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Creating CUSTOMER VALUE UPFRONT

"I have to be reliable and consistent first as a neighbourhood store"
– Damodar Mall
CEO – Grocery Retail, Reliance Retail

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PROGRESSIVE GROCER INDIA
AHEAD OF WHAT'S NEXT

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Editor's Note

Last month when FSSAI asked Nestle to withdraw Maggi stocks from the market, states fell over one another in rushing to ban the noodle. Politicians, officials and opinion makers of all stripes went into overdrive castigating a chastened Nestle. By the time the Swiss giant could respond to the allegations of laxity in the observance of safety regulations and quality standards, the vitriol against Maggi noodles had already come to a boil, culminating in hasty pull-out of the noodle brand from shop shelves across the country.

It wasn't just Maggi that found itself at the receiving end of public indignation. The controversy generated a climate of confusion, fear, and anger across the country against noodle manufacturers in general. The outcome: sales across the category cratered and other noodle brands came to be tarred with the same brush that had smeared Nestle in the first place.

But now the regulators in far more developed countries have come out and attested that the samples of Maggi noodles sent from India are safe and fit for consumption. This is bound to raise misgivings regarding FSSAI's methods and procedures.

Union food processing minister Harsimrat Kaur Badal has fired the first salvo, asking FSSAI to streamline its regulations. Within the food industry, bodies like FIFI have been demanding change in FSSAI's labelling and product approval process.

While it is true that the FSSAI works under various constraints, it can no longer afford to be complacent. There is a critical need for overhauling its processes, systems and control to ensure that the rules governing the food sector are based on globally accepted standards and transparency.

Amitabh Taneja
Editor-in-Chief

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Food exporter finds a growing market at home

With a tie-up in place covering over 10,000 farmers in Karnataka, Tamil Nadu and Andhra Pradesh, a state of the art factory, and with support from the parent Jalan Group of companies, Neo Foods, which has been growing at more than 30 per cent per annum, expects to create a strong brand in India. Adarsh Jalan, CEO, and Shalini Jalan, Director, talk to PG about the brand's growth and expansion to newer product categories

By Roshna Chandran

Neo Foods is part of the $150 million Jalan Group, which has diverse businesses: tea plantations, textile machineries, software services, engineering as well as processed vegetables and fruits. Adarsh Jalan, CEO, Neo Foods, started the company, which specialises in the processing of processed vegetables after settling down in Bengaluru 16 years ago. "I noticed that the processed food market was growing and India had several advantages. So I decided to set up a factory in 2005 geared towards exports." The aim was to operate in the fruits and vegetables sub-segment and export gherkins, jalapenos, paprika, chips and processed vegetables to leading retail chains, distributors, food service HoReCa companies across the globe." Today its products can be found on retail shelves across the world including Tesco, Asda, Aldi, EdeKa, Metro, Dollar General, Family Dollar, Biedronke, Woolworth, etc.

About five years ago, Neo Foods entered the domestic food service market as well. The domestic foray was initially small in scale. "About two-and-half years ago, we decided to enter the retail segment as we felt that the domestic market has changed drastically over the years, with consumers picking up gherkins and jalapeños," says Jalan, talking of his initiative in the domestic market. The timing was bang on as a new generation of consumers, who are young, upwardly mobile and part of the urban culture of working professionals, have been gravitating toward convenience food and creating a growing market for ready-to-eat and ready-to-cook products.

Neo Foods is the second largest and fastest growing company in its sector. A major chunk of the company's total revenue is accounted for by supplying products to markets in the Germany, UK, France and the US. Jalan accepts that the domestic business is still small for the company. But he has every intention to double the revenue over the next two years. "We will target three core segments in the market, which are QSRs, modern trade & retail, and HoReCa. A fourth segment, online retailers, is also part of the growth picture.

The growth projections are based on the changing preferences of a growing number of consumers towards ready-to-eat and ready-to-cook processed foods. "People in India have started to understand these kind of products thanks to the multi-national chains, whether it is a Domino's or Wendy's. These chains are our direct users as they know how to use our products. Neo is already working with chains like Domino's, Pizza Hut, Papa John's, Au Bon Pain, Wendy's, Chicago Pizza and others. Even though our products are made in India, they still belong to a niche category and their consumption calls for an evolved taste. But because of these food service brands, tastes of the people are also changing. Now we have a pan-India presence," says Jalan.

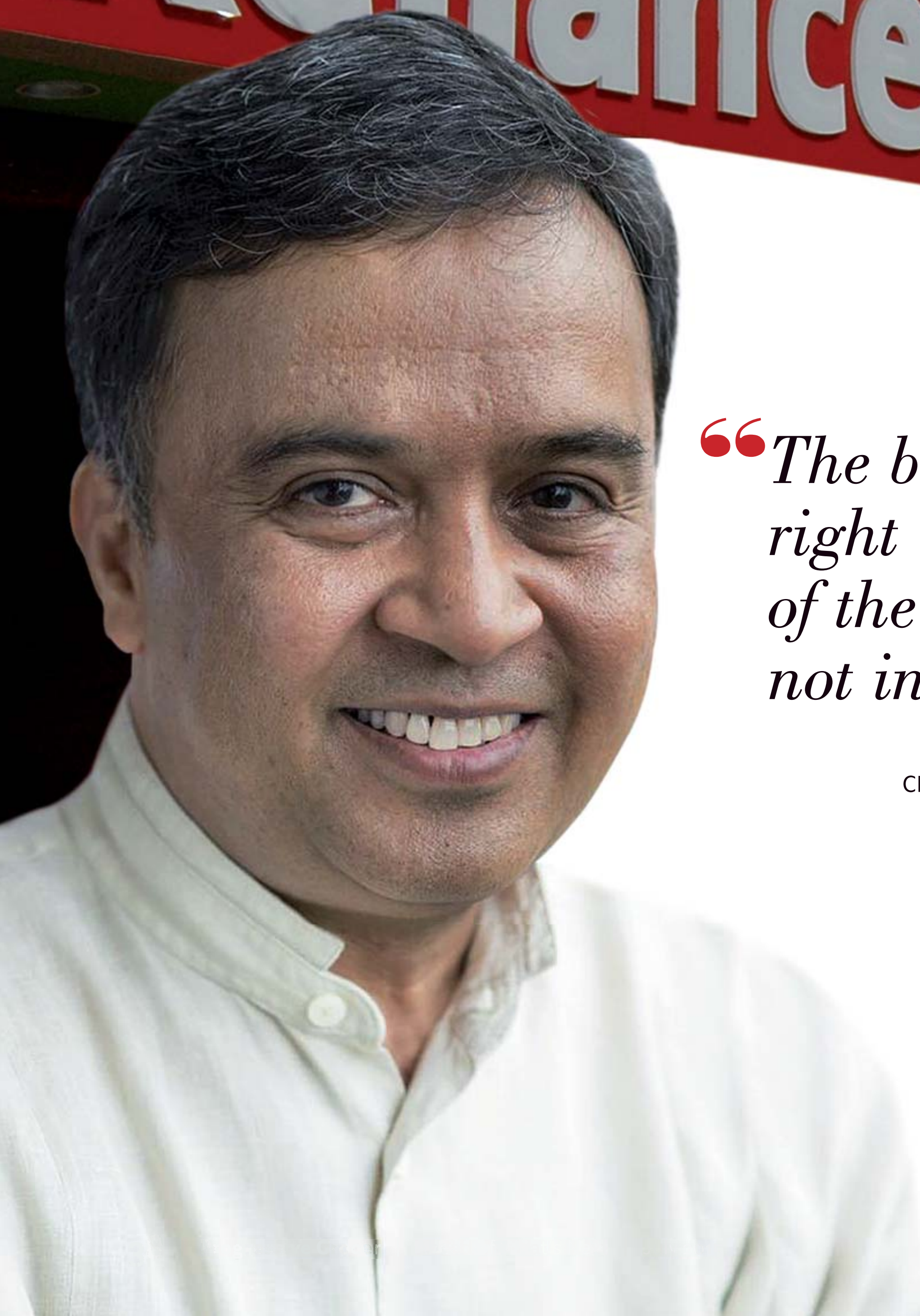
How it pickles

With a 120,000 square feet built-up area, Neo Foods' factory unit is situated in Tumkur, about 75 kms from Bengaluru. The unit has state-of-the-art equipment and facilities. Apart from local conveyors, the canning, bottling and cutting machines are imported from Germany and the US. The factory is divided into two separate units so as to handle both the export and domestic production separately. The plant also meets the requirements for certification - it complies with BRC issue 6 and IFS 6 global standards by SGS. The factory has also been designed to comply with the International Food Industry Standards. Both units have independent processing and packaging lines. The capacity of the factory was ramped up in the past two years and now produces 35 million jars and cans per annum. Jalan is negotiating to purchase the land to set up another factory and is increasing the acreage of land under contract farming. The company has also been tying up with the farmers using drip irrigation, which will increase the yield by 50 per cent per acre.

Pickle trends

According to Neo Foods' Director and Head of Indian Business Shalini Jalan, "People are beginning to recognise and savour the taste of our products. With demand for our products on the rise, we decided to step into the retail segment for greater reach and accessibility of our products." As the demand for Neo Foods' products pick up in the domestic market, items that were once 100 per cent exported – gherkins, relish, burger chips, jalapeños, red paprika, baby corn and silver skin onion - are now finding greater space on retail shop shelves in the country. "We have a good control over the farm so the quality of our products is assured. We started with pickled vegetable, which

Neo Foods is the second largest and fastest growing company in its sector. A major chunk of the company's total revenue is accounted for by supplying products to markets in Germany, U.K., France and USA



"The big action is right in the middle of the market and not in the niches"

– Damodar Mall
CEO – Grocery Retail, Reliance Retail

Retail guru and the author of "Supermarketwalla: Secrets to Winning Consumer India", Damodar Mall speaks to Nivedita Pawar on a wide range of topics on the grocery retail scenario in India and how Reliance Fresh is engaged in making it simpler and more enjoyable for consumers

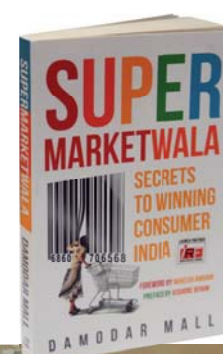
In the food and grocery space, we have seen co-existence of the convenience, value, cash and carry, hypers and speciality formats over the last couple of years. Do you see this pattern changing in any radical way in the years ahead? Is there room for new formats or hybrid formats to emerge as the market evolves?
India is a very large market and therefore the choice of brands or types of stores has only got to expand further. I think we are just seeing the beginning of this. In some of the metro markets in the south, every residential locality has a choice of at least 2-3 supermarkets in the neighbourhood format. The customers make their choices. Additionally, there are destination formats as well. And in the same market digital commerce of various forms is also doing very well. I believe all formats will flourish. Some of the most interesting cash and carry stores in the urban areas are also in the southern metros of Bengaluru, Hyderabad and Chennai. So I see all formats growing and the biggest winner will be the customer.

In your opinion, which format has a bigger chance to grow faster over others and why?
The bulk of the grocery is either bought in the neighbourhood or bought from home. There is no rocket science in this. In Mumbai, for example, 40 per cent of all grocery is actually bought from home. We don't call it e-commerce but its phone orders deliveries. That is the current consumer behaviour. The physical kirana stores are modernising as self-service stores while the phone order from kirana is modernising as e-commerce. From a customer's point of view, it's modernising of each type of grocery buying. So I would say for the grocery segment we would see higher momentum in the neighbourhood store format and from home.

Some believe that the more tightly positioned speciality formats could have an edge over other formats as they can better cater to the evolving needs of discerning consumers. Your views.
In a large market like India every niche is a large enough segment. If your ambition is niche playing then you will find customers in some catchments in the country. But if you are talking about food and grocery India play then the big action is right in the middle of the market and not in the niches. If I am a premium gourmet supermarket service provider, I can find traction in 50 catchments in the country. But if I am a mid-end mainstream supermarket player, I can have 5,000 stores. The country is ready for 5,000 such stores. So it's an entrepreneurial choice whether to play a niche speciality or mainstream. But there is a market for both. I wouldn't say one has less difficulty or will be more successful than the other. I have done discount stores, fresh led supermarkets and Food Hall. I have found all of them interesting and found customers flocking to all these formats.

Please explain how different grocery retail formats can continue to evolve and sharpen their positioning further and what will be the challenges they would face.
As the country becomes a middle-income market, two big positions in food retailing will become the main two clusters. One position is where the retail is fresh produce-led (fruits, vegetables, dairy products, etc) which is viable and available in the long run. The other big cluster that exits is dry goods-led and discount-led. That is again a big position. Middle income is when our per capita incomes are twice where we are today. We should be in that place in less than 10 years. Then these two positions will evolve – closer to the customer, fresh produce

"If I am a premium gourmet supermarket service provider, I can find traction in 50 catchments in the country. But if I am a mid-end mainstream supermarket player, I can have 5,000 stores






Liquid refreshments and convivial noggins

An overview of the beverages market in India, its current scenario, prospects, outlook for growth, and the challenges

By Sanjay Kumar

The traditional beverages category comprising non-alcobevs contribute 8-9 per cent to the total food grocery market in India. Over the last few decades, the market has evolved and spawned many beverage products, which have found an immediate connect with Indian consumers. There has been an emergence of various brands in all segments of the category ranging from drinking water to traditional tea and coffee and processed drinks.

According to industry estimates, the non-alcobev market for beverages in India is close to Rs 195,000 crore and is growing at 20-23 per cent. This growth rate will take the category to three and a half times its present size by 2020. All constituent segments are growing in the healthy range of 20–25 per cent, which is the highest among all food groups. The growth can be attributed to the fact that the beverages market is getting more segmented and niche than ever before. The expanding products range is majorly fuelled by the food processing sector and with growth of the sector, the beverages category is bound to carry forward the acceleration.

Constituents and size of traditional beverage segments

The four broad segments of the category are tea and coffee, juices and flavoured drinks, packaged drinking and flavoured water and other non-alcoholic drinks, including soft drinks, cocoa, chocolate, etc. The lion's share is taken up by tea and coffee, which confirms that the beverage category




is still ruled by traditional drinks. India may be the country with strongholds of tea and coffee in specific areas but combined together they command the whole market.

Tea, by far, is the largest segment of beverages in India ruling over 79 per cent of the market. The market is growing at 20-23 per cent and by the same rate it will cross its present market size by more than three times by 2020. On an average, each person in India spends about Rs 106 on tea consumption every month. Although south India is usually perceived as a coffee market but the tea market is around nine times bigger in the region. Monthly per capita consumption of tea in the region is Rs 147, which is even higher than the all-India average.

Another traditional segment having a large share is juices along with other canned and bottled beverage options. Inspite of the financial muscle powers and an unparallel distribution advantage, the global beverage giants hold just 5 per cent share in the category.

The beverages market for non-alcoholic products is split 50:50 between rural and urban markets. But the individual contribution share of constituting segments in both the markets differ. The largest segment of tea and coffee has a bigger share in the rural market than in urban. Rest of the constituent segments has larger shares in the total urban market. Packaged drinking water or juices consumption or the culture of drinking soft drinks and having energy drinks are all urban trends and have limited penetration in rural areas. Consumers' lifestyles and consumption habits are the differentiating factors for this variation in both the markets.

On an all-India basis, tea has a 45 per cent urban market. The west and south regions have almost the same market share in this market. Both the regions also share the same monthly per capita tea consumption figures, which is around Rs 177.

About 4 per cent of the total beverages market is juice market. The segment is growing at 20-25 per cent and is aiming to grow almost four times bigger in the next five years. Today Indians are spending an average of just Rs 6 per month on juices, which is less than what they spend on other beverages. The juice segment has been somewhat impacted by the emergence of other flavoured drinks, which have become an easy alternative to the consumption of juices.

However three-fourths of the juice market is urbanised. The high consumption of juices in these markets is the result of higher health awareness, availability of branded juices, urban lifestyle full of options, boom in modern retail and mall culture and the influence of globalisation in the F&B space. People have realised the importance of healthy food and are demanding packaged juices, which can be easily carried with them at their home, workplaces, during their touring & travelling.

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