Supply Chain Challenges for Food Processing Industry.


Vista Foods – Mumbai
An Group Company
OSI Group is strategically organized into three defined Zones –
The Americas Zone.
The Europe Zone.
The Asia /Pacific Zone.
Over all OSI Group is in 26 Countries.
Serving McDonald’s Worldwide and other international retails label pack.
“Be ready to accept a new idea. Innovation is the lifeblood of growth. Create an environment that breeds innovation. Maintain consistency while responding to change.”

---- Ray Kroc  Chairman
<table>
<thead>
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Food Processing Sector in India

Food is the largest consumption category in India...

**Food Consumption in India**

Source: BMI, Q1 2009 & CSO

CAGR: 5.32%

**Significant Opportunity**

India as a huge Consumer Market
Food Processing Sector in India

India has huge supply advantages due to diverse agro-climatic conditions and wide ranging raw material base...

- 52% cultivable land compared to 11% world average
- All 15 major climates in the world exist in India
- 46 out of 60 soil types exist in India
- 20 agri-climatic regions
- Sunshine hours and day length are ideally suited for round the year cultivation
- Largest livestock population
- Largest producer of milk
- Largest producer cereals
- Second-largest fruit and vegetable producer
- Among the top five producers worldwide of rice, wheat, groundnuts, tea, coffee, tobacco, spices, sugar and oilseeds.

Significant Opportunity

India as a global sourcing hub
Food Processing Sector in India

Huge wastage across the supply chain leads to lower level of processing and hence low value addition...

- Field Losses (Pest, Diseases, Rodents etc)
- Pre-Processing (e.g. inefficient harvesting, drying, milling)
- Transport (e.g. spillage, leakage)
- Storage (e.g. technical deficiencies)
- Processing & Packaging (e.g. excessive peeling, washing)
- Marketing (e.g. spoilage, rotting in stores)
- Wastage by Consumer (e.g. overeating, food wastage)

Developing Countries – Relatively high losses in the initial parts of the value chain

Rich Countries – High losses at a later stage in the food chain

level of Processing across Segments

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Britt-Louise Andersson, SIWI
Indian Food Trade

Supported by a committed government in improving the food trade and providing a conducive atmosphere for agriculture, India is a net exporter of agricultural products.

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<th>India’s Position in Global Trade</th>
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<td>• India stands a distant 21\textsuperscript{st} for the year 2007, with a 1.4% share in the global trade.</td>
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<td>• During the period 1980-2007, India’s share in the global exports have increased from 1.1% to just 1.4%, the majority of the increase happening in this decade.</td>
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<td>• However, Export of Processed Food and Beverages is growing faster than the overall Food and Beverages...</td>
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India’s geographical situation gives it the unique advantage of connectivity to Europe, the Middle East, Japan, Singapore, Thailand, Malaysia and Korea.

Globally, most of the countries import from countries that are geographically closer.

• For example, 45% of USA imports are from Canada and Mexico.
• EU imports 50% from Spain, Netherlands, France, Italy, Belgium and Germany
Indian Food Trade

Case Study: Chile has successfully overcome the distance barriers in trade...

Chile’s strategic approach to boost exports

- Encourage an internationally competitive environment
- Lower export transaction costs
- Long term view of enterprise level support
- Coordinate export support program through a central technical agency
- Facilitate FDI
- Promote private sector investment in infrastructure development
- Encourage innovation

In the period 1975-2008, Chile’s Food Processing Market increased from USD 1.5 Billion to USD 58.9 Billion.
Also, the number of export markets increased from 50 to 181.
Industry Growth Drivers - Demand

Urbanisation, rise in disposable incomes and changing lifestyle and aspirations are leading to significant demand for processed food...

- Increasing Urbanisation – Lifestyle and Aspirations
- Increasing spends on health foods
- Increasing Nuclear Families and Working Women
- Changing demographics – Rise in disposable incomes
- Demand for Functional Foods
- Organised Retail and Private Label Penetration
Industry Growth Drivers - Policy

Supportive Policy, in light of the significant employment and trade potential, to boost the quantity and quality of output in the sector is also driving growth in the sector…

- Infrastructure Development
  - Mega Food Parks
  - Integrated Cold Chain
  - Modernisation of Abattoirs

- Technology Upgradation
  - Grant of 25% of the cost of plant & machinery and technical civil (maximum of Rs 50 lakhs in general areas and Rs 75 lakhs in difficult areas)

- Quality Control/ R&D
  - Setting up a network of laboratories
  - Higher level of assistance to research institutes
  - Assistance for organising promotional activities
  - 50-100% subsidy to private companies/state governments, which set up quality testing laboratories

- HR and Institutional Development
  - Financial assistance to set up training centres
  - Establishment of NIFTEM
  - Strengthening of State Nodal Agencies
  - IT
1. Food Processing Sector in India
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Supply Chain - Challenges?

Strategic Sourcing

Easing the Burden on the Food Industry

Ensuring ever improving Quality
Challenges in the Sector

Challenge 1: Productivity Issues

India’s overall agriculture productivity is still low...

<table>
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<th>Region-specific Factors Causing Low Productivity</th>
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<tr>
<td>Agro-climatic Region</td>
</tr>
<tr>
<td>Western Himalayan region-I</td>
</tr>
<tr>
<td>Eastern Himalayan region-II</td>
</tr>
<tr>
<td>Lower and middle gangetic plains regions-III and IV</td>
</tr>
<tr>
<td>Upper and trans-gangetic plains region-V and VI</td>
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<tr>
<td>Eastern plateau and hills region-VII</td>
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Challenges in the Sector

Challenge 2: R&D

Key Problems in Indian R&D

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<th>Commodity-centric R&amp;D</th>
<th>Lack of a holistic approach involving a matrix of farm enterprises</th>
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<td>Compartmentalization of R&amp;D agencies</td>
<td>Lack of effective bilateral flow of information amongst research, extension, and implementation departments</td>
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<tr>
<td>Poor validation and feedback mechanisms</td>
<td>Lack of large-scale on-farm validation of techniques and feedback thereon, leading to practically no scope for enhancement</td>
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A seven-step mechanism is required to set-up a research-development-technology transfer continuum involving all stakeholders

1. Problem identification and prioritization
2. Convergence of existing technologies to match the need
3. Generation of need-based viable technologies using the holistic farming system approach
4. On-farm assessment and evaluation
5. Feedback on the technologies
6. Refinement of technologies, if necessary
7. Ensuring timely availability of inputs
The industry is in dire need of highly skilled/trained manpower across different levels to handle various operations.

- Emphasize food safety in storage conditions
- Training in Warehousing and Distribution

- Managerial and Operational level HRD
- Food safety awareness
- Auditing and inspection skills
- Process development
- Institutional Development
- Focus on packaging techniques, storage and safe transportation

- Platform to make policy decisions
- Inclusion in academic curriculum
Challenges in the Sector

Challenge 4: Supply Chain Hindrances

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<th>Necessity for a Strategic focus on Supply Chain in FPI</th>
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<tr>
<td><strong>Seasonality</strong></td>
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<td><strong>Perish ability</strong></td>
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<td><strong>Variability</strong></td>
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- This situation discourages processing units to reach optimum size and achieve economies of scale.
- Additionally, lack of consistent quality hinders small scale units to build brand equity for themselves in international and domestic markets.
Challenges in the Sector

Challenge 5: Low Adherence to Quality Standards

Increasing need for food processors to adhere to quality standards for both domestic as well as export market

- Increasing Globalisation
- Stringent Safety Norms
- Rising Customer awareness on Quality and Health

- Lack of requisite controls across the agri-value chain— from farm inputs to storage of produce to food processing techniques
- Poor compliance to requisite food standards in export countries
- Absence of basic standardization and certification infrastructure
Creating Competitive advantage through supply chain for Food Processing Industry.

Objective-

- Understanding the importance of connecting Supply Chain vision and strategies to Food processing Industry vision.

- Understanding when Supply Chain strategy needs to change
“Competitive Advantage”

Definition of
• **Competition** - striving for the same prize

• **Advantage** - a more favorable position; superiority

• **Competitive Advantage** - a successful rivalry for customers or markets based upon a more favorable position.

How Industry Leaders Have Used Supply Chain to Create Competitive Advantage
Is it Really Possible?

• Can a company’s Supply Chain contribute to its overall competitive position?
• In what ways?
• How significant can Supply Chain’s impact be?
McDonald’s SC Strategies

- Enable rapid expansion
- Ensure unique experience
McDonald’s SCM Success Story

- 121 countries
- Safe and consistent supply
- Supplier partnering
- Limited supply capability
- Supply Chain innovation
- Most socially responsible QSR
- Increase in value
WAL-MART’s Supply Chain Strategies

- Best Retail Info. System
- Standardized Platform
- Integrated Suppliers

- Reduced Stock-outs & Stock Piles
- Rapid Response / Deployment
- Largest Retailer -- 100mm Customers / wk
- Sustained 20% Sales Growth
- Voted “Retailer of Century”
Core Values

- People First
- Win / Win / Win
- Personal Accountability
- Ethics & Integrity
- Open & Honest
- Fair Play
- Sharing Best Practices
Supplier Partnering

A **defined business relationship** based on mutual trust, openness, shared risk and shared rewards that yields a **competitive advantage**, resulting in business performance greater than would be achieved by the companies individually.
Performance, Measurement And Reward

Expectations

SPI

Joint Planning & Review

Pay-for-Performance
1. Food Processing Sector in India
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A developed Food Processing sector will help overcome the biggest challenges in front of India:

- Low farmer income and high subsidies
- High wastage along the value chain
- Poor hygiene and safety standards

Given the huge potential opportunity, players should consider the constraints as opportunities waiting to be exploited and make investments for the overall growth of the industry.
Opportunities

High domestic demand and supportive policy provides significant opportunities across the Food Processing value chain...

Key Opportunities

- Mega Food Parks
- Integrated Cold Chain
- Backward and Forward Integration

Financial & Business Services

Transport Services/Infrastructure

Quality Control

Market Intelligence

Policy Support

Consumer

Product Design

Distribution

Marketing

Food Safety Management Systems

Training Facilities

B2B Sales

Quality Control Labs

Joint Research Facilities

Customised Farm Equipment
Recommendations

Recommendations for the Food Processing Industry in India

- Promote Nutrition Foods
- Process able variety of Crops
- Support Backward Integration
- Increase Promotional Activities
- Market Access to farmers
- Investment in Hard/Soft Infrastructure
- A Dynamic Food Processing Industry
- Technology Upgradation
- Harmonisation of Taxes
Thanks – Open for Q&A