RIPE FOR THE PICKING?

Organic food could be the next big food wave in India

AVALON Consulting

Cordence WORLDWIDE MEMBER

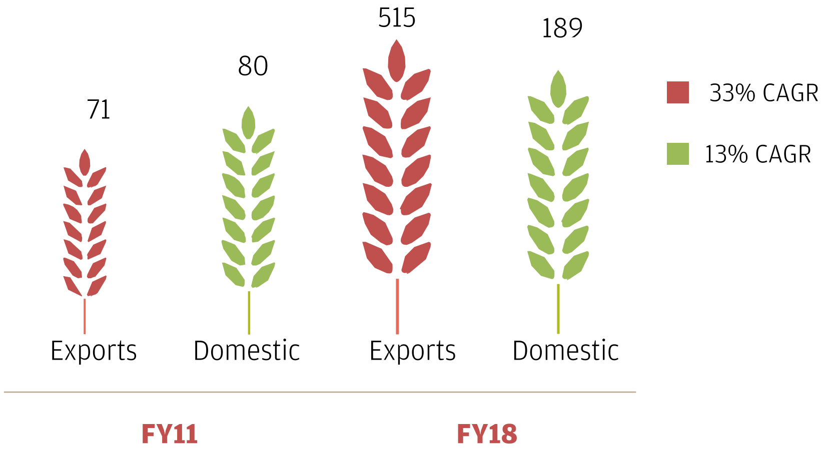
- Globally, the organic wave seems to have swept across all things food. From farm produce, to meat, to seafood, to dairy, 'going organic' is transitioning from being a fad to a way of life.
- A heightened sense of environmentalism along with widespread alarm at the prospect of ingesting pesticide residue or preservatives is prompting a shift to safer, more natural options.
- India is playing a part in this global story by supplying large quantities of organically grown non-GMO produce to the USA and Europe, which together are about 90% of the market. But an interesting story is unfolding back home - India is also now consuming organic food.
- It is now home to a sizeable latent demand waiting to be unlocked, making India an organic market that may be ripe for the picking.

A longish ride from farm to fork

All the makings of a growth story are present in the Indian organic food market. As the great Indian middle class (the "seekers" and "strivers" with income between 4 and 20 thousand US dollars) grows wealthier and seeks healthier ways of living, the willingness to pay a premium for healthy, natural food is rising. Communication of "health" is high on the agenda for packaged food companies and there is a far greater urge among Indian consumers to reach out for products with "No Preservatives", "No added sugar", "Gluten-free" labels. Organic food, with its naturally "better-for-you" proposition should ideally be flying off the shelves.

While demand growth is good at 25%, it is on a relatively smaller base and the realizable potential is much higher. From a farming standpoint too, going organic is not difficult, in theory at least. India is intrinsically agrarian, natural manure is abundantly available, as are vast tracts of naturally organic virgin land in the western and north-western extremities which can be made arable through clever agricultural innovation. What is perhaps needed is a concerted effort by stakeholders in creating the right ecosystem to bring much larger quantities of organic food from farm to fork.

Organic food exports vs domestic consumption in USD mn



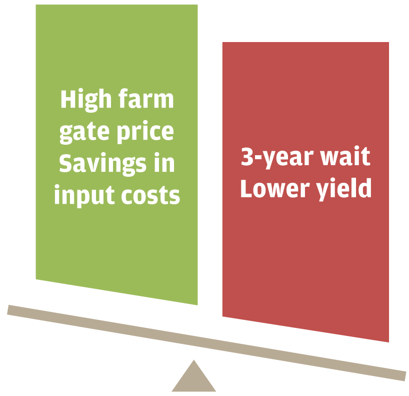
Source: ASSOCHAM-Techsci study, Industry reports

Help make it a farmers' market

In India, farm gate prices for organic and non-organic produce are often too close to provide a sustained incentive for farmers to go organic. The farmer also has to contend with a three-year waiting period until his output can be certified "organic". This includes the time involved in purging the soil of chemical residues, ensuring the land is secure, water sources are free from chemicals and maybe even arranging for a cover of trees to ensure the wind does not carry harmful chemicals to the crop. Output during this waiting period is naturally lower.

On a sustained basis, a certified organic farm yields 10-15% less than conventional farms. However the lower yields, long waiting time and relatively high certification costs are expected to be balanced by lower input costs and higher farm gate prices. Absence of the latter, therefore, becomes a dampener for continued farmer interest.

Farmer economics for organic



Add organic to cart

Placing organic products on retail shelves is expensive. Modern trade expects margins of 30-40% for organic staples, where margins for non-organic staples are almost half. Processing is expensive too. Many players today have centralized processing units, adding to logistics cost and handling effort. The small scale also makes for very labour intensive operations. Some organic products also require stable and cooler temperatures during storage since they cannot be sprayed with preservatives. For the consumer therefore, organic food is 50-70% more expensive than non-organic, going up to two or even three times for certain categories like ghee (clarified butter) and honey.

To counter these additional costs that squeeze margins, e-commerce is proving to be a pocket-friendly alternative for companies. Channel margin for e-grocers is lower and resultant savings could be optimally leveraged to ensure long term growth. E-commerce is a useful ally in enhancing availability too, especially in Tier 2 and Tier 3 cities. It also offers an opportunity to enhance customer engagement. So while supermarkets continue to be the dominant distribution channel, many companies are increasingly tapping into the online route.

The share of organic sales in overall sales for an e-grocer may be much higher than for modern trade. For instance, at Natural Mantra, a Mumbai-based online grocery portal, over half the orders placed are for organic foods. At BigBasket.com, an online grocery portal, a little over a quarter of all orders come from organic produce. On the other hand, the share of organic food for a modern trade outlet may be as low as 2%. Many firms are currently offering groceries online including Zopnow, Bigbasket, Grofers, Nature's Basket, Organicgarden, Organicmandi, Gourmet Delight and others.

POS-wise split of Indian organic food market by value

> **E-COMMERCE IS A POCKET - FRIENDLY ALTERNATIVE AND A USEFUL ALLY IN ENHANCING REACH**

Source: APEDA, Industry

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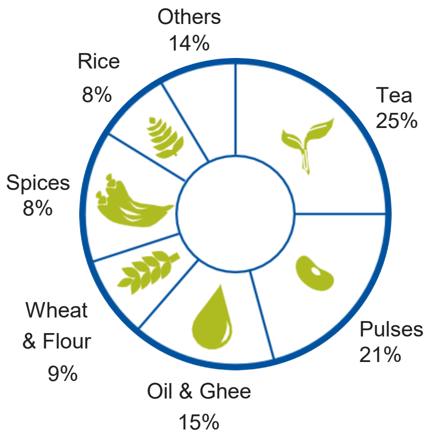
Offer a wholesome basket

Given a choice, consumers would prefer to turn completely organic in their food habits, rather than selectively turn organic. However, organic varieties of high consumption items like fruits and vegetables are hardly available in India, a sharp contrast from the global market where F&V account for 30% of the organic food market. A case in point is market leader Organic India, whose portfolio comprises only herbal and Ayurvedic health products and tea.

This is not surprising considering the weakness in the supply chain. Farm holdings in India are small and scattered. Multiple crops are grown in a single small land holding and the produce from multiple such holdings is aggregated, usually by Non-Government Organizations (NGOs), which supply it to corporates. This aggregation by NGOs makes numerous bite-sized SKUs, with little visibility of what will be available and in how much quantity.

Farmers are not obligated to restrict their output to one or two crops and indeed prefer de-risking their output, at times growing as many as 7-8 types of crops in the same year. One might have an abundance of pulses in one harvesting season only to find the farmers shift to cotton in the next. This makes for erratic supply.

Product-wise split of organic food market by value, FY 16

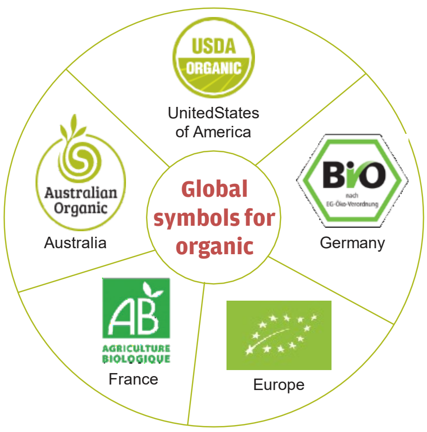


For a sustainable play, both customers and corporates need certainty of availability. Mechanisms for better corporate-farmer engagement and potentially much higher investments by government could address this. In India, with increasing government initiatives, the land under organic farming is expected to triple to reach ~2 million hectares by 2020.

Separate the wheat from the chaff

Today, the Indian consumer relies simply on the credentials of the store or brand from where she buys organic food. Nothing tells her if the food is genuinely organic. Identifiable and credible certification will go along way in alleviating concerns around authenticity of organic food in India. Germany, the USA and many European markets have visual symbols for organic. While India does have an official symbol for organic certified produce, it lacks widespread acceptance as a hallmark of authenticity.

Also, since organic food is not differentiated with respect to superior mouth feel or taste, its better-for-you proposition may stand to be more emphasised to widen the consumer base. It might also be worthwhile to create media noise around this, who knows even a celebrity face for Indian organic produce might be in order. Strong regional associations may also be created - for instance Sikkim is a 100% organic state, so output from there has to be organic. Much like the fame accorded to Darjeeling tea and Nagpur oranges.



> WHILE INDIA DOES HAVE AN OFFICIAL SYMBOL FOR ORGANIC CERTIFIED PRODUCE, IT LACKS WIDESPREAD ACCEPTANCE AS A HALLMARK OF AUTHENTICITY

Source: Industry.

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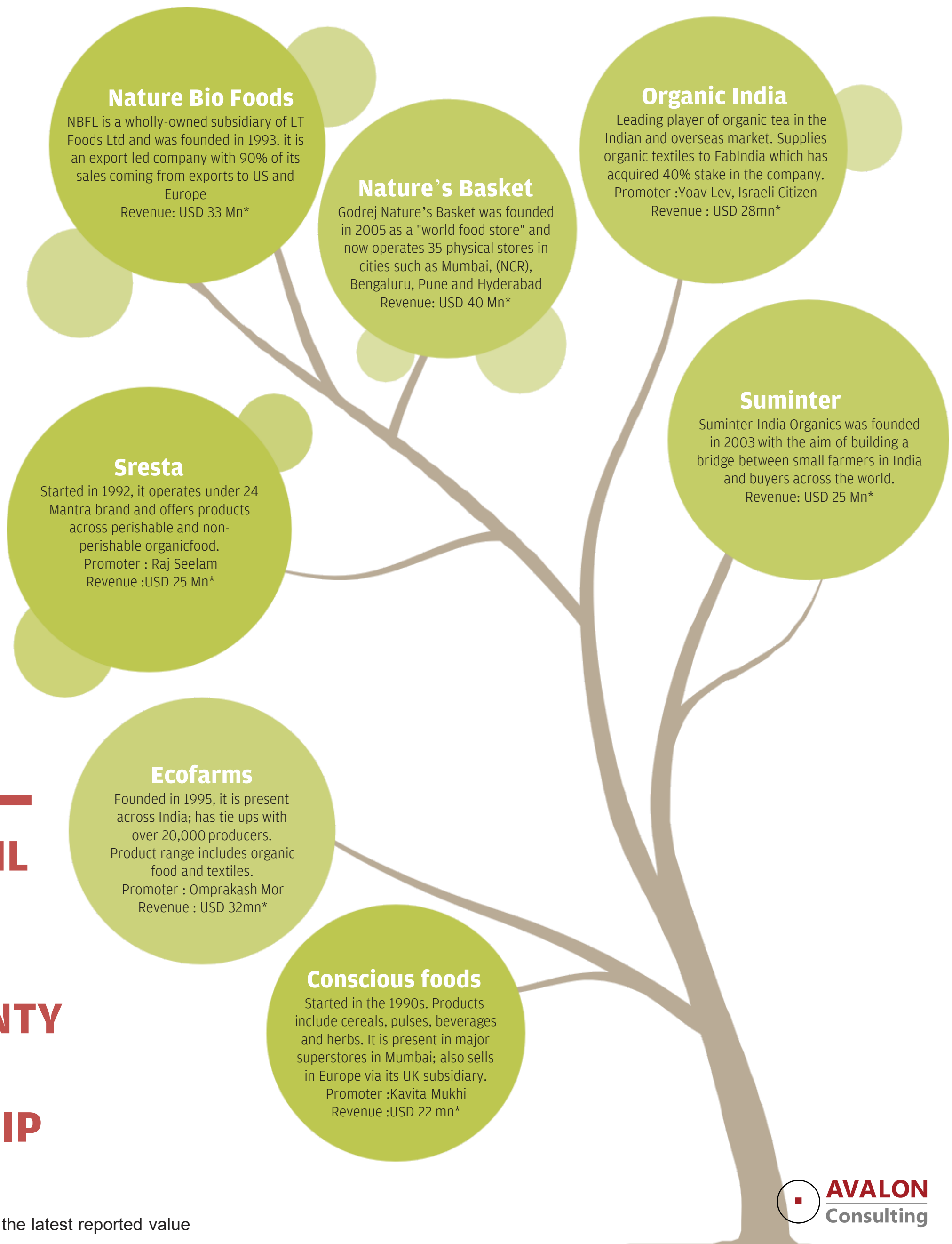
Cherry-pick

Unlike the US markets where FMCG giants have over time consolidated the organic market through a series of acquisitions, in India the supply side is completely fragmented with no clear market leader. There are a handful of players in a pseudo - branded space. There is plenty of room to create category leadership. Some of the leading players in the organic food market in India are Nature's Basket (7% share), Nature Bio Foods (6%), Organic India (5%), Sresta Natural Bio Products (4%) and Suminter India Organics (4%). Other relevant players are Phalada Agro, Pristine Organics, Pro Nature Organic Foods, Conscious Foods, Sanjeevani Organics, Ecofarms, Morarka and Navdanya. More than 200 small players make up a chunk of the market; these are mainly exporting to the US and Europe.

There is a clear opportunity to create category leadership - either by investing in a single player with a good brand or by investing in a few regional players to create a national footprint.

There is also room to go deeper. A handful of Tier 1 cities form more than 90% of the organic market in India- Delhi NCR (40%), Mumbai (25%), Bangalore (10%), Chennai (6%), with others contributing the remaining 19%. Tier 2 and Tier 3 markets are seeing increased interest in organic food, however, are limited by avenues to purchase organic food.

Some of the leading players in the organic food market in India



THERE ARE A HANDFUL OF PLAYERS IN A PSEUDO - BRANDED SPACE. THERE IS PLENTY OF ROOM TO CREATE CATEGORY LEADERSHIP

Source: Industry
*Revenue figures are between FY 14 – FY 17 as per the latest reported value

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SOWING THE RIGHT

Seeds for a bumper organic harvest

1 Organise supply chain

It is essential to define the commodity strategy well - both procurement and processing - to ensure consistent supply at viable costs.

2 Get your retail strategy right

Balancing profitability and penetration will require a measured mix of online vs brick-and-mortar retailing.

3 Chart out brand strategy

While organic food is itself seeking mindshare among the Indian consumers, creating a strong brand association early in the game may place a company well when the latent growth kicks in.

4 Seek an ally

It may be worthwhile to seek a partner with strong regional or brand association that may be constrained for want of financial muscle.

5 Build trust

The Indian consumer could stand to get a little more convinced about "genuinely organic" products - companies and brands that are able to achieve this will gain immensely.

As it stands, even with the most conservative estimates, Indian organic market is expected to grow at a 20% CAGR, making it a USD 2 billion market by 2024. Even if a few of the issues cited here are resolved, the growth potential is massive. In the USA, the USD 1 billion milestone was reached in 1990 when national standards began to form and they moved towards full implementation by 2002. Today, the USA organic market is ~USD 53 billion. One would obviously not expect India to follow the same trajectory, since the conservationist mindset that is driving a lot of consumption there is not yet very evident in India. Here, the more immediate motivation is to consume "natural" food and "residue-free" food. The right catalysts in the form of supply chain debottlenecking, regulatory push and some above-the-line marketing could propel Indian organic food into the next big phase of growth.

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GREAT VALUE CREATION

Focus on delivering maximum client impact through innovation and collaboration

E

ETHICAL APPROACH

Respect, fairness and transparency in all our interactions

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