

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

Food demand to increase due to reducing agriculture resources

- ▶ Fundamental Shift - Urban: Rural population ratio changing

- ▶ In 2004 - 30%: 70%
- ▶ In 2013 - 45%: 55%

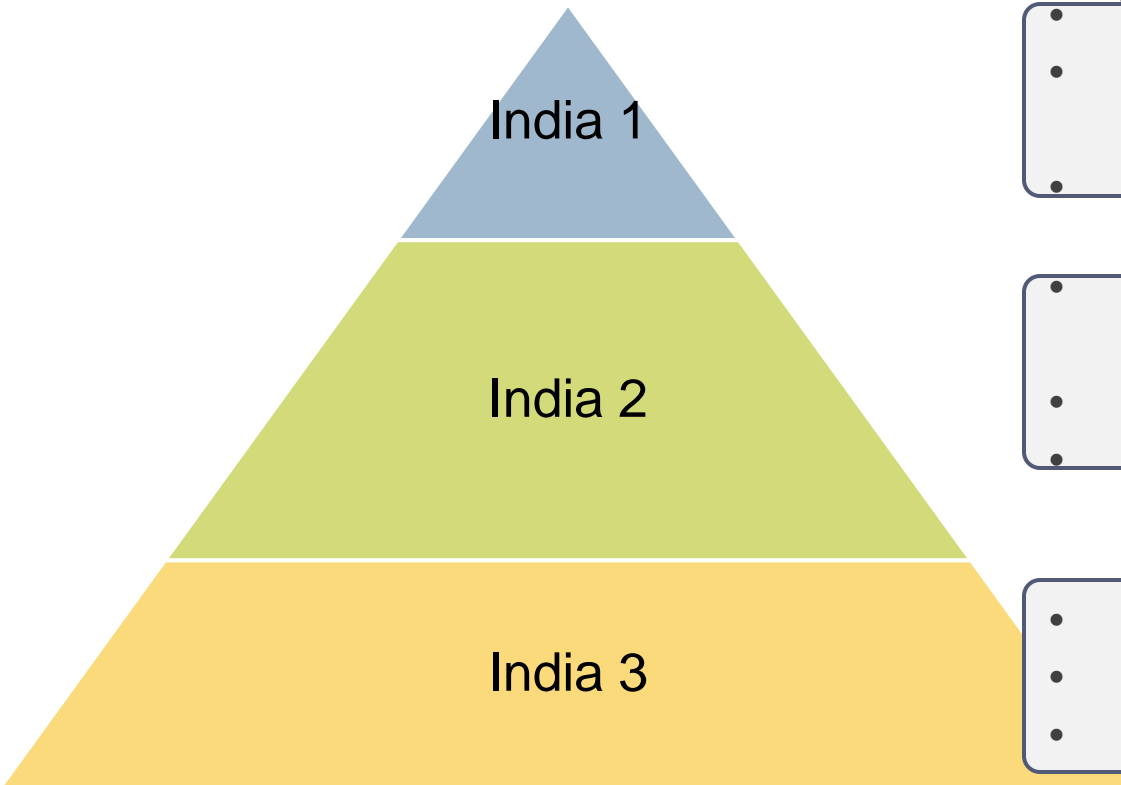
- ▶ Arable Land Shrinking

- ▶ 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**

Indian consumption market is a reflection of global market as well

Indian Market Segmentation



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....

Food availability

- Being addressed through govt food security measures

Food affordability

- Food to transform to ready-meals for better value addition and control (E.g Akshaypatra initiative)

Food safety

- Adopting better processing practices through cost sharing

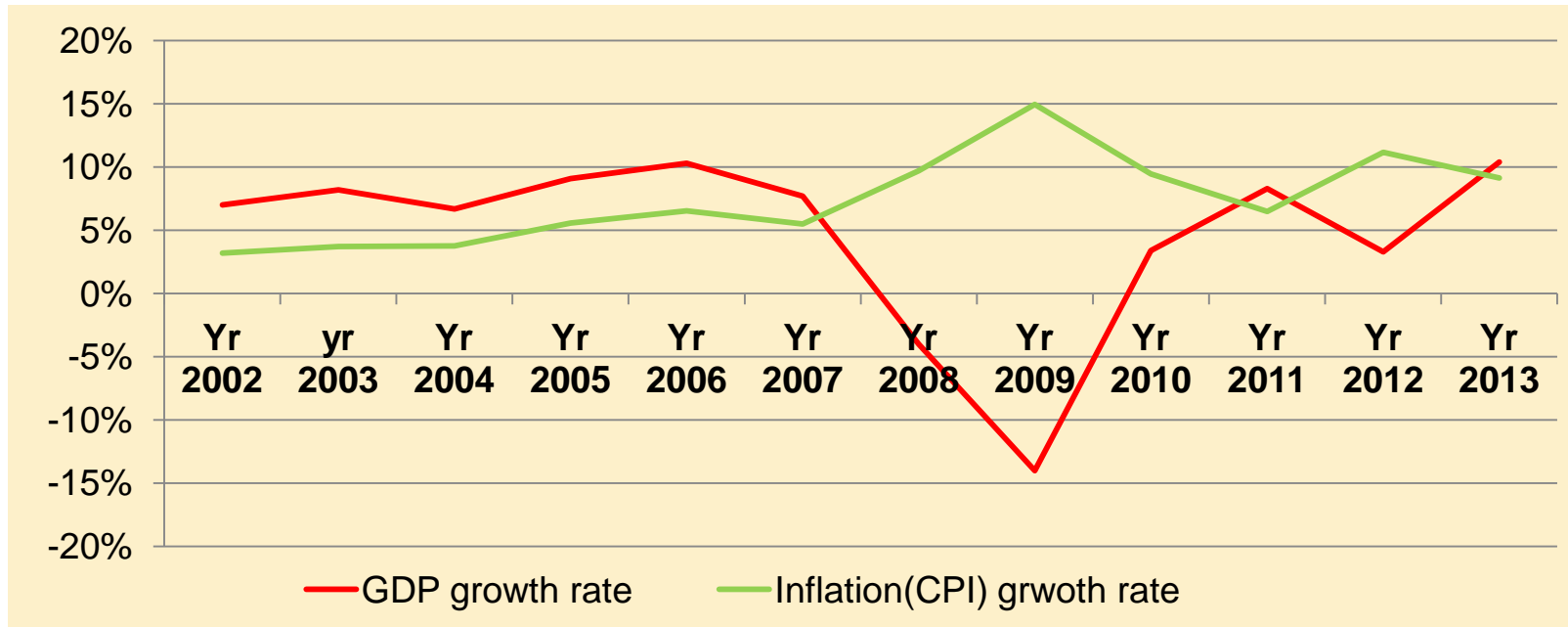


... changing India 1 & India 2, will Redefine the way we look at food prices

- ▶ 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 in 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

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

