Food Inflation and Remedies to Contain it - A Retailers Perspective

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India is changing – Boundaries are Dissolving

Indians are becoming Global Indian; With Indian companies going global

- Jobs are going global, Indians are travelling the world
- World is coming to India like never before

Cross culture influence is globalizing Indian food palette

- Indians are accepting & eating global cuisines
- Exposure to global food, variety, quality
- Demand for matching global quality, variety & consistency is growing

Resulting in evolving food demand and globalization of food habits
Drivers of food prices in global scenario

- Excess supply over local demand enabling international food producers to enter new markets like India

- Supply surplus provides growers with flexibility of multiple market pricing, making products competitive even if exported (e.g. USA Apple price net of Duty at Rs 80/kg is cheaper than Indian apple at Rs 120/kg*)

- Currently higher Supply than demand on commodities is balancing the inflation factor

Source: CYBEX and retail market prices
Food demand to increase due to reducing agriculture resources

- **Fundamental Shift - Urban: Rural population ratio changing**
  - In 2004 - 30%: 70%
  - In 2013 - 45%: 55%

- **Arable Land Shrinking**
  - 20 states reported decrease in cultivable land to the extent of 790,000 hectares in four years from 2007-08 to 2010-11*
  - Diversion of cultivable land for non-agricultural purposes, including construction and other development activities.

✓ Disparity of demand & supply is bound to continue given the increase in population and decrease in arable land leading to inflation trend

*source: TNN
Indian consumption market is a reflection of global market as well

### Indian Market Segmentation

- **India 1**: Top of the economic pyramid
- **India 2**: Middle class & Upper-Middle class
- **India 3**: Majority of India

### Characteristics

- **Top of the economic pyramid**
  - Food is indulgence not sustenance
  - Seeks premiumness & niche
- **Middle class & Upper-Middle class**
  - Consumption driver of India
  - Seeks Value **not** Discounts
- **Majority of India**
  - Food limited to sustenance
  - Seeks lowest price points
While For India 3, food inflation will continue to be a challenge....

<table>
<thead>
<tr>
<th>Food availability</th>
<th>Food affordability</th>
<th>Food safety</th>
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<tbody>
<tr>
<td>• Being addressed through govt food security measures</td>
<td>• Food to transform to ready-meals for better value addition and control (E.g Akshaypatra initiative)</td>
<td>• Adopting better processing practices through cost sharing</td>
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... changing India 1 & India 2, will Redefine the way we look at food prices

- Look at price increase as absolute terms and not a %
  - Rs 2 increase on base of Rs 10 is 20%, while, a Rs 2 increase on base of Rs 50 (4%)

- With the increase in dispensable income, the “absolute value” increase is food prices will remain insignificant

- Value perceived by consumer convenience is to eclipse MRP of the product

- Food expense as % of consumer wallet is reducing; replaced by savings for housing & education
Rising economic growth likely to eclipse food inflation

- Economic growth has been compensating inflation over the last decade, except for the pre & post recession period.
- Food inflation will become insignificant in comparison to income & other spend areas like housing, healthcare, travel, electronics etc.

Source: http://www.inflation.eu/; PTI
Redefine the way we look at - Market Correction

✓ Redefine the way we look at inflation - Market correction is bound to happen; accept it

✓ Consumer willing to pay for the right values – absolute prices does not matter

✓ Import duty relaxation/ removal can open up access to global food at cheaper prices and gear up Indian producers to match global norms and quality
Policy Reforms

- **Relooking at MSP**
  - Constant MSP rise will directly impact food prices

- **Import duty relaxation**
  - With globalizing Indian Food Palette, demand for global foods/ quality is on the rise

- **Consolidation of farming land**
  - Policies to promote corporate farming and farm consolidation not in place

- **APMC policy reform**
  - Restriction of licensing and APMC regulations, constraining flexibility in farm sourcing
  - Delisting commodities from APMC act

According to the RBI - MSPs will continue to pressure prices. MSP is the assured floor price at which government buys produce from farmers.

A 10% MSP hike raises short-term wholesale inflation by 1 percentage point. (Source TOI)
Policy Reforms

- **Yield Improvement**
  - Consolidation of farm land & best practices to improve productivity & yield

- **Waste Reduction**
  - Value loss in food chain to be contained through integrated post harvest measures

- **Impetus to food processing**
  - Impetus to food processing to enhance value additional and waste reduction in food
Thank You