

# Dairy in India: How to win over the Indian consumer

By Hannah Abdulla | 30 September 2014

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**India is the world's largest producer of raw milk. The market, however, is greatly fragmented with farmers and local dairy co-operatives controlling much of the sector, leaving little room for anyone else. But as incomes improve and the Indian consumer demands more options and quality assurance, opportunities for innovative players willing to experiment are surfacing. Hannah Abdulla explores.**

Dairy is among the most attractive food categories in India. Today, the sector is worth US\$69.9bn and it shows no signs of slowing down, expected to grow at a compound annual growth rate (CAGR) of 15% between 2013 and 2019.

With up to 40% of the population in India being vegetarian, dairy has always had a role to play in local diets as a key protein. However, demand for more packaged dairy products is on the rise.

India is the world's largest producer of raw milk but to build a sustainable business in the country, a company needs to have a broader portfolio. Product does not offer significant profits and, during the summer, it might not offer any profits at all, Siva Nagarajan, managing director of local dairy company Mother Dairy Fruits & Vegetables, says. "If you have a portfolio that can take care of a mix between liquid milk and value-added dairy products then you have the ability to sustain, grow and invest," he says.

Shiva Mudgil, India-based analyst at Rabobank, says where consumers would previously buy dairy products loose - that is directly from farms, either delivered in large steel cans or in carrier bags - there has been a move toward buying from retail channels as concerns over food safety and traceability grow. According to Mintel, the number of launches of carton milk in India tripled between 2010 and 2013.

Ina Dawer, senior research analyst for Euromonitor in India, says, packaged dairy growth has also been driven by consumers looking for more convenient dairy options, particularly among the health conscious who are swapping soft drinks for milk-based ones.

Beyond milk, there is an increasing demand for "value-added" dairy products such as cheese, ice cream, yoghurt and baby foods, Mudgil says.

Packaged yoghurt remains a "very small segment", Mintel's India based food and drink analyst Ranjana Sundaresan says, with per capita consumption being among the lowest in the world at 0.07kg in 2013. Most households, Sundaresan says, "prefer making yoghurt at home rather than buying it".

However, yoghurt is expected to see the biggest growth in the next five years according to Mintel, at a CAGR rate of 15.5%. Yoghurt is widely used across India with most firms - according to - concentrating on the production of plain, unflavoured yoghurt - or dahi.

"Drinking yoghurts, such as lassi are also popular and are looked at as thirst quenchers as well as healthy drinks to protect against and replenish lost minerals as a result of the heat."

Euromonitor's Dawer also argues packaged yoghurt consumption will be driven as people move away from home-made to more convenient options.

With a CAGR of 9.2% over the next five years, cheese will also be a buoyant segment within the sector. The influence of Western foods such as pizzas and burgers has seen cheese "move from a once-in-a-while product to a more mainstream food", Sunderesan says.

Dawer agrees, adding consumers have realised the potential of cheese varieties in Indian foods. "Cheese and yoghurt offer a very good opportunity especially when consumers have become more willing to spend on value-added dairy products," she says.

While the value-add categories and consumer demand for innovative, convenient options within the sector present an array of opportunities for global players that have the experience and scale to deliver, the Indian dairy sector is competitive, with homegrown players already carving out significant positions.

In yoghurt, Nestle and Danone find themselves in fourth and fifth position with a 5.6% and 5.3% volume share respectively. All dairy categories are dominated by local players with Gujarat Co-operative Milk Marketing Federation - owner of the Amul brand - leading most of the categories by a significant distance. In butter, GCMMF has a 73.8% volume share compared with number two player Heritage Foods which carries a 4.1% share. In cheese, GCMMF has a 67.7% share followed by Britannia Industries at 9.2% and, while there is a closer distance between the top three players in the milk category, GCMMF still tops the table with a 15.4% volume share.

However, with food safety and quality becoming of increasing importance to the local Indian consumer, there remains significant opportunity for domestic and international players. Sunderesan says more consumers beginning to trade up to carton/UHT milk, as it does not require boiling separately before use and has a higher shelf life than pouched fresh milk. "It offers an assurance of safety and hygiene," she says. However it is more pricey than pouched milk, sometimes up to more than double the price per litre. "At more affordable prices, this is a segment that has immense potential for growth in the country," she adds.

In addition, there is a real call for innovation when it comes to the dairy products available on the Indian market. While milk itself will always be an important part of the Indian consumer's diet, the desire for value-added products cannot go unnoticed. Mudgil says at present the value-added product segment contributes around 21% of the dairy market. By 2019-2020 it is projected to achieve a share of 31%.

Improving household income is seeing the demand for treat variations such as flavoured milks - which is also bolstered by a desire for more healthy options. Dawer says manufacturers should also consider growing urbanisation - making more products available to a broader regional reach - and also convenience needs.

But it will be a challenge for any new outsiders looking to enter the market, not least because of very specific local tastes. Presently, local manufacturers are trying to tackle the demand for packaged versions of traditionally homemade products, for example yoghurt-based dessert Mishti Doi or savoury dip Raita. Adapting to local tastes has never been more important.

For those looking to break carve a foothold in India's dairy sector, it will be a challenge, even in attractive value-added categories, not least due to significant domestic competition. However, there are avenues to grow in what should, in the long term, be a major growth market on the global dairy landscape.

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Indian consumers are on the lookout for more packaged milk options as food safety and traceability concerns grow.

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