PROGRESSIVE GROCER

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INDIA EDITION

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FARM FRESH

We have an edge over other retailers in the pure organised retail of fresh produce and dairy

Jagdish Krishnan
COO, Heritage Fresh

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PROGRESSIVE GROCER INDIA
AHEAD OF WHAT'S NEXT

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Processed food industry on growth radar of Government

The Food Processing Industry in India is increasingly seen as a potential source for driving and contributing towards the overall economy of the country as it brings synergy between the end consumer, industry and agriculture. The total food production in India is likely to double in the next 10 years, with the country's domestic food market estimated to reach USD 258 billion by 2015. The frozen processed food category is expected to grow by a CAGR of 11% in constant value terms over the next 3-4 years.

Growth in modern retail chains, increased refrigeration of small retailers and in rural households, growing awareness of frozen food products, and progression of fast food chains, are expected to drive sales of frozen food.

Though the category has been around for some time, its penetration is still relatively low. To incentivise expansion of the processing capacity, Finance Minister Arun Jaitley while presenting the Budget 2014 in the Lok Sabha, announced reduction in excise duty on specified food processing and packaging machinery from 10% to 6%.

In India, women entrepreneurs in the Food & Grocery business are rare, but there is a handful of them who are keen to make their mark in the industry. We feature three such enterprising women who have turned their homegrown cooking skills into successful commercial ventures.

Amitabh Taneja
Editor-in-Chief

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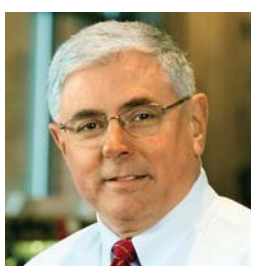

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Farm **Fresh**

Jagdish Krishnan

From dairy, agri and bakery to a chain of 80 food and grocery retail stores, the Heritage Group has diversified business operations. Jagdish Krishnan, COO, Heritage Retail and Bakery Divisions, talks about their food and grocery retail arm Heritage Fresh and it's strong brand positioning and ongoing expansion, with Juhi Sharma

Please give a brief background of the Heritage Group.

The Heritage Group was founded in 1992 by Nara Chandra Babu Naidu, the president of Andhra Pradesh's Telugu Desam Party. Initially, Heritage was a well established dairy brand in South India. When it began to consider expanding and diversifying its business interests, one of the avenues it looked at was food and grocery. In fact, the idea of getting into food and grocery retail business, especially of fresh produce, evolved as an extension of the relationship the company shared with the farming community.

The food and grocery retail arm was set up under the Heritage Fresh brand name under Heritage Foods in November 2006, and as the name suggests the company procures and retails farm fresh fruits and vegetable directly from farmers. Today, under Heritage Fresh, the Group operates a chain of 80 stores in major cities of South India. These include Hyderabad (42 stores), Chennai (25 stores), and Bengaluru (13 stores). The store sizes vary between 2,500 sqft and 10,000 sqft. Currently, we are trading within a total retail space of 3 lakh sqft.

At present, the group has five business divisions under Heritage Foods Ltd. These include dairy, retail, agri, bakery and renewable energy. Heritage milk products have a strong market presence in Andhra Pradesh,Telangana, Karnataka, Kerala, Tamil Nadu, Maharastra, Odisha and Delhi. Its integrated agri operations span across Chittoor and Medak districts. Our agri business in the related sourcing belts is the backbone of our retail and bakery divisions.

In India, fresh fruit and vegetable retailing is largely unorganised. Vendors procure fresh produce from wholesale mandis and sell through small roadside shops or pushcarts. Besides, there are local weekly bazaars that spring up in various localities. Our food and grocery retail business focusses on organised retailing of fresh produce. Pure organised F&V retail such as ours is still niche, and there are not many players in it. It is a challenging business as it takes time and patience to understand and sustain business in this category as one is dealing with products that have only 1 or 2 days of shelf life.

What is the merchandise mix and important categories at Heritage Fresh?
Our stores offer 4,000 to 10,000 SKUs depending upon the store size and catchment needs. We have planned our space allocation in the stores based on store positioning, and category preference in the respective catchment; irrespective of whether they are national or regional brands. Our private labels occupy about 15 to 20 percent space. Imported products form a small part of the store sales, with only 1-2 percent of shelf space allocated to them.

We have an edge over other retailers in the fresh produce and dairy segments, and the two categories contribute one-third of the revenue of our total sales. Essential grocery items contribute around 20 percent to the sales, and the rest comprise of other food and non-food FMCG products.

Our wide range of fresh fruits and vegetables are directly sourced from the farmers and transported to the stores through our integrated cold chain. Under our in-house brand Farmers Pride, we offer a full range of high quality staples at the most competitive prices.

What are the key factors for developing a private label?
The first and most important is the viability of a private label in the scale in which you operate. Other factors are size and margin attractiveness of the category. The retailer must factor in his brand presence and strength, technical entry barriers, and be able to identify competent private label manufacturers. Under our private labels we offer 250 SKUs in the food, grocery and non-food consumer products. We offer three in-store brands, Heritage for dairy products, Farmers Pride for staples and Blossom for non food products.

What are the front- and back-end efficiencies at Heritage Fresh?
We have distribution centers and re-packing facilities for staples in all the three cities that we operate in. These distribution centres receive FMCG goods from vendors; fresh produce is sourced from our two fruit and vegetable (F&V) pack houses, and for dairy products we have distribution points that are closer to these cities.

Currently, we have two agri pack houses: one in Shantipuram area of Chitoor district (3-5 hours drive from Bengaluru and Chennai), and the other is in Hyderabad. These F&V pack houses are managed by our agri business vertical, which not only supplies to our retail stores, but also to several other modern retailers in the region. At these pack houses there are cleaning and grading units, long and short cold storages, ripening chambers, and packaging facilities. About 200 metric tonnes of fruits and vegetables are processed daily here. Freshly harvested fruits and vegetables are cleaned, graded and transported to our retail distribution centers at night, which are then re-distributed to the retail stores in each city early in the morning, and are available for consumers by 7 am.

We have invested in IT systems and processes to manage many of the front- and back-end operations. We started our operations with retail specific JDA ERP package and subsequently moved on to the SAP environment. At the front-end, our point-of-sale is managed through the Polaris RXL software, which is integrated with

Number of stores: **80**
Average store size: 3000-4000 sqft
Cities present in: **Hyderabad, Bengaluru, Chennai**
Average bill size: **Rs 275**
Average number of bills per month: **1.4 million**

We are opening two new stores every month mainly in Hyderabad, Bengaluru and Chennai. In the next three years we expect to increase our retail trading space to 6 lakh sqft from the current 3 lakh sqft

Heat & Eat

The Indian market has been witnessing the entry of many brands offering a host of products across various processed food categories. As the market matures and consumers become more convenience driven, one segment, which has evolved significantly is frozen ready-to-cook/eat. It is slated for deeper market penetration and entry of more players and products. It is also forcing modern retail chains and standalone grocery stores to focus on quality offerings

By Juhi Sharma

Psychographic transformations are always accompanied by changes in the food basket. Over the last ten years, shift in consumers' shopping pattern at the grocery store indicates that consumption is being driven by processed foods.

The Indian food processing industry ranks fifth in terms of production, consumption, export and expected growth, and accounts for 32 percent of the country's total food market. According to industry experts and analysis, the total food production in India is likely to double in the next 10 years, with the country's domestic food market estimated to reach USD 258 billion by 2015.

Research inputs by Euromonitor International from their report 'Frozen Processed Food in India' (Feb 2014)

The Indian market has been witnessing the entry of many brands offering a host of products across various processed food categories such as frozen foods, beverages, spices, seasonings, and curries. One segment, which has evolved significantly in the processed food section is frozen convenience food. The increase in demand for frozen food products is driving increased focus on the category by modern retail chains and standalone grocery stores, who are stocking more varieties of frozen products such as peas, corn, and ready to cook and heat-and-eat packaged products. As sales increase, the category is slated to witness increased penetration and entry of more players and products.

Affirms Kirit Maganlal, CEO of Goa-based food and grocery store chain, Magsons. "In the last five years, the frozen food section has shown growth of 25 percent year-on-year in our stores. Consumers are looking for convenience, hygiene and quality products, and are willing to spend on them."

"Today, every modern grocer is increasing space in his refrigerated display units for frozen foods," says Ashik Hamid, Senior Vice President (Food) at HyperCity Retail. "We had foreseen the potential of this category years ago and had invested in space and equipment even before the category began to grow. Initially, we kept only 3-4 brands; today, we have as many as 30! In fact, we have the largest space per store for the frozen category, which contributes about two percent to our sales," he adds.

As per Euromonitor's report, sales of frozen processed foods that stood at Rs 2,986.3 million in 2011, rose to Rs 3,653 million in 2012, and was anticipated to reach Rs 4521.5 million in 2013, but grew by 24 percent, which was substantially higher than the CAGR of 19 percent over the review period.

Market trends

The frozen food segment comprises of ready-to-cook/ fry and heat-and-eat vegetarian and non-vegetarian food products. The market is largely dominated by select national brands and some regional players. The market overview depicts that in 2013 non-oven frozen potatoes registered the fastest growth in the segment with record retail value growth of 25 percent, mainly due to the strong performance of McCain Foods that has a retail value share of 70 percent in the category.

Market analysts generally segregate the category into processed frozen vegetables, poultry, fish and seafood, and red meat. The market share of the players is also analysed based on their product range in the aforesaid sub-segments. Based on this, Safal by Mother Dairy Fruit & Vegetable was the leading brand in frozen vegetables with a retail value share of 51 percent in 2013. In this sub-segment, garden peas continued to be the most popular frozen processed vegetable bought across India with a commanding retail value share of over 69 percent, followed by mixed green vegetables and baby corn with shares of 14 percent and 7 percent, respectively, in 2013.

In the frozen processed red meat, Al Kabeer and Darshan Foods held a combined retail value share of over 80 percent in 2013. Sausages, with a value share of 39 percent, was the most popular type of frozen processed red meat, with mutton seekh kabab and hamburgers with value shares of 20 percent and 15 percent, respectively, were the second and third most popular types of frozen processed red meat during 2013.

Venky's, Al Kabeer, Meatzza, Sumeru and Yummiez with an anticipated combined retail value share of 93 percent were the leading brands in frozen processed poultry in 2013. Here, chicken seekh kababs, nuggets and sausages were the most widely available and popular with value shares of 16 percent each in 2013.

Says Maganlal, "McCain Foods is the leading international brand and has significant demand in our stores with their range of ready-to-fry products. Al Kabeer's frozen chapatis and parathas are other hot sellers. But Venky's leads in our stores with sales generation of around Rs 5 lakh per month. One of the major reasons for the brand's success is the extensive in-store promotions undertaken by Venky's at all our stores. Costa's and SNX are two popular local brands in our stores."

Venky's is also the fastest selling brand at HyperCity. Says Hamid, "The brand contributes 16 percent to our sales revenue in the frozen food section. Venky's chicken nuggets in 500 gm pack is the fastest selling, followed by Mother Dairy's green peas in 500 gm packs, and amongst international brands, it is McCain's 450 gm packs of french fries."

Creating awareness

Though the category has been around for some time, its penetration is still relatively low (like many new age food concepts). Brands and

Initially, we kept only 3-4 brands; today, we have as many as 30!

—Ashik Hamid, Senior VP - Food, HyperCity

NBO Company Shares of Frozen Processed Food: % Value 2009-2013

% retail value rsp Company	2009	2010	2011	2012	2013
Mother Dairy Fruit & Vegetable Pvt Ltd	20.8	21.8	22.0	22.1	22.4
Al Kabeer Exports Pvt Ltd	16.1	16.1	16.2	16.5	16.6
Innovative Foods Ltd	8.7	9.2	9.1	9.1	8.9
Venky's India Ltd	10.6	9.9	9.4	9.1	8.7
Temptation Foods Ltd	9.1	8.7	8.3	7.9	7.3
Darshan Foods Pvt Ltd	5.4	5.2	5.4	5.4	5.5
McCain Foods India Pvt	4.2	4.3	4.5	4.6	4.7
Ltd Godrej Agrovet Ltd	0.8	1.7	2.3	2.8	3.4
Triveni Fisheries Pvt Ltd	2.9	2.4	2.2	2.1	1.9
Suguna Poultry Products	0.1	0.2	0.3	0.4	0.4
Ltd Kohinoor Foods Ltd	0.1	0.1	0.2	0.3	0.3
Attari Enterprises	0.2	0.2	0.1	0.1	0.1
Beverages Ltd Others	21.0	20.1	20.0	19.6	19.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

E-Route to F&G

E-commerce inventory-led model: step towards profitability

By David Abikzir

We can no longer apprehend the reality because we have been perfectly conditioned to perceive things in a certain way. Today, in India, the e-commerce model in inventory management is facing a painful reality: that of its failure. Every year, it kills hundreds of small businesses, leaving a field of ruins, as we are unable to find a solution to the entrepreneurial chaos it leaves behind. Yet, before reaching this situation and paradoxically all these failures, the e-commerce market has never been so vibrant when it comes to growth, suggesting the better year after year. Therefore, there have never been so many e-commerce creations in India than this year and the market leaders have never raised so much capital to pursue their development and face the competition.

India's e-commerce market

Since 2009, the e-commerce market is growing at an average annual rate of 34 percent; just for the year 2013, it jumped up by more than 80 percent and the momentum continues in 2014. Indeed, with a market worth $13 billion in 2013, it remains far behind the e-commerce market in the US with $224 billion and in China with $220 billion. The e-commerce market in India is expecting to reach $70 billion by 2020. Moreover, if you compare the 540 million Internet users and 270 million online buyers in China with the 220 million Internet users and 25 million online buyers in India, it suggests the huge potential the e-commerce market will develop in the near future.

Potential

Investors have understood the potential of the market for several years. While initially, for start-ups, investments have been executed in a disorderly manner, with the failures and successes known to all, since 2013, raising funds have been more focused on market leaders than on young companies that have just started. Thus, in the first 6 months of 2014, more than $500 million has been invested by private equity companies with the leading e-commerce leader Flipkart, which raised $210 million during Q2'14 and Snapdeal, which didn't get left behind in the e-commerce fund raising game and collected another $100 million.In comparison, 2013 saw 57 deals worth $602 million in the space!

Operations

Even though the food and grocery segment is the largest within the retail sector, currently estimated at around $490 billion, the e-commerce is still very underdeveloped, with a clear demarcation between the leaders and the small e-commerces. The leaders have developed themselves on the basis of an inventory management model with different characteristics. For example, LocalBanya aggregates orders for a day, buy goods in the evening, and delivers them next day. Instead, Bangalore-based BigBasket.com purchases goods everyday and takes pride in the "same day delivery" of his products.

Raising funds

The operating model of retail e-commerce is still the same regardless of the exploited segment:reaching a critical threshold of orders per day and of registered clients in order to attract potential investors before the cash flow is completely exhausted by the unprofitability of the inventory-led model. You can also note that these leaders have all been pioneers in the market of the F&G segment distributed through an online platform. Therefore, BigBasket.com has raised a Series A Funding of $10 million in 2012 and the Series B should be closed in the next 3-4 months for $40-$50 million. In the same register, LocalBaniya has raised funds from Bennet, Coleman & Co. Lts's Springboard fund and Zopnow.com from Accel and Qualcomm for its Series A.

What is there to say about e-commerces in the F&G segment, which began at the same time but have not been able to raise capital and are now lacking cash flow due to the unprofitability caused by the inventory management model! Today, over 80 percent of e-commerces in India are financially hanging on a thread, just a wind away from falling.

Changing model

While entrepreneurs launching their first online platform continue to use the classic management inventory model, like most e-commerces in the world, market leaders have made a 180-degree turn by changing their model with the marketplace's one. The classic inventory management model for an e-commerce is for the platform to first buy products from its suppliers, stock them and deliver them to the customers who order.

The debate which has set in revolves mainly around the following question: what is the best model for e-commerce in India; i.e. which one is more profitable? Assuming that the marketplace is the ideal one, is it possible for an entrepreneur to start with this model to launch an e-commerce? The marketplace's model consists of establishing a platform for buyers and sellers so as to allow them to interact with each other in an effective, transparent and trusted environment.

With the marketplace model, it is possible to find a new balance between optimizing capital management to the extent that there is no need to buy the products in advance and therefore, no need to draw on one's cash flow; maximizing customer satisfaction by prioritizing customer management, meaning no longer having to handle the process of the product and delivery management; and minimizing logistics management since it is directly the supplier who will deliver to the final customer.This model requires that both buyers and sellers find themselves on this platform so that the attraction meets their mutual expectations. This will be very difficult to materialize for a startup!

Thus, when an entrepreneur wants to launch an e-commerce, the inventory-led model seems most appropriate. However, the said entrepreneur will face issues seeing as the business practiced today is not profitable.

Challenges

The first problem is the inventory risk which weighs on unsold products. Most e-commerces buy their products in advance and the more they sell, the more they increase their purchase amount. Assuming that the e-retailer is making comfortable profits of around 30 percent, he cannot escape the operational expenditures and the unsold stocks which are often between 10 and 15 percent of the total stock purchased, and which pushes the e-commerce towards its shutdown.

The second profitability issue of inventory-led model revolves around the marketing costs to sustain the store. These costs can represent 25, 35 or 50 percent of the shop's gross revenue and may quickly jeopardize it and never allow it to reach the desired profitability.

Even though the food and grocery segment is the largest within the retail sector, currently estimated at around $490 billion, the e-commerce is still very underdeveloped, with a clear demarcation between the leaders and the small e-commerces

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