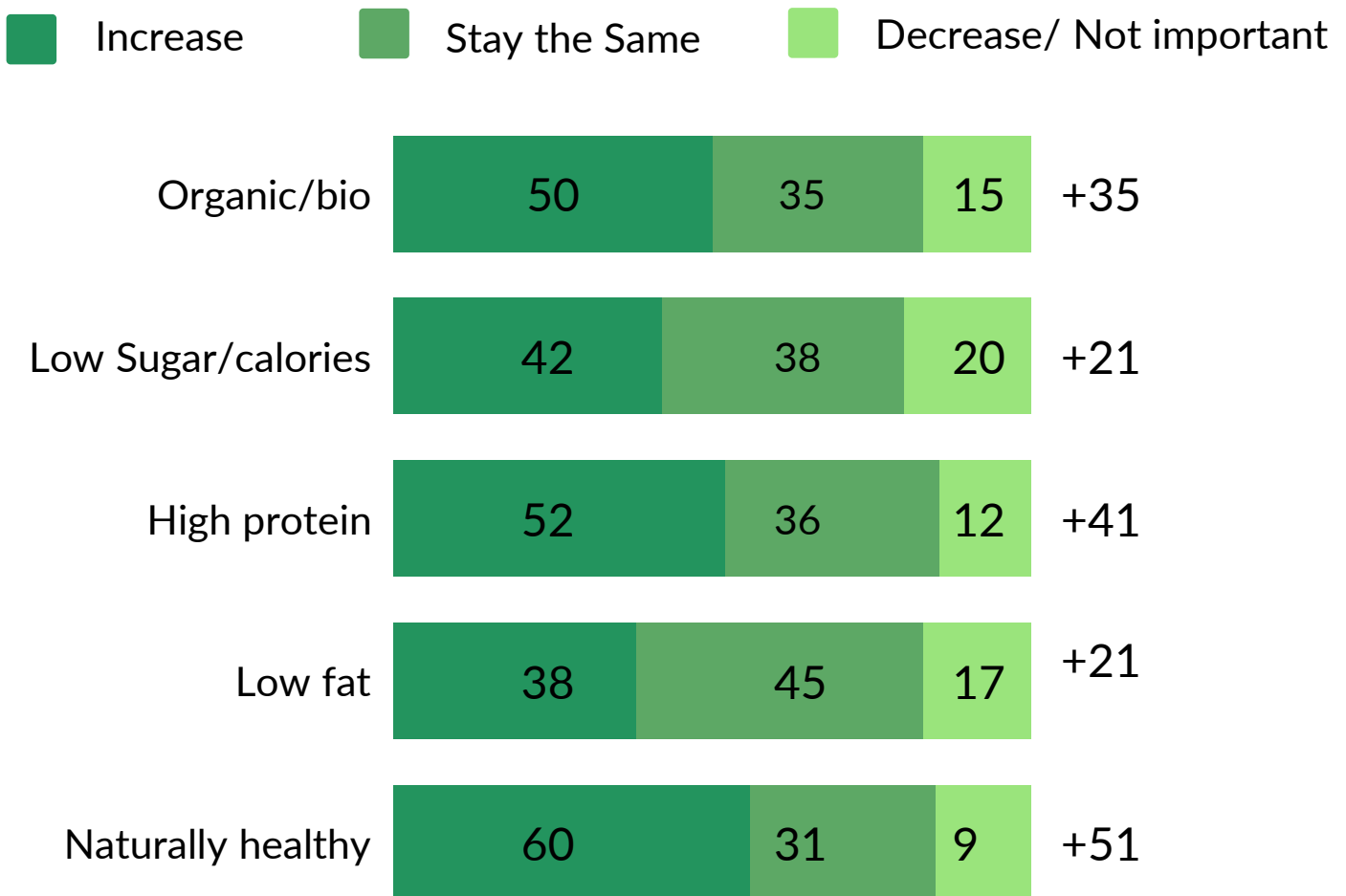
Do less.

## Expected spending per food product category in 2021 compared to 2020

% of respondents

Net intent<sup>2</sup>

Above +1



Source: McKinsey <sup>8</sup>

- **Millets-Based Food**



Millet, or “Shree Anna” as the Hon’ble Prime Minister of India christened it, is produced exclusively in Asia and Africa, with India being a leading exporter with a global market share of 41% in FY 2022.<sup>9</sup>

Not only is 2023 the ‘Year of Millets’, as outlined by the United Nations General Assembly upon India’s proposal, the Indian Union Budget, too, held provisions for millet outreach, like anointing Hyderabad-based Indian Institute of Millet Research (IIMR) as a Centre of Excellence (CoE), for sharing best practices, technologies and research regarding millets. This indicates the major push provided by the Indian government to make India the global hub for millet production, incentivizing farmers to produce the grain and local companies to include it in their offerings.

This “super-grain” got this title owing to the multitude of health benefits. Dr. Khadarvali, widely recognized as the “Millet Man of India”, holds a firm conviction that millets, overshadowed by commercial crops like rice and wheat in the Indian market and people's diets, have been neglected for the worse of human health.

As expected, this resurgence in popularity has led food brands to include this “supergrain” as a key ingredient in their products, citing their multitude of health benefits, thereby appealing to the “healthy consumer”. Recently, the Director of ITC, Sanjiv Puri announced his plans to introduce millets in most of its packaged foods and millet-based dishes in its chain of hotels. Brands like Tru Millets, Prolicious, Slurrp farm, To Be Honest Crunchies, to name a few, are already monetizing this upcoming trend. Consumption of millet-based products will see an uptick as its supply increases in India, given the immense marketing efforts that these companies would undertake<sup>10</sup>

• **Organic Foods**

The market for certified organic products is on an upsurge as consumers are increasingly becoming aware about the ingredients consumed by them. With the India Organic Food Market valued at INR 9,731.27\* Crores in 2022 and expected to grow at a CAGR of about 22% till 2028, the government has introduced the Jaivik Bharat logo to help consumers identify Certified Organic Food Products from India. Renowned companies like Pro Nature, Pure and Sure, and Praakritik have branded themselves as “organic and natural food companies” targeting health-conscious consumers using the Jaivik Bharat certification.<sup>11</sup>



*\*Average exchange rate for FY 2022 has been used for conversion.*

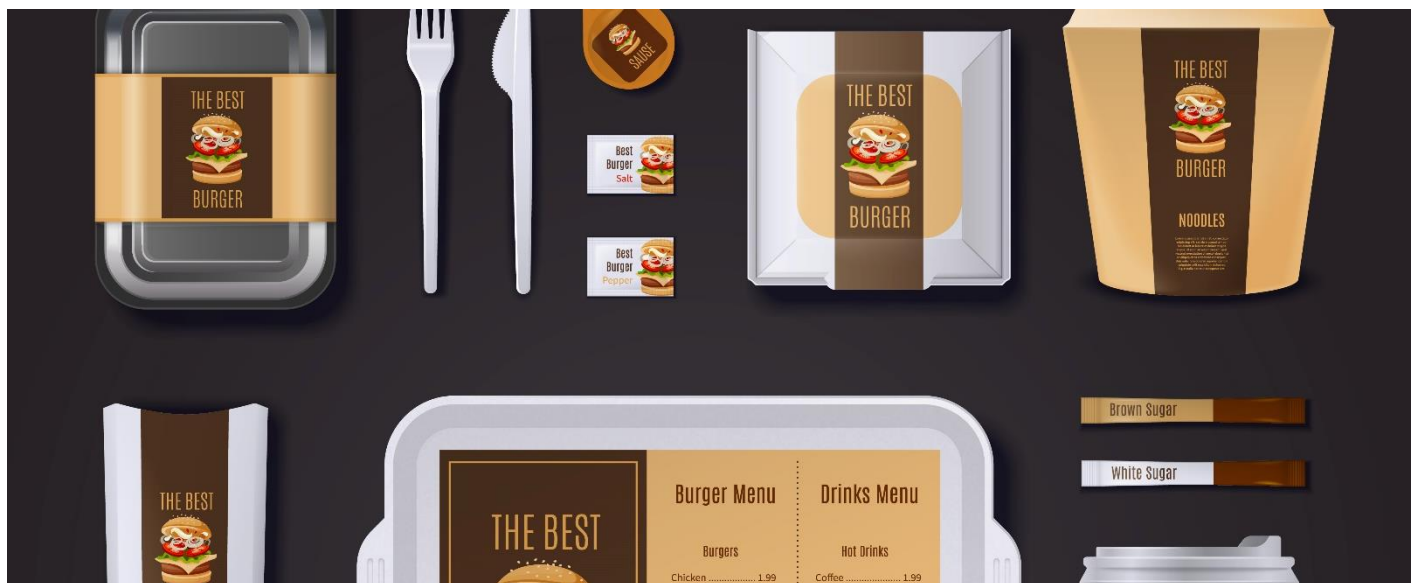


- ## Experimenting With Packaging

Vendors are experimenting with **innovative packaging ideas** to differentiate themselves from the market crowd and provide more utility and convenience to the end consumer.

Traditional plastic containers have been replaced with metallic/glass/paper-based containers addressing the concerns raised around the harmful effects of the combination of plastic and natural heat. Case in point, Sprig, a gourmet food ingredient brand, packaged its spices using an aluminum canister to avoid the adverse reaction of light and moisture on the spices.

Another interesting instance relevant here is packing individual biscuits in smaller packets within a larger box to retain the freshness of the biscuits until they are consumed, as implemented by Dark Fantasy, a chocolate-filled biscuit.



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- **Social Media – An Undeniable Influencer**

As per a recent report by INCA, social media influencers now reach more than 1 in 4 people, and 3 in 5 consumers are likely to try a product after hearing about it from an influencer.<sup>12</sup> As a result, the Indian social commerce market reached INR 25,939.58\* Crore in 2022 and is expected to grow at a CAGR of 32.7% by 2028.<sup>13</sup> Social Media is emerging as a prominent influencing factor for decision-making across all categories, especially among millennials. Consumers are finding it easy to switch brands as they continue to hunt for the best variety, quality, and value. Brands like KitKat (Nestle's famous chocolate bar), Sleepy Owl (handcrafted coffee), and Simba (flavored beer) have done a great job in acing the social media marketing channel, creating content with influencers to target their unique target audiences.

*\*Average exchange rate for FY 2022 has been used for conversion.*

- **Brand Value Perception**

Every brand has a value, and that brand value can yield substantial financial returns, if the proposition is aptly presented. Of late, Consumers have been



willing to pay more for a product with a higher brand value. Even brands that offer products with very little differentiation, are able to charge a premium on the premise of its perceived brand value. A great example of this is evident in the bottled water space, which, although dominated by the famous INR 20 Bisleri bottle, also has players charging almost 3x-4x of this price. These brands like Tata's Himalayan Mineral Water and Qua are able to command a premium by focusing on the mineral infused quality of their water, while Bisleri too claims to have minerals in its offering.

- **Transparency In The Supply Chain**

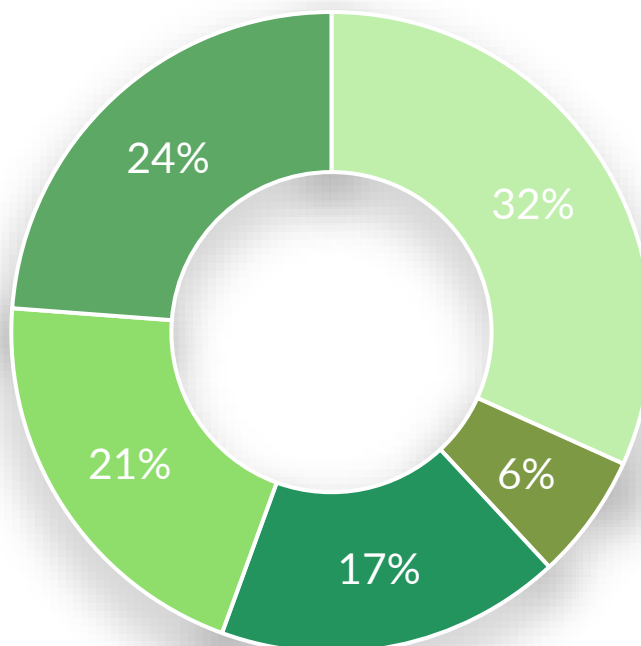
Many brands have adopted the farm-to-fork strategy to ensure shoppers' trust, fresh sales, and fair prices, cutting down on the risks of unfair practices of the middlemen and providing the best quality for their customers. As an extension, the benefits are transferred back to the root of the supply value chain - Farmers. Many startups, like Country Delight, Ninjacart, Captain Fresh, Crofarm, KrishiHub etc. are disrupting the industry through this business model.

- **Changing Distribution Channels**

### Indian e-grocery firms by market share

(Data is for FY21)

■ Others ■ JioMart ■ Flipkart ■ Grofers ■ Amazon.in



**The Indian Grocery Market Is Estimated To Touch US\$ 22 Billion By 2025**

**Source: PGA Labs -the market arm of Praxis Global Alliance**

Post Covid-19, online shopping has seen a significantly high volume of customers. This growth in online buyers is facilitated by the Indian government's multiple initiatives to ease online payments by boosting UPI-based payments. A direct impact of this can be seen in the growth of India's

Online Grocery market, valued at INR 31,791\* Crores in FY 2021 and is expected to grow at 37.1% between FY 2021-2030. <sup>14</sup>The ordering pattern reflects a significant shift in consumer habits in urban households, which are embracing this model. Two years since the pandemic, consumers are still happily outsourcing last-minute purchases, albeit at a small fee, and are drawn to 10-30-minute delivery timelines.

The online grocery infrastructure is backed by a growing number of “dark stores” opening in every neighbourhood of metro cities. These mysterious stores are meant only for fulfilling online orders and cannot even be seen by delivery persons, let alone the public. For instance, Zepto, which has 200-250 dark stores in Mumbai, Delhi-NCR, Bengaluru, Hyderabad, Pune, and Chennai, has optimized its operations to the point that within 76 seconds of an order being placed, the order is packed and made ready for pickup. The tech they use for this purpose is a trade secret, so naturally, the norm is to gatekeep it to the extent possible. Here’s the general process behind fulfilling an online order:



Source: Business Today, 2023 <sup>15</sup>

As these businesses target gaining higher market shares, they will focus more on innovation and proprietary tech development to cater to the changing preferences of the demanding customer.

*\*Average exchange rate for FY 2021 has been used for conversion.*



# Disruptive Startups

## Disruptive Startups

### Case study: Healthily Munching

#### Munching redefined

As people started working from home, the established pattern of three meals a day transformed into a multi-snacking pattern. While previously, these urges were met by creamy biscuits or oily chips, the new-age consumer is aware of its long-term consequences. This new-age consumer is more than likely to look for tags like “No-Added-Sugars” in the food they consume. A paradigm shift towards healthy snacking is reflected by a large market size of approximately USD 9 Billion in India.<sup>16</sup> Per a survey with 3,000 respondents over the age of 18, the market for healthy snacks has grown from ~12% to almost 20% in the last two years. Although this is a recent trend, the middle-aged category is not behind in shifting their consumption behaviour.

18



### Indians: Attributes of a healthy salty snack by age group



Base: 3000 Indians aged 18+ | Sources: Mintel.

The pandemic established a new normal wherein making better and healthier choices became a need instead of just a want. This behavioural shift has resulted in consumers now shying away from the traditionally unpackaged oily, salty snacks and switching to something more balanced. Healthy snacks such as protein bars & energy bars, protein milkshakes, and baked-not-fried chips garnered attention from those who wanted something nutritious but delicious.



## Cases in point

Ever since, India has witnessed a wave of start-ups in the healthy snacking space. For instance, the popular startup Tagz introduced chips with 50% less fat, along with dips and premier bars. Similarly, Lo! Foods offer alternatives to popular Indian snacks like Bhujia and South Indian Mixtures. Tagz's products are low in carbohydrates and high in superfoods, protein, and fiber. Most of these brands are leaning towards using ingredients like rice, wheat, pulses, gram flour, millets, oats, ragi, quinoa, and barley – staples that are famous for their health quotient. This trend is evident from the number of healthy snacking companies that have received funding on Shark Tank Season 2, one of India's most talked about reality shows, where startups pitch their businesses for investment from an esteemed panel of angel investors. Others who have made it big in this space include Noto Ice-creams, Open Secret's Unjunked, and Yogabar, to name a few.





## To Be Noted

Even though Indians are trying to be healthy, they are not willing to compromise on taste. Hence, their expectations of snacks have evolved to products that are tasty AND healthier. In addition, Mintel research highlights that almost one-third of Indian consumers are keen to try snacks with unique flavor combinations. Thus, the opportunity lies in not simply providing healthy alternatives but in providing unique flavors or textures with additional health benefits through positive nutrition claims.<sup>18</sup>

## Case study: Milking the farm-to-table model



### Adulteration – Dairy’s Sad Truth

A country that was milk deficient previously, India grew to become the world’s largest milk producer and consumer, contributing 24% to global milk production post the White Revolution in 1970.<sup>19</sup> According to several reports, an unfortunate truth against this achievement is that over 70% of the milk produced in India is adulterated to some extent. It is estimated that conventional adulteration testing methods at any node of the supply chain, particularly at the initial stages, are insufficient to prevent adulterated milk from entering the dairy value chains.<sup>20</sup>

However, the main contributor to the adulteration is the middleman. Since the supply chain is vast and unregulated, it is next to impossible to keep a check on every stakeholder and distributor. The solution, hence, was to remove the middlemen.



### The New Milky Way

Grabbing this opportunity, various startups emerged with their “farm-to-table” business models providing fresh dairy products sourced directly from the farm to the customer’s doorstep. A great example is Country Delight, a full-stack business that sources its produce from a network of farmers within a 200-km radius. The key tenet of their business is their cold chain network, which ensures no need for preservatives and seamless delivery.



On similar lines, Happy Milk offers a range of organic dairy products in sustainable and environment-friendly packaging. The business also uses IoT devices to track the cow's health and check the consistency and quality of milk produced. The main purpose here is to ensure zero human interference. With rising concerns about hygiene and quality, multiple players like Sid's Farm, Milk Mantra, Doozy Farms, Mr. Dairy, and Vrindavan Dairy also provide untouched and qualitative dairy products with a twist to ensure service differentiation. For instance, Sid's Farm claims to conduct 45 testing rounds on every batch of milk (and users can even see the results by scanning the QR code on the back of the milk packet!)

Farm-to-table model:





## *Creating undeniable value*

Although milk is an essential product, these businesses have realized that the key to “premiumizing” dairy products is by swearing on their quality. Another thing to keep in mind is that although milk remains their primary offering, these players find that supplementing their product offerings with related products, like dahi, butter, cheese, ghee, bread, sweets, and paneer, is a must-have for creating value and, of course, boosting margins. For instance, during the Covid-19 Pandemic, the demand for milk had fallen sharply, recording a nearly 30% dip <sup>21</sup> Further, due to its perishable nature, milk has a tendency to spoil if left unconsumed, resulting in high wastage. To mitigate the loss of unsold milk, Amul took the initiative to produce supplementary products derived from milk. A case in point is a dairy products start-up, "Humpy Farms" operating under a farm-to-table model, providing pure, cruelty-free, and certified milk. The brand has now supplemented its core offering with pure ghee, honey, bread, and even organic staples.



## *Changing the social thought process*

The growth of these farm-to-table businesses is also backed by a rising social concern for supporting local businesses. This change in attitudes has led people to prioritize food sustainability, freshness, and small farms, thereby creating a relational understanding between the two parties. With the onset of urbanization and the green revolution, India’s focus was to meet the ever-growing food demand of the Indian population. Soon, farmers started using pesticides and fertilizers to increase food production and adopted other non-organic methods such as adulteration. This created multiple ripple effects, and even today, consumers face a hard time finding authentic natural and organic food products. With changing consumption trends indicating favoritism to pure, unadulterated, and organic food, consumers have gone back to the olden days prioritizing quality. Indeed, it seems like history does repeat itself, and India will soon witness another revolution of quality and organic food products.

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# Government Initiatives & FDI Policies

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## Government Initiatives & FDI Policies

### FDI Policies:

- The government has permitted **100% FDI through the automatic routes** in manufacturing of food products subject to sectoral rules and regulations. Also, 100% FDI is allowed through the government route in the retail trade in respect of food products produced/ manufactured in India. <sup>22</sup>

### Recent International News:

- India has seen a high overseas demand for table eggs, especially from Malaysia, owing to acute shortages in the country due to the Ukraine-Russia war <sup>23</sup>
- Argentina, being one of the top exporters of Soymeal, faced drought-like situations. As a result, India is expected to achieve double export orders from countries importing from Argentina.<sup>24</sup>

### Inflation:

- The retail food inflation rate dropped to 4.79% in March 2023 from 5.95% in February 2023. Cereals were major contributor to this decline, which showed a downward trend in its prices.<sup>25</sup>

### Government Initiatives:

- The Government has decided to provide free foodgrains to about 81.4 crore beneficiaries under the National Food Security Act for one year from January 1, 2023. <sup>26</sup>
- The Union Ministry of Food Processing Industries has planned to launch a 3-day Mega Food Event in November 2023. The event will also promote millets and millet-based value-added products, as 2023 has been declared the 'International Year of Millets'. <sup>27</sup>

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# Challenges Identified/Areas for Growth

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## Challenges Identified/Areas for Growth:



More influential and empowered than ever before, customers have grown very specific and distinct in their preferences and requirements. The pandemic has weakened brand loyalty significantly, with several buyers admitting to changing stores, brands, or buying channels.



- Owing to this, many corporate houses have started venturing into Private Labelling and creating multiple brands under their banner. For instance, BigBasket is betting big on private labels. Around 38% of the company's revenue in FY 2020 was estimated to be driven by its private labels – Fresho, Tasties, Royal, and Popular.<sup>28</sup>



Since the next decade will see the Gen-Z segment as a major portion of the earning population, companies will have to tweak their branding and marketing to appeal to this fickle-minded generation. "Staying relevant" is the key theme.



- Frequent interactions with the target audience through social media platforms are essential to maintaining brand recognition. (Zomato's social media presence is a remarkable example.)
- To ensure stability in such volatile situations, a shift to omnichannel retail is the need of the hour. Businesses stand to gain higher visibility by tapping into all marketing as well as distribution channels to meet the customer at all points of sales feasible.
- For instance, in 2022, food and beverages major PepsiCo witnessed a "seismic shift" in omnichannel growth, with sales significantly outpacing in-store growth across metro cities.



Another significant obstacle encountered by e-commerce retailers is optimizing revenue generation from their proprietary websites. Given the fragmented nature of the market, all brands may not receive the right amount of visibility from their targeted customer group. Also, listing on popular marketplaces such as Amazon and Flipkart can result in significant profit reduction due to the high commission rates levied by these platforms.



- With the popularity of Open Network for Digital Commerce (ONDC) on the rise, businesses now stand to realize considerable margin savings on e-transactions. According to Economic Times, around 97-98% of the total orders serviced on ONDC's network are food and grocery orders, signifying the public's gradual acceptance of this distribution model in this space.
- New-gen retailers have recently come up with a quasi-marketplace model. Here, the primary focus of retailers still remains on their own brand's products, but they also list products of other brands, providing varied alternatives to customers while increasing website traffic and average order value for the retailer.

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**FOOD RETAIL INDUSTRY ANALYSIS**

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