

The future of the world food supply chain in india



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Heritage Foods: The Future of the World Food Supply Chain in India Abstract

India can become the food supplier of the world. It has the cultivable land, all the seasons for production of all varieties of fruits and vegetables, an agribusiness system that works although it needs to be vastly improved. The single most important problem facing the Indian agricultural industry is the highly inefficient supply chain. Because of lack of cold chain infrastructure and also a food processing industry about 20 percent of all foods produced in India are wasted.

Investments in cold chain infrastructure, applied research in post harvest technologies, installation of food processing plants in various sectors and development of food retailing sector are mandatory for achieving gains in this sector. Heritage Foods in India that focuses on the Dairy market is challenged with achieving both national and global competitiveness of the food industry. The supply chain sector is very weak with no process owner and this can spell disaster without the properly enforced logistics of the supply chain. In particular, I will identify the corporate citizenship (responsibility) with the various difficulties and complexities Heritage Foods faces as they seek to balance both company performance and good corporate citizenship. While explaining how Heritage Foods comes to symbolize both the benefits and risks inherent in globalization located in India.

I will also discuss the current state of the agricultural industry in India and present the state of food processing industry along with the supply chain system and its various constituents. It's important to identify emerging opportunities in the food and cold chain sector with the dairy market and

present ways in which existing Heritage Foods challenges can be overcome using technology and experience. Which leads to, some opportunities for improvement in real estate and cold chain infrastructure, establishing food processing plants, wholesale, retail, third party logistics and technology.

Current State of India Agricultural Industry In India, 52% of total land is cultivable as against 11% in the world. India is one of the world's major food producers but accounts for less than 1.

per cent of international food trade. This indicates vast scope for both investors and exporters. Food exports in 1998 stood at US \$5.8 billion whereas the world total was US \$438 billion. The Indian food industries sales turnover is Rs 140,000 crore (1 crore = 10 million) annually as at the start of year 2000. The industry has the highest number of plants approved by the US Food and Drug Administration (FDA) outside the USA.

<http://www.indianfoodindustry.net/> All 15 major climates of the world, snow bound Himalayas to hot humid southern peninsula; Thar Desert to heavy rain areas all exist in India. There are 20 agro-climatic regions and nearly 46 out of 60 soil types in the country.

Sunshine hours and day length are ideally suited for round the year cultivation of crops. India is the centre for biodiversity in plants, animals, insects, micro-organism and accounts for 17% animal, 12% plants and 10% fish genetic resources of the globe. In the live stock sector, India has 16% of cattle, 57% of buffalo, 17% of goats and 5% of sheep population of the world. Agriculture contributes 24.2% to GDP, 15.2% of total exports and provides employment to 58.

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% of country's work force <http://www.indianfoodindustry.net/> . As

mentioned in the India Brand Equity Foundation India is the following: •India is the 2nd largest vegetable and 3rd largest fruit producer in the world •India will register the highest increase in rice production in the world over the next 10 years, as per the US Department of Agriculture. India's annual rice production would increase by 16.3 million tonnes (mt) by 2016, from 91 mt now.

•India ranks second only to Japan in inland sector fish production. India produces about 6.57 million metric tonne fish every year. Spices exports will cross US\$ 1 billion in the current financial year and touch US\$ 10 billion by 2017, according to V J Kurien, chairman, Spices Board. Of the world's total annual spice trade of 850,000 tonnes, India accounts for 44 per cent in quantity and 36 per cent in value •India aims at doubling marine exports including that of tuna fish to US\$ 4 billion by 2012; 53 per cent of the marine exports comprise of shrimps. <http://www.>

[ibef.org/industry/foodindustry.aspx](http://www.ibef.org/industry/foodindustry.aspx) Figure 1: Displays India's geographical map, <http://www.mapsofindia.com/maps/india/india-political-map.html>

India Food Processing Industry The Food processing industry has an important role to play in linking the farmers to the final consumers in the domestic as well as the international markets. Food processing combined with marketing has the potential of solving the basic problems of agricultural surpluses, wastages, rural jobs, and better remuneration to the growers. In the next ten years, food production is expected to double.

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These produces, if processed and marketed smartly, can make India a leading food supplier of the world. India with a population of 1.08 billion (growing at about 1.5% per annum) provides a large and growing market for food products.

Food products are the single largest component of private consumption expenditure, accounting for as much as 49% of the total spending.

<http://www.indiaonestop.com/foodprocessing.htm> Furthermore, the upward mobility of income classes and increasing need for convenience and hygiene is driving demand for (a) perishables and non food staples and (b) processed foods. Also, eating out is a familiar practice in urban India and processed foods are accepted as alternative to the home cooked food because of the convenience it offers.

Also, with the globalization of trade and availability of high speed logistics, food retailers in developed countries are sourcing a year-round supply of fruits and vegetables from developing countries. Thus, both for local consumption as well for export there is a year round opportunity for fruits and vegetables, meat and poultry products and ready to eat processed foods. The processed food industry should introduce innovative new products of high quality at low cost in small package sizes in ready to eat format to cash on this booming opportunity. There is lots of manual handling and hence with food hygiene and quality.

Multiple restaurant chains such as McDonalds, Pizza Hut, Dominos, Coffee day, Qwiky's and Saravana Bhavan, and Sagar Chains are growing rapidly. <http://www.indiaonestop.com/foodprocessing>.

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htm . However, the pace is slow in the food sector compared to the other sectors such as IT and Pharma. There are no billion dollar players in India in the food industry where as China and Philippines have several large players with sales exceeding US \$ 1 billion. <http://www.indiaonestop.com/foodprocessing>. tm Food Supply Chain in India India has a huge

opportunity to become a leading global food supplier if only it has the right marketing strategies and of course agile, adaptive and efficient supply chain. India has diversity in terms of its population with several religious groups with different food habits and culture. This diversity should be used to advantage to become the “ Halal Food Hub”, the “ Organic food hub”, the “ Vegetarian food hub” the “ Sea food hub” among others.

The food supply chain is complex with perishable goods and numerous small stake holders. In India, the infrastructure connecting these partners is very weak. Each stake holder: farmers, wholesalers, food manufacturers, retailers all work in silos. Also, demand forecasting is totally absent and the farmers try to push what they produce in to the market.

Data integration, financial flow management, supply-demand matching, collaborative forecasting, information sharing, goods movement synchronization through efficient transport scheduling, are very well practiced in high technology industries with immense benefits. These best practices should find their way in to the food supply chains. Cold chain logistics supply chains should take advantage of technology improvements in data capture and processing, product tracking and tracing, synchronized freight transport transit times for time compression along the supply chain

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and supply -demand matching. Also, the supply chain need to be designed and built as a whole in an integrated manner with the processes of new product development, procurement and order to delivery processes well designed and well supported using IT tools and software.

<http://businessassurance.com/downloads/2007/09/country-focus-india-the-rise-of-india.pdf>

The food supply chain can be subdivided into a number of sectors. Agriculture, horticulture, fisheries and aquaculture are the primary producers, the manufacturers who process the food for ready to eat or cook format together with the packaging companies are in the intermediate stage, and the retailers, wholesalers and caterers are in the last stage of the supply chain. At each stage value is added by the new ownership such as processors, distributors, packers and the cost and profits are part of the business.

The food items can go to the consumer from any of the three stages: from farmers in the form of fresh produce, to the caterers directly from the manufacturer, and finally from the retailer (small or big) to the consumer. The movement of goods from one stake holder to another is facilitated by the in house or third party logistics service provider. The information management is done by the all the stake holders and their information systems are all interconnected seamlessly. In India and other developing countries, the state of food chain is more fragmented and we have dealt with it in the earlier sections. Below is a map of the agricultural map of India.

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It's important to understand what parts of India grow the vital necessities of their country. Figure 2: Agriculture Map (Food Crops) <http://www.mapsofindia.com/maps/india/india-political-map.htm>

Further more, food chain life cycle are formed with the participation of all stake holders such as farmers, seed growers, merchants, transporters, wholesalers, retailers. Information sharing is essential for generating the efficiencies of the logistical chain. Also, recent advances in RFID technology will have tremendous impact in the management of the food chain particularly for source identification and tracking and also in providing supply chain visibility. In advanced countries, the retailers (Walmart, Tesco, etc) have become the Channel Masters of food supply chain taking over from the food manufacturers. In India, with no superstores, no economies of scale, too many intermediaries, there is a vacuum, meaning there is no real channel master managing the supply demand situation and coordinating the supply chain and managing the logistical activities. But one needs to remember that the infrastructure capital outlays are high and the returns are long term.

Also there are various risks associated with owning a cold chain. Some of these include country risk, monsoon risk, crop or raw material supply failures due to pests, diseases, etc. , partner risk, and numerous others. In India, there are very few large food manufacturers.

Amul, Ruchi Soya, Nestle, MTR, ITC, Dabur, Britannia, HLL's food and beverages section, beverage companies such as Coke and Pepsi are some of the big names. There are several regulatory changes that need to be made all along the supply chain so that they are consistent and mutually

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reinforcing. Figure 3: Food Supply Chain for Heritage Foods,

<http://heritagefoods.co.in/> The Chilling Plant The Chilling Plant is a logistic system that provides a series of facilities for maintaining ideal storage conditions for perishables from the point of origin to the point of consumption in the food supply chain.

The chain needs to start at the farm level (e. g. harvest methods, pre-cooling) and cover up to the consumer level or at least to the retail level. A well organized cold chain reduces spoilage, retains the quality of the harvested products and guarantees a cost efficient delivery to the consumer given adequate attention or customer service. The main feature of the chain is that if any of the links is missing or is weak, the whole system fails.

The temperature controlled supply chains or chilling plant are a significant proportion of the retail food market. Fast foods, ready meals and frozen products have increased market share in recent years. There are several food temperature levels to suit different types of products. Cold chain management involves maintaining appropriate temperature regime when the product travels from the farm in Himachal Pradesh to the consumer in London or New York City. That is why the logistics challenge is formidable in food chains, which is cost conscious industry.

There are several governmental regulations in all countries and the responsibility to maintain hygiene and standards falls on the food retailer or manufacturer. The recent developments in electronic tagging could be useful for monitoring the temperatures and also the shelf life of the product.

<http://www.actahort>.

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rg/books/712/712_100.htm Introducing Heritage Foods The Heritage Group, founded in 1992 by Sri Nara Chandra Babu Naidu. This is one of the fastest growing Private Sector Enterprises in India, with three-business divisions viz. , Dairy, Retail and Agri under its flagship Company Heritage Foods (India) Limited (HFIL), one infrastructure subsidiary. Heritage Infra Developers Limited and other associate Companies, Heritage Finlease Limited, Heritage International Limited and Heritage Agro Merine Private Limited.

Heritage Foods has its headquarters in Hyderabad, Andhra Pradesh, India Presently Heritage's milk products have market presence in Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Maharashtra and its retail stores across Bangalore, Chennai and Hyderabad. Integrated agri operations are in Chittoor and Medak Districts and these are backbone to retail operations. <http://heritagefoods.co.in/> Mission and Vision Mission. Bringing prosperity into rural families of India through co-operative efforts and providing customers with hygienic, affordable and convenient supply of " Fresh and Healthy " food products.

Vision. To be a progressive billion dollar organization with a pan India foot print by 2012. To achieve this by delighting customers with " Fresh and Healthy" food products, those are a benchmark for quality in the industry. We are committed to enhanced prosperity and the empowerment of the farming community through our unique " Relationship Farming" Model. To be a preferred employer by nurturing entrepreneurship, managing career aspirations and providing innovative avenues for enhanced employee prosperity. <http://heritagefoods>.

co. in Products There are three different segments of products that include dairy, retail and agricultural. There are over 20 dairy products produced by Heritage Foods. The agricultural division allows Heritage Foods to contract farmers and contain pack houses. Pack houses are the warehouses where packaging and distribution takes place. The retail business consists of the rural and urban and e-retail services.

Retail Business. In recent past estimates, India retail industry accounts for 10% of the GDP and 8 percent of employment although it is still one of the least developed sectors. The retail market in India has been growing at an average of 10 percent since 2000. In developed markets the share of organized retail is as high as 80% and even for the semi-developed markets, the typical share of organized retailing is in the range of 20-40%.

Furthermore, India's economy is growing at a staggering pace, which is mainly fueled by private consumption.

Private consumption accounts for 64% of the GDP in which retail has a 56% contribution. http://www.assochem.org/arb/abb/GDP_projections.doc Rural Retail.

This environment has been significantly rising. Heritage Foods India Ltd. started the Rural Retail business with the objective of reaching FMCG products to villages with population of less than 5000. Some of the strengths are efficiencies of centralized procurement. Large network of farmers who supply milk to Heritage two times a day.

Rural customers have the option of purchasing FMCG and other products against their milk account, thus easing rural liquidity. There is a large

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untapped rural market with leads to great opportunities. These rural retail stores meaning brand “ Heritage Store” average floor area of 100 sq-ft. Franchise arrangement with the milk collection agents. Heritage operates over 1800 stores across Andhra Pradesh.

Urban Retail. The shopping environment is currently dominated by over the counter sales and there are very few pan-India organized retailers operating in the country. has a website for consumers to place their orders on. Privilege Card.

Heritage Foods knows the importance of rewarding its loyal customers. The privilege card provides a range of rewards and special offers on a regular basis to its customers. Heritage Foods Background Heritage Foods has been in the Dairy Business successfully for more than a decade and presently it is one of the leading dairies in India. During the last year Heritage Foods has ventured into a high growth retail food business under the brand name “ fresh @” and has made huge investments in all aspects of business.

The company has engaged in Independent Top-notch consultants in the key areas of businesses requirements in addition to acquiring the best talent. As a result, the presence in the market has been very quickly recognized as unique and one of the best retail business models in the Industry. Dairy Industry Structure and Developments The milk production in India accounted for more than 13% of the world’s total output and 57% of Asia’s total production. However the animal productivity in India is very low as compared to Western Countries. The majority of the milk produced (more than 80 percent) is distributed as drinking milk or home-based manufactured

products through an informal marketing system. Reportedly, one-third of the milk produced is retained on the farm for food and feed.

Of the two-thirds leaving the farm, approximately 75 percent goes to the unorganized or informal sector and the remaining 25 percent is handled by the formal sector. [http://www. ibef. org/industry/foodindustry.](http://www.ibef.org/industry/foodindustry.aspx)

The unique aspects of dairying in India are the production of milk from buffalo exceeds cow milk production. Buffalo yield less milk than crossbreed cows, but are well adapted to the extreme heat and humidity of India. More Indians prefer buffalo milk instead of cow milk because of its higher butterfat content. Opportunities for the company India is the world's 4th largest economy in terms of Purchasing Power Parity, after USA, China and Japan.

There has been sharp increase in the urban population due to strong growth of India Economy both in Industrial and Service sectors, particularly the Business Process Outsourcing (BPO) and Information Technology (IT). This year, the urban population is expected to increase by more than 100 million to touch 340 million a growth rate of about 30 percent. Also out of the 3700 cities and towns in India, only about 800 cities and towns are served by the organized milk sector. This leaves the organized sector with huge untapped markets. Heritage Foods has drawn plans to increase its market share in the existing markets and to enter into new markets with outcome of doubling revenue in Dairy Business in the next three years.

http://www. assocham. org/arb/abb/GDP_projections. doc SWOT Analysis. Strengths consist of established credentials and linkages with farmer community.

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Established organization credentials in the milk business along with the store format and positioning. Some weaknesses can be stated as size and scale of operations in comparison to current and expected future entrants. Heritage is seen as a relatively regional / niche player in the market in terms of both expansion plans, pace and geographical spread. Some opportunities to look for is the structure of home delivery as a service differentiator and attractive revenue stream.

They still have a large chunk of the market that is untapped and leaves lot of room to grow. Some threats can be from the obvious of strong existing city based historical chains that have relatively low cost structures and established loyalty consumer base. Not acquiring the market share and allowing large players to rapidly expand into all areas and threatening the market. Difficulties and Complexities of the Food Supply Chain The difficulties that come with supply chain management are the resources. In order to have a movement of raw materials, inventory, and finished goods from one point to the other; only top priority retail companies are the players underdeveloped supply chain cannot help retail stores.

There is a need to embrace the concept of Efficient Consumer Response (ECR) which was introduced in the United States in the 1990s and is now followed world wide in grocery supply chains. ECR refers to a set of strategies that aims to get companies across a supply chain to work closely to serve their customers better and at lower cost. Consumers benefit from improved product availability and choice, while distributors and suppliers derive better efficiency and cost savings. Also collaborative planning forecasting and replenishment is another area that has yielded substantial

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savings for retailers. Relationship between the stake holders in the supply chain is of paramount importance for ECR, CPFR and other relationship paradigms to work. <http://www>.

supplychains. [in/en/art/? 606](http://www.in/en/art/?606) Food Packaging. Dairy products, edible oils, farm products, sugar, fruit juices, concentrates, preserves, hot and cold beverages, breakfast foods, biscuits and confectionery, atta, are some major foods of daily necessities where packaging will have excellent potential and growth areas. Package has become the competitive tool to reach the consumer and the task assumes increasing responsibility with more and more of competitive and substitute products being introduced. This has opened the sector for introduction of modern technology for processing and packaging and entry of host of new organizations from all sectors of the economy both domestic and overseas. Cost of packaging ranges anywhere from 10 to 64% of production costs and efforts should be made to reduce these costs through use of manufacturing automation and economies of scale.

Standards. Standardization is a powerful tool for improving supply chain efficiency. There are two kinds of standards in the food supply chain. The first one is the food standard that concerns itself about the content and the manufacturing process and the packaging etc. There are several such standards for dairy, poultry etc. the second standard concerns regarding the logistics and IT systems like standardization of cartons, pallets and IT software so that seamless transfer of goods and information is possible.

Standards enable partners across the supply chain to enjoy increased productivity and economies of scale due to better compatibility and interoperability of their systems and processes. Food Safety and hygiene. Food safety is a growing concern across the world. There is increasing need to provide greater assurance about the safety and quality of food to consumers. The increase in world food trade and the advent of the Sanitary and Phytosanitary (SPS) Agreement under the World Trade Organization (WTO) have led to increasing recognition and adoption of food safety measures. The capacity of India to penetrate world markets depends on its ability to meet increasingly stringent food safety standards imposed in developed countries.

Food standards are expected to acquire greater importance given increasing concerns on food safety on the back of breakout of diseases such as BSE, Avian Influenza, Bird Flu etc on the one hand, and growing consumer demand for products which are healthy on the other. Compliance with international food standards is a prerequisite to gain a higher share of world trade. <http://www.foodindustryindia.com/newfood/newsbycategory.jsp?n=Milk%20and%20Dairy%20Products&id=9>

Training. The food supply chain is going through a period of great change and needs to be supported through new organizational forms manned by specialists. Training, coaching, counseling and mentoring have to be extended to all the parties in the supply chain. For example, it is important to conduct courses and training sessions on cold chain management to raise the knowledge and awareness on the importance of implementing the cold chain management to ensure that there is no <https://assignbuster.com/the-future-of-the-world-food-supply-chain-in-india/>

breakdown in maintaining the required temperature throughout the supply chain. In this way a pool of skilled workforce with good knowledge of cold chain management to meet the needs of the industry to be a cold chain will be generated.

The same applies to other areas in the food supply chain such as procurement, retailing and other main areas. Business model: retail, e-retail, local use, export. The food processing industry supply chain starts at the farm and ends with the consumer. The local consumer could be served through home delivery or through a retailer or a neighborhood store.

An international consumer could be served through food malls. Thus the products need to be manufactured for local as well for export. It is important to forecast the demand for each of the channels and serve the customer within the expected lead time. The service levels and the pricing will determine if the customer returns for his or her next purchase. Government Policies. Food and Agriculture are important national activities and affect the well being of its population of every country.

In formulating the policies of farming, production, processing, distribution and retailing and also in financing these activities the governments play leading role. This becomes all the more important in view of the globalization of the food industry. Allowing foreign operators for food production, distribution and retailing is a decision of national importance. The decisions need to be consistent all along the supply chain and mutually reinforcing and not contradictory. There are several regulatory measures handled by multitude of departments divided between State and Central governments.

While some of this is inevitable but streamlining by looking at the supply chain would be extremely productive.

Further, research should be initiated to develop indigenous packaging materials, machines, laboratories for developing new food products and more importantly protocols for storage and processing food raw materials.

<http://www.indiaonestop.com/foodprocessing.htm> India's Government Initiatives The Government of India (GOI) has accorded high priority to the establishment of supply chain infrastructures and encourages major initiatives in this sector.

The state governments also have initiatives in the food processing and cold chain sectors. The government supports the sector by providing assistance to farmers for agricultural inputs, developing systems like drip irrigation and encouraging development of infrastructure facilities like warehousing, cold chain, etc for better pre-harvest and post-harvest crop management.

http://www.assochem.org/arb/abb/GDP_projections.doc

Heritage Foods Initiatives There are several private sector initiatives in the food processing and service sector. A number of companies are actively working on integrating the agriculture supply chain. Here we mention a few of what Heritage Foods implements to benefit and minimize the risks inherent in globalization in India.

These show the feasibility of operating efficient cold chains in the India scenario. They could be treated as pilots and other projects can be built emulating them. Heritage Foods grows its own produce to create its products. Some opportunities for improving the food supply chain include

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cold chain infrastructure, third party logistics, food processing industry and retail. Cold chain infrastructure.

Investments in real estate and cold chain infrastructure are capital intensive and will yield slow returns. However, 100% foreign direct investment (FDI) is allowed in this sector. The Infrastructure consists of Coolers, Warehouses, Refrigerated Trucks, Carriers. One needs to study of the potential risks and the ROI for this activity? Third Party Logistics, The food supply chain is temperature sensitive and manual handling reduces the product quality and life.

Logistics providers with air conditioned trucks, automatic handling equipment and trained manpower will provide end to end support. They can also adapt state of the art techniques such as cross docking that will reduce the transit times and inventory. This exactly what Heritage Foods has done, they have taken advance of third party logistics for the small rural retail stores. Food processing industry. The Government of India allows 100% FDI in this sector. There are incentives for setting up processing plants either in Agri -Export Zones or outside of them.

Sourcing of raw materials either fruits and vegetables or flowers or meat is easier with an AEZ since there are already participants with knowledge about the industry standards. There are opportunities to create in India Retail: Retail, one of the largest sectors in the global economy, is going through a transition phase in India. One of the prime factors for non-competitiveness of the food processing industry is because of the cost and quality of marketing channels. Globally more than 72% of food sales occur through super stores.

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They also have restricted capital resulting in lack of shopping variety. The Indian retail sector is estimated to have a market size of about \$ 180 billion; but the organized sector represents only 2% share of this market.

<http://www.indiaonestop.com/foodprocessing.htm> A strong retail front-end can also provide the necessities to agriculture and food processing, and other industries. Currently 100% FDI is not allowed for foreign companies.

India presents a huge opportunity and is all set for a big retail revolution. India is the least saturated of global markets with a small organized retail and also the least competitive of all global markets. Conclusion India is all set to become the food supplier of the world. It has the cultivable land, all the seasons for production of all varieties of fruits and vegetables, well developed agribusiness system that works in its own way. The business system is tuned to food habits (cooking at home) and convenience (kirana stores) of rural and urban folks of the previous generation.

Factors such as rapid growth in the economy, the technological innovations in home appliances such as refrigerators microwave ovens, rise of families with dual incomes and the changing food habits of the population all point to the increasing need for healthy processed food. The supply chain sector is very weak with no process owner and this can spell disaster. The food supply chain needs the attention of the academics, the industry and the Government. The single most important problem facing the Indian agricultural industry is the highly inefficient supply chain. Because of lack of cold chain infrastructure and also a food processing industry about 20 percent of all foods produced in India are wasted. Investments in cold chain

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infrastructure, applied research in post harvest technologies, installation of food processing plants in various sectors and development of food retailing sector are mandatory for achieving gains in this sector.

Heritage Foods in India that focuses on the Dairy market is challenged with achieving both national and global competitiveness of the food industry. The supply chain sector is very weak with no process owner and this can spell disaster without the properly enforced logistics of the supply chain. Heritage has taken the initiatives to adapt to the global market and take steps in advancements in the supply chain management for its three divisions of business. Agriculture, Dairy and Retail are the main focuses of Heritage Foods and take advantage of this market and take part in the wave of advancement.

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