DISCUSSION
—Entry strategies

Getting in on the ground floor

NEW DELHI— India has already emerged as a key import-export market for international fresh produce players, but are they missing out on a bigger opportunity? ASIAFRUIT speaks to an expert panel to find out.

by John Hey

India already has a role as an important trading destination for the global fresh produce industry, but, with a burgeoning consumer market and huge, underdeveloped horticultural capacity, are international players failing to see the even bigger prospect of becoming active participants in its domestic business through partnerships or strategic investments? If so, how do they go about entering the Indian market in earnest and capitalising on this longer-term opportunity?

We interview four key figures with a range of expertise to analyse the possibilities and pitfalls for international players looking to establish a presence on the ground in this rapidly emerging economy.

International fresh produce players have tended to look upon India only as a land of import-export opportunities. What has deterred them from getting more involved on the ground there through partnerships or investments?

Arvind Singhal: This is a very interesting point of view. India's economy is expected to cross US$2,000bn sometime during 2012/13, and then touch the US$3,000bn mark by 2016. Unlike other very large economies such as Japan, Germany, and UK, India will also have almost 1.3bn inhabitants by 2016 and this will create unprecedented demand for food, including fresh produce, as rising income levels fuel greater consumption, and also more consumption of fresh produce. Mere imports into India may not offer the best solution since the landed price of such produce would make it affordable only to »

The panel

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TECHNOPAK ADVISORS

Arvind is chairman of Technopak Advisors, a management consulting company with specialist expertise in retail and consumer markets.

SUMIT SARAN
SCS GROUP

Sumit is director of SCS Group, an agribusiness consulting firm that represents international cooperative groups in the Indian subcontinent.

AMBRISH KARVAT
YUPAA GROUP

Ambrish is chairman of Yupaa Group, one of India's major fresh fruit import companies and an increasingly active player in the domestic business.

ANDREAS DE ROSI
EUROBRANDS INDIA

Andreas is MD of Eurobrands India, which specialises in market entry, research and expansion in India. He's an experienced agricultural consultant.

the upper-income families in India. A more pragmatic solution for serious international players would be to enter into strategic alliances and joint ventures with appropriate partners in India to jointly invest in some local production, in cold chain, in distribution, and perhaps even in branding and marketing.

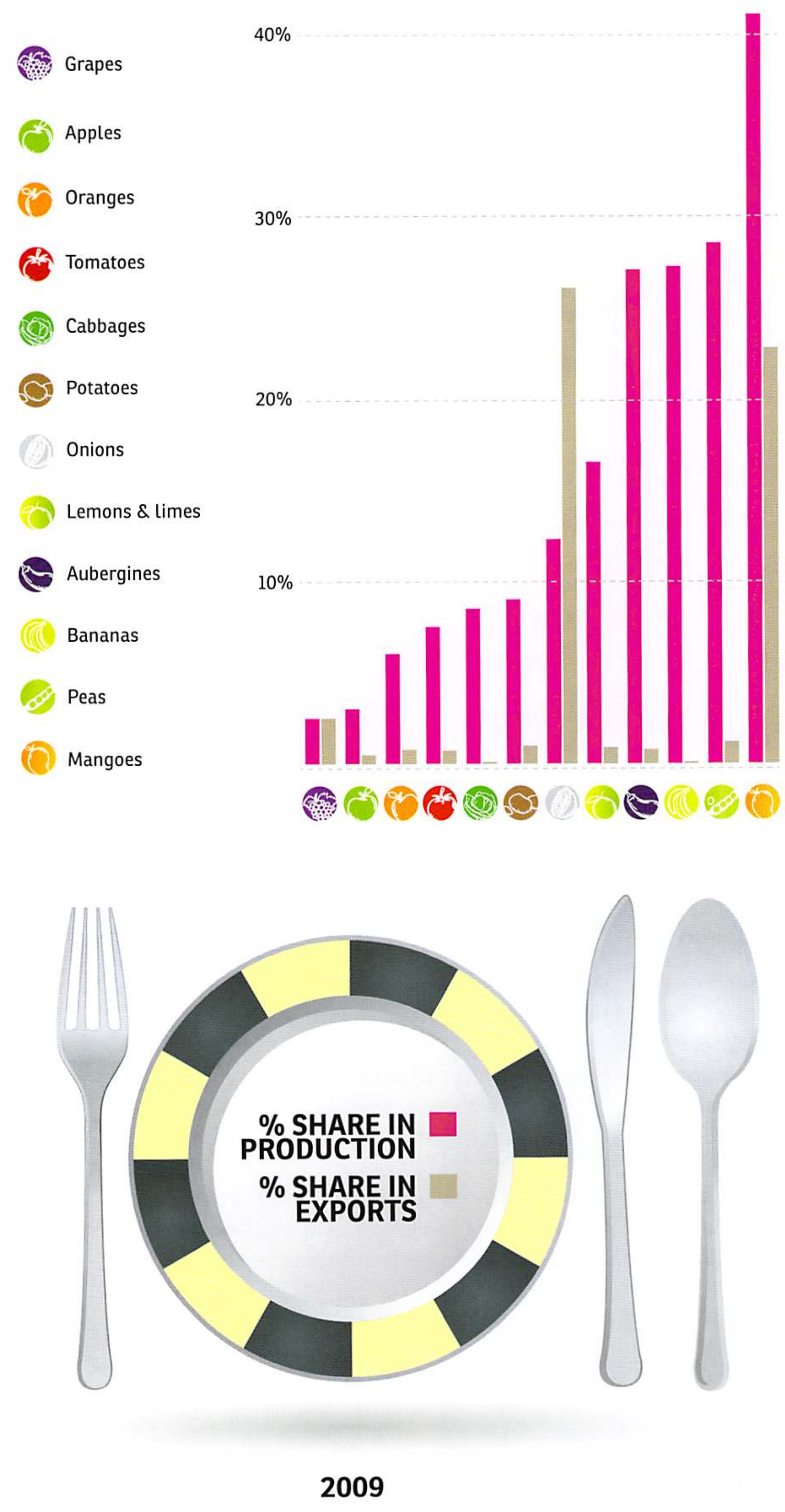
Andreas De Rosi: Many companies assess new markets by looking at one particular indicator: how big is the share of the organised retail sector compared to the unorganised retail trade? In India it's only 4-5 per cent, which is considered too low for many fresh produce players to invest in a distribution and sales structure in India.

Ambrish Karvat: Finding the right Indian partners who have a deep understanding of Indian agriculture as well as knowledge of, and exposure to, the international fruit business has been the key deterrent. Most of the fruit importers are traders with no knowledge of fruit production and no serious passion to get into it. Global produce companies still don't understand the Indian market, its agriculture sector and its tremendous potential.

Sumit Saran: There are tremendous challenges for foreign companies, especially in the initial period, and that is what deters most people from taking the plunge. In its Ease of Doing Business Report 2012, the World Bank ranks India 132 out of 183 countries. The federal structure has meant that investors face conditions that change across state and local levels. Policies vary across India's 28 states and seven union territories due to political leadership, quality of governance, regulations, taxation, labour relations and education levels.

A classic case in point is the uncertainty of retail reforms. Although the central government is convinced about allowing foreign direct investment [FDI] in multi-brand Indian retail, it has struggled for years to

INDIA'S SHARE OF GLOBAL PRODUCTION & EXPORTS



Source: FAOSTAT

build consensus on the issue with its allies. As a result, no FDI is allowed in multi-brand retail in India, effectively blocking all global retailers.

The global fresh produce industry has especially been hesitant because of the lack of a clear roadmap for agribusiness foreign investors in India. Unfortunately, the politics of agriculture tend to be far stronger than the business of agriculture in India.

What kind of opportunities do you see for foreign fresh produce companies to become more involved in the Indian market? What are the main benefits they can bring to the table?

SS: India is a story of growth opportunities and lack of takers. However, the potential that this land holds is far too great to be neglected in the long term.

World horticulture production has stagnated in the last five years. As demand for fruits and vegetables grows across the world, it is only untapped resource bases such as those in India that the world will have to look up on in the future.

India's share of global exports across key fresh produce items is currently tiny compared with its share of global production (see chart, p16), so it needs to play a bigger role in world horticulture, and the world will need to play a more proactive role in India.

There are estimates to suggest that post-harvest losses are as high as 40 per cent in India, so there's a drastic need to reduce food wastage that results from poor handling and infrastructure.

The Indian government is keen to attract foreign investment in food processing, supply chain management and cold chain infrastructure and logistics. Apart from capital, it's widely believed that foreign investors will also bring technical expertise and global perspective to the food production and handling infrastructure. Persistently high food inflation has brought much more focus to this issue in the last couple of years.

AS: India needs more technical expertise than anything else at this stage. There is adequate capital available, and intellectual property relating to branding/marketing can be locally developed too. The technical expertise is needed for improving the productivity and quality of the local production of fresh produce, in harvesting and handling, and in storage.

ADR: I see two major opportunities for local and international fresh produce companies. Firstly, there's the rising middle-class with growing purchasing power and the desire to try new and better-quality products. Secondly, organised retail is going to increase significantly over the years to come and big retail chains will start buying directly from fresh produce companies.

Foreign fresh produce companies entering India will have the advantage of raising more capital at lower rates; they can make use of their global best-practice supply chain management, introduce new products and varieties from other countries to sell not only within India, but also source and export from India.

AK: India is already seen by global fresh produce companies as a good market opportunity to sell their products. However, they have to understand that India has a huge range of climatic zones and also produces all types of fresh fruits, from apples to mangoes. The foreign companies who supply high-quality fruits have a lot of experience and knowledge in terms of growing, packing and export. If they share their knowledge and experience with Indian companies, they can market fruit produced in India under the same brand with the same high-quality standards, as well as capitalising on India's proximity to export to the Middle East and South East Asia.

ABOVE—Modern retail makes up a a very small share of the market
TOP LEFT—HSBC advertises the potential of Indian mangoes

It's often difficult to know where to start for foreign companies in the Indian market. What are the potential pitfalls and what advice would you have for them?

SS: You are absolutely correct. India is a maze and needs very careful planning and meticulous handling. Determination, research » and promotions are all key requirements. The simple mantra that the SCS Group prescribes is: enter, establish and persevere.

AS: My advice to serious international companies is to first make some investment of time and money in getting good advice on evaluating the market opportunity, and then develop the best entry strategy. Many companies attempt to take shorter cuts either by just flying in and out of India a few times and trying to get a 'feel' for the market just by these flying visits to a few large Indian cities. Or they just get into some distribution agreement with almost the first importer they come across.

The Indian market opportunity is a long-term one, and hence there should be no pressure of time for any of the international entrants to make an entry. Adequate planning and preparation will significantly improve their chances of succeeding in India.

ADR: I think companies should invest in market research before entering the Indian market. There are plenty of good market research firms and market entry advisors in India. The first visits to India should be without any pressure to do immediate business or find the right distribution or joint venture partner.

Foreign companies should initially just spend time in India trying to understand the people, culture and consumer behaviour. Events like Fresh Produce India are an ideal platform to get a first idea of the market.

Once the picture is clear and the foreign player knows the basics of the Indian market – and the legal framework – and sees a good potential for its products, they should not just appoint an agent, but rather invest in their own local office and an experienced country head. Finding the right country head is fundamental and I recommend working with an established HR firm or a market expansion service provider. The best move would be to hire someone local, who also has work experience in the country from where the foreign company comes from.

AK: In terms of good model, local Indian companies with several years of experience in agriculture and international exposure, and global companies with international experience of producing and exporting, have the most chances of success.

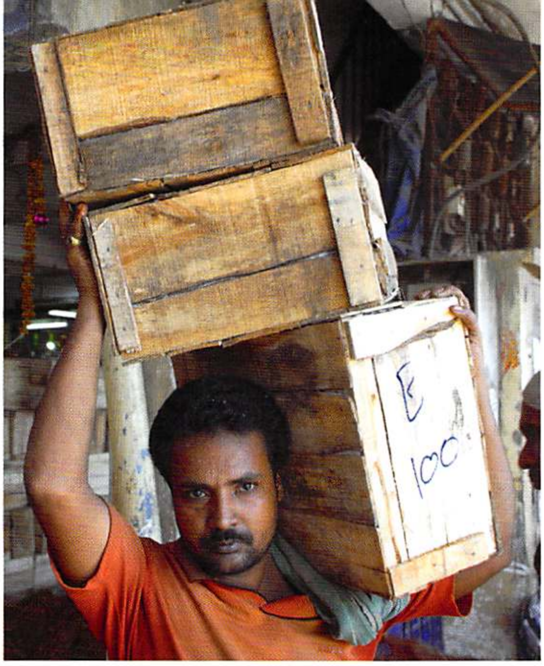
There are restrictions on sourcing and selling farm produce in India, not to mention the ownership of farmland. How favourable is government policy towards foreign investment into the fresh produce business?

AS: It's unfortunate that the Indian government is still not prepared to fully understand the magnitude of the challenge India will face in the coming years on account of increased demand for food. India's agriculture sector urgently needs far-reaching reforms covering the entire value chain, including consolidation of land holdings, movement of farm

produce within India, and regulations relating to ownership of land and other investment in the agriculture value chain. Hopefully, some of this would change for the better in the near future.

SS: Sensitivities towards any reforms in the agricultural sector are very high in India. This is understandable, as nearly 60 per cent of the 1bn-plus Indian population is still directly or indirectly involved with the sector. Traditionally, Indian agriculture has been regulated very heavily as the policymakers aimed to safeguard India's food security by ensuring food products at an affordable price and also support employment growth through a policy of labour-intensive farming and import substitution. It was only in the late 1990s that the first semblance of reforms was seen.

Plant-scale restrictions have now been eliminated for most agribusinesses. Regulations on private movement and storage of farm produce are now less restrictive in many states, and restrictions on the private marketing of farm produce are undergoing reform in most states. However, the pace of reforms in agriculture is very slow primarily because there is lack of a clear political consensus on reducing government intervention in agriculture.



OPPOSITE LEFT—Foreign companies can look to plant their varieties in India
OPPOSITE MIDDLE—Most Indian produce still sells via the the wholesale markets
OPPOSITE RIGHT—Demand for high-end fruit is growing among consumers
LEFT—Upgrading packaging and handling infrastructure is a priority

ADR: It is possible for foreign companies to source fresh produce in India and they can also market it there as long as it's not sold directly to the end-consumer. Metro Cash & Carry or Walmart [in collaboration with Bharti] for example source and sell fresh produce in their cash-and-carry stores.

The agriculture sector in India as such is still closed. No foreign company can buy agricultural land; they can, however, do contract farming with local farmers and invest 100 per cent in activities that support the farmer such as production of seeds or planting material.

AK: There is a positive environment for joint ventures in India, especially in the produce business. The government is encouraging and providing financial aid for these ventures. The pitfall is that the joint ventures should not be based on the glamour of the business or the financial aid. Joint ventures should happen between those companies who have sound knowledge of agribusiness and a mutual interest in building up a long-term business.

Some analysts say that until more is done by the Indian government to nurture modern supermarket retail, supply chain investments from local and foreign companies will not take off. Do you agree? And how important is the opening of multi-brand retail to FDI in this process?

AS: This is not entirely true. Archaic though the retail system may appear to those who visit India occasionally from overseas, it does work. The bigger challenge is still on account of some restrictive government policies that create obstacles in procurement, and movement of farm produce from one part of the country to another. Likewise, there are many challenges to non-farmers to get into farming in terms of getting permission to buy land.

Too much is being made about the necessity of having multi-brand retail open to FDI. While on sheer merit, there is no argument to restrict foreign investment in the retail sector while large Indian players face no such restrictions in putting mega-size retail front-end businesses, the logic that FDI in multi-brand retail will lead to an immediate positive impact on improvement of farm productivity is at best tenuous.

ADR: I think the main problem is not a lack of modernisation of the front-end. I believe that what's currently stopping the agriculture sector from growing at the same pace as the manufacturing or service sector is the relatively small land holdings of the farmers. On average farmers don't own much more than 1ha.

And they can't afford to use mechanisation, so they stick to traditional crops as trying something new is seen as too risky. It's therefore more important to group together farmers, either through forming producer companies or by declaring 'special economic zones' [SEZ] for agriculture ventures.

Why not make 'special agriculture zones' [SAZ] in India? The central government could declare SAZ where farm issues are not handled by different ministries, departments or research institutes, but by a single and simple central authority. It could provide supportive services, new mechanised infrastructure and access to markets.

The single farm holding in the SAZ should be at least 3-4ha so that individual farmers have a stronger negotiation power and can bypass the middlemen. Once the farms become bigger and more productive, supply chain and front-end retail modernisation will take off.

FLOWER POWER

India's fresh produce industry could learn some lessons from the floral sector when it comes to models for foreign involvement.

That's the view of Ambrish Karvat of fresh produce importer and grower-marketer Yupaa Group. Karvat set up his own business manufacturing foam bricks for India's floral industry in 1996. Oasis, a world-leader in the floral foam business, initially tried exporting the product into India from Malaysia and Australia.

Facing a 30 per cent import duty, the company struggled to compete on price with Yupaa Group before deciding to join forces, Karvat says. "A new factory was set up here with US experience and within ten years our growth has skyrocketed. We now have a 75 per cent share of the Indian market and export to 12 Middle East countries."

Karvat says that multiple European flower breeding companies have also set up bases in India where they produce plants at low cost and export them without facing any intellectual property rights issues. "To protect proprietary varieties, global fresh produce companies can get into legally binding agreements with reputable Indian companies and charge royalties on propagation. Many rose breeders have established their businesses in India and it's working out well."