Asia Business Generator Project

［Osaka International Business Promotion Center］

The Health & Wellness Foods Industry in India

An Overview

TATA

TATA STRATEGIC MANAGEMENT GROUP

(A division of TATA Industries Ltd)

1. Indian Health & Wellness foods – an overview

The Health & Wellness (H&W) food industry in India has witnessed significant activity over the past few years. A number of food players have been introducing healthier variants of their existing products or launching a completely new range of products on this platform. However, H&W products constitute merely 8 to 9% of the US$ 19 billion packaged food market in India, as compared to the global average of ~27%. With key consumer side changes underway, along with the growth of packaged food consumption in India, the H&W market could witness high growth over the next decade.

2. Major segments

H&W products in India could be classified into three dominant categories, i.e. Better-for-You (BFY), Functional / Fortified, and Natural categories[1].

Exhibit 1: Health & Wellness foods in India

Health & Wellness (H&W) Foods

Better for you	Functional / Fortified	Natural
E.g. low cholesterol edible oils, 0% trans-fat snacks & biscuits, slim milk / curd / ice creams, diet colas	E.g. iodine fortified salt, iron fortified biscuits, health food drinks & breakfast cereals fortified with micro-nutrients	E.g. 100% natural fruit juices, pickles without preservatives

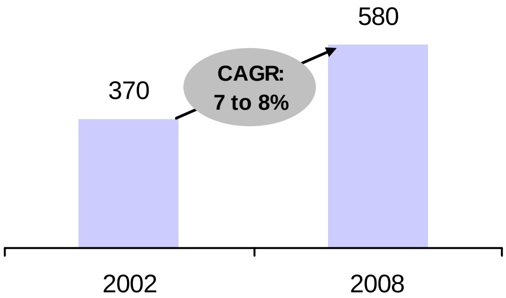
[1] Organic and naturally healthy products have not been considered as H&W products in this report. Refer to Annexure 1 for definitions of H&W categories

3. Global H&W Market

3.1 Size and Growth

The global health & wellness market, estimated at US$ 580bn (2008), constitutes 27% of the packaged food market (US$ 2100bn). The market has experienced a growth of 7 to 8% between 2002 and 2008, as compared to the packaged food market growth of 3 to 4%. Around 70 to 80% of this market is concentrated in developed countries (US, Western Europe and Japan), with higher per capita incomes and a greater consciousness of health and wellness foods.

Exhibit 2: Global Health & Wellness foods Market (US$ Bn.)

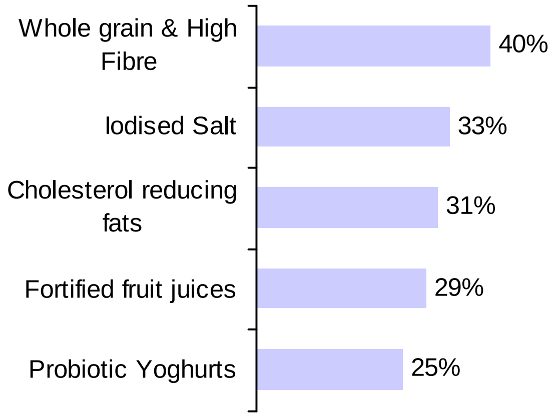


Source: Euromonitor

3.2 Product trends

Preventive over Curative: With higher incomes and increased health consciousness, consumers globally have started adopting a *preventive* lifestyle over a *curative* approach. Globally, the key consumer preferences are in the areas of digestive health, cardiovascular health, low sugar and natural products. This is reflected in the increased usage of supplements like probiotics, omega-3 / omega-6 fatty acid etc.

Exhibit 3: Penetration as a % of base category



Souce: Mintel Survey 2005

Performance enhancement: Besides preventive categories, categories like beauty care, energy and sports drinks have also shown significant growth in the developed markets. Between 2005 and 2008, beauty foods increased from a share of 2.3% of all functional products launched in 2005 in China, to 5.2% in 2008. Other categories like sports drinks, vitamin beverages, energy drinks and other performance enhancers are small but fast growing categories.

New product launches: Natural products emerged as the most preferred platform for new product launches in 2008, overtaking functional foods. This was largely because of the ambiguity prevailing over permissible claims set by select European countries to safeguard consumer interests hindering simultaneous product launches across various countries.

4. Health & Wellness trends in India

4.1 Key Consumer trends

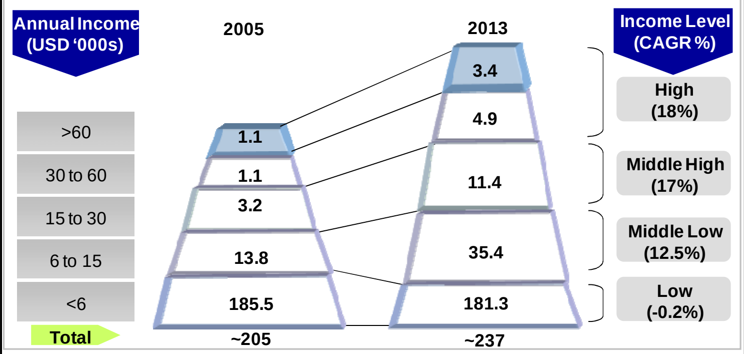
Rapid urbanization, rising incomes, changing lifestyles and dietary patterns and growing health consciousness have triggered the growth of health & wellness foods in India.

4.1.1 Rising incomes:

Real GDP in India has grown at more than 8% p.a. in past 5 years. While a slowdown is expected over next 2 to 3 years, India will continue to be amongst the fastest growing economies across the world. Higher incomes could be expected to drive shifts in dietary patterns from basic subsistence foods to more value added food categories like H&W products.

Exhibit 5: Rising Incomes in India

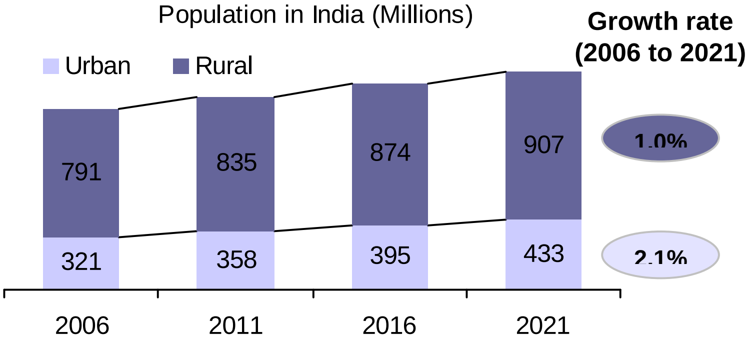
Income Pyramid (No of Households in Million at 2005-06 Prices)



4.1.2 Urbanization:

Currently ~ 28% of Indian population resides in urban areas and is expected to reach 32% by 2020. Urbanization and growing incomes are expected to have an impact on lifestyles and exposure to packaged foods. The rising need for convenience, along with the rise of lifestyle diseases could trigger huge demand for health and wellness products.

Exhibit 4: Urbanization in India

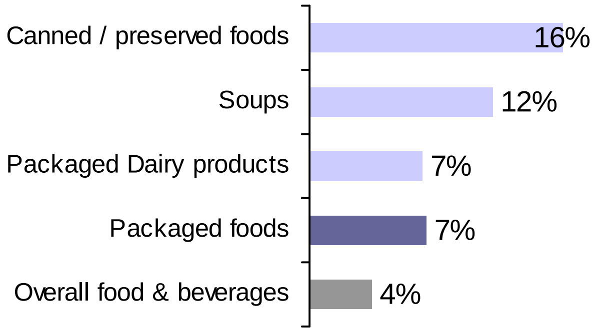


- Urban population growing at **~1.5 times** the growth of overall population
- Urbanization to reach **32% in 2021** from 28% in 2006

Source: Census

4.1.3 Shift towards packaged foods:

Exhibit 6: Growth of Packaged foods in India
(2000 to 06)



Traditionally, the Indian consumer has shown a penchant for fresh foods. This is an outcome of the conventional role of the Indian housewife, high price of packaged foods, significant variations in tastes and preferences and poor penetration of refrigerators and microwave ovens. However, with the transforming role of the Indian woman, diminishing culinary skills and busy lifestyles, demand for packaged foods in India is growing strongly, creating the requisite platform for H&W products.

Growth of packaged foods has also been aided by phenomenal growth of organized retail (35 to 40% CAGR) over the past 5 years. Organized retail formats have provided enhanced visibility coupled with higher availability of shorter shelf-life and chilled products. The share of organized retail in overall foods & groceries market in India has moved from less than 0.5% in 2003 to around 3% in 2008 and is expected to reach 11 to 12% by 2015. Access to advanced packaging technologies like retort packaging, tetrapaks, smart fresh etc. has enabled longer shelf lives, and better product distribution, providing a further thrust to packaged foods consumption in India.

4.2 Key Health Concerns in India

4.2.1 Rural India:

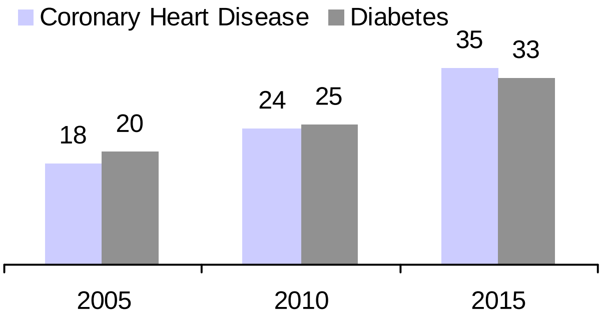
A large part of India still remains under nourished, especially in rural areas and meeting basic nutrition levels is the first challenge. Typical nutritional deficiencies affecting the rural population include Iron, Iodine and Vitamin A. Various government efforts are focused towards providing these basic nutrition needs and creating a basic healthcare infrastructure. However, lower income and awareness levels as well as low feasibility of profitable distribution in rural markets have posed a challenge for growth of fortified food products, despite regulatory support. Iodized salt for example, despite being made mandatory, has managed to contribute to only 50 to 60% of the rural edible salt consumption.

4.2.2 Urban India:

Growing incomes and faster pace of lives have had a strong impact on lifestyles of the urban population. With more sedentary living, higher work stress, rising pollution levels and growing consumption of unhealthy fast food, lifestyle disorders / diseases are gaining prominence in India. Some of the widely experienced disorders include obesity, heart disorders and digestive disorders diabetes. As per government of India estimates, the number of cases of coronary heart diseases is expected to double while the number of cases of diabetes to increase to 1.5 times between 2005 and 2015 (Exhibit 7). With growing concerns about lifestyle diseases, urban consumers are showing increasing preference of low-fat, low-sugar / carbohydrate and low-cholesterol products. This could lead to an increased demand for BFY category.

Exhibit 7: Lifestyle diseases in Urban India

Occurrence of diseases (Million Cases)

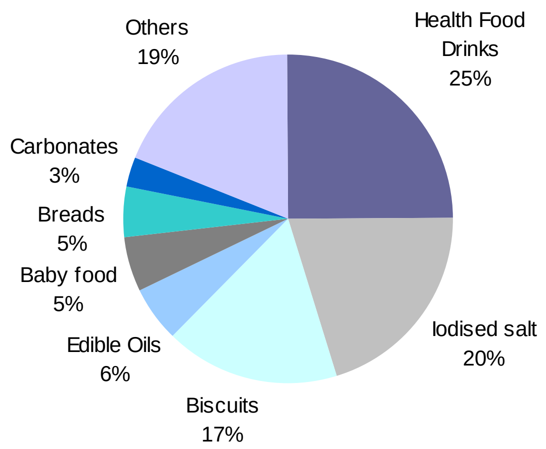


Source: Ministry of Health & Family Welfare, Government of India

4.3 Key Health & Wellness products in India

4.3.1 Key categories:

Exhibit 8: H&W products in India
Total size: ~US$ 1.6bn in 2008



Source: Industry sources, business press, Analysis by Tata Strategic

The H&W market today largely consists of health food drinks, iodised salt, iron fortified biscuits and fortified edible oils (Exhibit 8). Health food drinks have been focused on general nutritional needs of growing children while iodized salt and iron-fortified biscuits have become mass product segments driven by nutrient deficiencies and support through various government policies.

Edible oils, being an integral part of the traditional Indian diet with a connotation of being harmful for cardiac health, have shown a number of pro-heart products being launched and accepted by the Indian consumers. H&W products within edible oils constitute products with claims of higher content of healthier oils or with higher content of omega-3 and / or omega-6 fatty acids. Such products account for around 5% of the packaged edible oil market currently.

Product categories like sports & energy drinks, soy beverages, sugar substitutes etc. are relatively new in the Indian market. Energy drinks and sugar substitutes have shown a rapid growth in the last 2 to 3 years and are approximately US$ 20mn markets each today. Soy beverages however have been much slower as they suffer from their unpalatable tastes despite availability of a number of flavoured variants.

The remaining share of the H&W market is highly fragmented consisting of fortified baby foods and breakfast cereals, multi-grain / digestive breads, healthier snacks, low-fat & probiotic curd, low-fat butter, etc. as far as foods are concerned and diet colas, fortified / slim milk and natural juices in beverages. Among these, only breakfast cereals and fruit juices have a significant share of H&W products (at approximately 70% and 30% of respective packaged categories). In all other categories, H&W products account for less than 5% of the category market (in value terms).

The dairy segment currently has very little presence of H&W products. While more than 80% of the packaged milk sold in India is either skimmed or toned, it is not sold on a low-fat content platform but rather at lower price than whole milk (extracted fat is used by dairy players for making various value-added dairy products). However, a number of H&W products, like probiotics and prebiotics, have been launched over the last year and this trend is likely to continue in line with the trends in global H&W market.

4.4 Initiatives by Key Food Players in the H&W market

Leading food companies in India have acknowledged the health & wellness trend in food products. Some of their initiatives are listed below:

- The largest food company in India, Gujarat Cooperative Milk Marketing Federation, has launched a number of H&W products like probiotic curd, low-fat ice creams, milk with 0% fat content and calcium fortified milk over the last one year.
- Nestle India is focussing on "nutrition" and has been emphasising the nutritional benefits of its products on its product labels. It has also launched a number of H&W products such as Natural & Probiotic Dahi (Traditional Indian yoghurt), Slim Milk and Pro-Heart Milk in its dairy portfolio over the last one year.
- Britannia, the largest biscuits manufacturer in India, is attempting to convert all its products to trans-fat free and position its products as both enjoyable and healthy.
- Marico, a large FMCG player, has focused on this niche in the foods segment and manufactures only H&W products under the Saffola brand, edible oils being the largest category. It has recently launched H&W products in other categories like low-sodium salt, low glycemic index rice, food ingredients with specific health benefits, and lately baked snacks as well.

As more companies focus on the H&W platform, their efforts on branding and communications are expected to benefit the growth in awareness about healthier food consumption options.

5 Outlook for India

H&W foods industry in India currently is still at a nascent stage compared to developed markets.

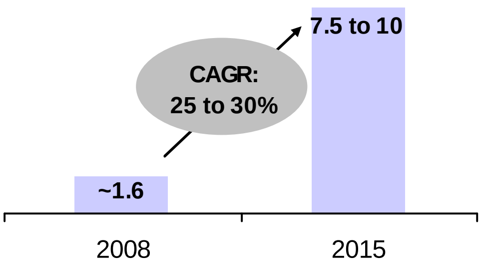
- Demand for H&W is expected to increase due to increasing cases of lifestyle diseases, exposure to H&W products available globally as well as locally through modern retail channel and communication and marketing initiatives by new entrants especially global food players in India.

- This market is expected to grow largely in the urban centres over the next 5 to 10 years where H&W products would see more traction and could be available more easily through established modern and traditional retail channels.

- While food companies in India, view H&W as a growing consumer concern, and use this platform to differentiate their products in an increasingly competitive and commoditized environment, it would be imperative for them to understand the diversified Indian palette and food habits to create attractive products and convert non users to users

The H&W market could reach US$ 7.5 to 10 Bn. by 2015 growing at 25 to 30%. At this penetration, it could account for ~15% of the packaged food market in 2015. This growth could be further propelled through improved availability of products that are palatable to the Indian taste, at lower price premiums, thus creating attractive market opportunities for food players, packaging suppliers, technology & equipment providers, as well as ingredient suppliers.

Exhibit 9: Projected H&W Foods Market in India (US$ Bn.)



Source: Analysis by Tata Strategic

Annexure 1: Definitions of Health & Wellness Categories

- **Better-For-You:** Food products with lower levels of 'bad' ingredients / nutrients for the consumers like sugar or fat are called BFY products. Various low-fat, low-sugar or diet products would fall under the BFY category.

- **Fortified / Functional:** Food products fortified with additional ingredients or produced / suitably modified to provide a distinct health benefit are termed as functional or fortified foods. Functional drinks, vitamin / mineral fortified milk or fruit juices and bakery products with added fiber would be classified as functional foods.

- **Natural:** Products sold under the Natural platform are specifically manufactured with no chemicals, additives or artificial substances / chemicals. 100% natural juices, ready meals without preservatives, etc. are few examples of such products.

- **Organic:** These are made from foods that are grown without use of chemicals (fertilizers, pesticides) during their cultivation.

- **Naturally healthy:** These foods are considered healthy in their natural form itself like milk, olive oil, fruit juices etc.