

Porter five force analysis of indian food processing industry

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Porter's five force analysis of food processing industry I take the opportunity, while presenting this report and to express my gratitude to all those who afford their valuable help and time to help me to complete the project successfully. A number of people provided us their assistance, encouragement, and enthusiasm. Without them this project would not have been possible. Firstly, I would like to thank our institute IIPM and our honorable prof. partho sir for giving me such an opportunity to work on such a project. got a chance to put all our classroom theories and practices for understanding and analyzing the working of the real Indian scenario.

Introduction of Report This report provides an overview of our food production and consumption system, its impacts on the environment and its vulnerability to environmental problems and resource constraints. The aim of the report is to identify any significant challenges to the future security of the food system in India that arise from environmental and resource issues, and the risks, constraints and social or political responses to these.

The report also considers a range of response strategies being developed and explored at various points across the food system. The 'food system' includes the interdependent parts of the system that provides food for local consumption and for export. It includes all the components and processes by which food is produced (grown and/or processed), stored and distributed, delivered to end-consumers and consumed (including further processing and storage) – as well as all the processes that deal with waste along the 'food chain' The report covers an overview of the Indian food processing industry.

The report will focus on the dynamics of the industry, the market segments, the growth of the sectors in India and what are the challenges and opportunities that the industry is facing. On the competitive landscape, the report lays out the major food processing companies that functions within the Indian industry and the strategies these companies are following to capture the major chunk of the market share. The concluding part of the report covers the drivers of the industry and the future Prospects of the food processing industry in India.

Research Objective

To analyze the market share of organized Food Processing sector compare to other unorganized Food Processing sector To study the future growth of food processing in india To study the sustainability of Indian food processing industry To study the resources and the constraints of the Indian food processing industry To study the effect of MNC's in the Indian food processing industry To study the driving forces those are affecting Indian food processing industry Introduction of Food Processing Industry The History of Food Processing Industry

The origin of food processing goes all the way back to ancient Egypt, yet the period of those developments seems to symbolize the history of the culture of mankind. Nowadays, bread, which is characterized by its use of the fermentation action of yeast and which uses wheat flour as its raw material, is baked all over the world. The origins of beer also go back to Babylon and Egypt in the period from 3, 000 to 5, 000 BC. The foundation of the modern

industry was built up with the introduction of machinery and technology of new methods from Germany.

Nowadays, the processed foods that are thriving in grocery shops are modern processed foods and traditional foods, but their manufacturing technology, process control and manufacturing and packaging environmental facilities have been advanced and rationalized to an incomparable extent in the last 30 years. As a result, products with high quality and uniformity are now being manufactured. This is based on the advancement of food science, and is, moreover, due to the general introduction of hygienics, applied microbiology, mechanical engineering, chemical engineering, electronic engineering and high-polymer technology.

The most remarkable developments until now have been convenient pre-cooked frozen foods, retort pouch foods and dried foods. The mass production of excellent quality processed foods without using unnecessary food additives has been made possible in the last 30 years by grading and inspecting the process materials, carrying out proper inspections of processed foods, and advances in processing technology, installation and packaging technology and materials. <http://www.bisnetindia.com/bishtml/060012502441.htm> Supply chain of food processing industry and factor affecting each activity Agriculture

Agriculture is the process of producing food, feed, fiber and other desired products by the cultivation of certain plants and the raising of domesticated animals (livestock). The practice of agriculture is also known as "farming", while scientists, inventors and others devoted to improving farming methods

and implements are also said to be engaged in agriculture. More people in the world are involved in agriculture as their primary economic activity than in any other, yet it only accounts for twelve percent of the world's GDP.

Total agricultural trade consists of food and non- food commodities in both raw and processed forms. Classification of agricultural trade is a breakdown of agricultural trade into four components.

- bulk commodities,
- processed intermediate products,
- fresh horticultural products,
- Processed consumer goods.

Over the years the share of bulk commodities in total agricultural trade has gone down. Decreased demand for bulk commodities has been compensated by the growth in intermediate processed products, which are essentially processed bulk commodities.

Processed intermediate products such as vegetable oils, flour etc. The share of fresh horticultural products, i. e. products that are consumed without further processing, in total agricultural trade is nearly constant. Recent improvements in transportation technology have played a role in promoting trade of fresh products. The faster growing categories in agricultural trade are non-bulk packaged processed food products, which are marketed under different brands. Developed countries have played an important role in promoting trade in processed food products.

Share of these countries in import of processed food products is more than developing countries, whereas in case of bulk commodities share of developing countries exceeds the import of developed countries. Food processing Food processing is the methods and techniques used to transform raw ingredients into food for human consumption. Food processing takes clean, harvested or slaughtered and butchered components and uses them to produce marketable food products. Consumer expenditure on processed food and drink 2001-07 (US\$ billion)

Food processing dates back to the prehistoric ages when crude processing incorporated slaughtering, fermenting, sun drying, preserving with salt, and various types of cooking (such as roasting, smoking, steaming, and oven baking). Salt-preservation was especially common for foods that constituted warrior and sailors' diets, up until the introduction of canning methods. Evidence for the existence of these methods exists in the writings of the ancient Greek , Chaldean, Egyptian and Roman civilisations as well as archaeological evidence from Europe, North and South America and Asia.

These tried and tested processing techniques remained essentially the same until the advent of the industrial revolution. Examples of ready-meals also exist from pre industrial revolution times such as the Cornish pasty and the Haggis. Modern food processing technology in the 19th and 20th century was largely developed to serve military needs. In 1809 Nicolas Appert invented a vacuum bottling technique that would supply food for French troops, and this contributed to the development of tinning and then canning by Peter Durand in 1810.

Although initially expensive and somewhat hazardous due to the lead used in cans, canned goods would later become a staple around the world. Pasteurization, discovered by Louis Pasteur in 1862, was a significant advance in ensuring the micro-biological safety of food. In the 20th century, World War II, the space race and the rising consumer society in developed countries (including the United States) contributed to the growth of food processing with such advances as spray drying, juice concentrates, freeze drying and the introduction of artificial sweeteners, coloring agents, and preservatives such as sodium benzoate.

In the late 20th century products such as dried instant soups, reconstituted fruits and juices, and self cooking meals such as MRE food ration were developed. In Western Europe and North America, the second half of the 20th century witnessed a rise in the pursuit of convenience; food processors especially marketed their products to middle-class working wives and mothers. Frozen foods (often credited to Clarence Birdseye) found their success in sales of juice concentrates and "TV dinners".

Processors utilized the perceived value of time to appeal to the postwar population, and this same appeal contributes to the success of convenience foods today. Benefits More and more people live in the cities far away from where food is grown and produced. In many families the adults are working away from home and therefore there is little time for the preparation of food based on fresh ingredients. The food industry offers products that fulfill many different needs: From peeled potatoes that only have to be boiled at home to

fully prepare ready meals that can be heated up in the microwave oven within a few minutes.

Benefits of food processing include toxin removal, preservation, easing marketing and distribution tasks, and increasing food consistency. In addition, it increases seasonal availability of many foods, enables transportation of delicate perishable foods across long distances, and makes many kinds of foods safe to eat by de-activating spoilage and pathogenic micro-organisms. Modern supermarkets would not be feasible without modern food processing techniques, long voyages would not be possible, and military campaigns would be significantly more difficult and costly to execute.

Modern food processing also improves the quality of life for allergists, diabetics, and other people who cannot consume some common food elements. Food processing can also add extra nutrients such as vitamins. Processed foods are often less susceptible to early spoilage than fresh foods, and are better suited for long distance transportation from the source to the consumer. Fresh materials, such as fresh produce and raw meats, are more likely to harbour pathogenic micro-organisms (e. g. Salmonella) capable of causing serious illnesses. * Drawbacks

In general, fresh food that has not been processed other than by washing and simple kitchen preparation, may be expected to contain a higher proportion of naturally occurring vitamins, fibre and minerals than the equivalent product processed by the food industry. Vitamin C for example is destroyed by heat and therefore canned fruits have a lower content of

vitamin C than fresh ones. Food processing can lower the nutritional value of foods. Processed foods tend to include food additives, such as flavorings' and texture enhancing agents, which may have little or no nutritive value, or be unhealthy.

Some preservatives added or created during processing such as nitrites or sulphites may cause adverse health effects. Processed foods often have a higher ratio of calories to other essential nutrients than unprocessed foods, a phenomenon referred to as "empty calories". Most junk foods are processed, and fit this category. High quality and hygiene standards must be maintained to ensure consumer safety and failures to maintain adequate standards can have serious health consequences. Processing food is a very costly process, thus increasing the prices of food products.

Current Market Overview India is a country of striking contrasts and enormous ethnic, linguistic, and cultural diversity. It has a population of 1.1 billion, and it is comprised of 28 states and seven Union Territories (under federal government rule). The states differ vastly in resources, culture, food habits, living standards, and languages. Vast disparities in per-capita income levels exist between and within India's states. About 75 percent of the country's people live in 550,000 villages; the rest in 200 towns and cities. There are 30 cities with a population above one million people.

India has the largest number of poor, with 35 percent of the population surviving on less than \$1 per day, and 80 percent of the population surviving on less than \$2 per day¹. Nearly 51 percent of Indians' consumption expenditures go for food (54 percent in rural area and 42 in urban areas) ²;

mostly for basic items like grains, vegetable oils, and sugar; very little goes for value added food items. In recent years, however, there has been an increased shift towards vegetables, eggs, fruits, meat, and beverages. Religion has a major influence on eating habits and, along with low purchasing power, supports a predominantly vegetarian diet.

Some observers of India's economic scene are, however, highly optimistic about consumption growth potential, and believe that rising income levels, increasing urbanization, a changing age profile (more young people), increasing consumerism, a significant rise in the number of single men and women professionals, and the availability of cheap credit will push India onto a new growth trajectory. These segments of the population are aware of quality differences, insist on world standards, and are willing to pay a premium for quality. Nonetheless, a major share of Indian consumers has to sacrifice quality for affordable prices.

Potential US exporters should also bear in mind that India's diverse agro-industrial base already offers many items at competitive prices. Results of the "Market Information Survey of Households," conducted by the National Council of Applied Economic Research, show that the share of households in the upper middle/high income group (annual household income > Rs. 90,000, or \$11,200 on purchasing power parity basis) has grown from 14% in 1989-90 to 28% in 2001-02, and is projected at 48 percent in 2009-10. Correspondingly, there has been a decline in the low-income group.

Sixty-five million people are expected to enter the 20-34 year age group from 2001 to 2010. By 2025, 40 percent of Indians are expected to be urban

dwellers. Structural reforms and stabilization programs during the 1990s have contributed to India's sustained economic growth, which has been relatively strong over the past two decades, averaging 6 percent annually. Since 1996, the Indian government has gradually lifted import-licensing restrictions, which had effectively prohibited imports. On April 1, 2001, all remaining quantitative restrictions were removed, putting India in compliance with its WTO commitment.

Nonetheless, the government continues to discourage imports, particularly agricultural products, with the use of high tariffs and non-tariff barriers. Import tariffs on most consumer products, although declining, are still high, ranging from 30.6 to 52.2 percent. Some sensitive items, such as alcoholic beverages, poultry meat, raisins, vegetable oils, wheat, rice, etc., attract much higher duties. Nontariff barriers include unwarranted sanitary and phytosanitary restrictions and onerous labeling requirements for pre-packaged foods.

Other factors adversely affecting imports include a poorly developed infrastructure (transportation and cold chain), a predominantly unorganized retail sector, and outdated food laws. However, some positive factors are:

- Rising disposable income levels
- Increasing urbanization and exposure to Western culture
- Growing health consciousness among the middle class
- Growing consumerism
- Changing age profile
- Increasing availability of cheap consumer credit

Current status of industry is shown in below table

Table 1. 4. Status of Food Processing Industry in India

India is a major producer of many agricultural commodities and it accounts for nine per cent of the world's fruit production and about 11 per cent of the vegetable production. But the level of processing and value addition of fruits and vegetables is just two per cent of the total production, compared to 65 per cent in the USA, 23 per cent in China and 78 per cent in the Philippines as given in the figure below. Graph: 1. 2 food processing percentage in different country There is huge wastage of perishable agricultural commodities. The position in the country with regard to other products also is not very encouraging. The overall level of processing of agricultural commodities in the country is estimated at six per cent. The annual loss on account of wastage of agricultural commodities is estimated to be about Rs 50, 000 crore. At present, the food processing sector employs about 13 million people directly and about 35 million people indirectly. In 2006-07, food processing sector contributed about 14 per cent of manufacturing GDP with a share of Rs 2, 80, 000 crore.

Of this, the unorganised sector accounted for more than 70 per cent of production in terms of volume and 50 per cent in terms of value. Indian Food Processing Industry Performance Market Definition The market for food processing industry is the complex in nature; it is global collective of diverse businesses that together supply much of the food energy consumed by the population. Only subsistence farmers, those who survive on what they grow, can be considered outside of the scope of the modern food processing industry. The food processing industry includes: Regulation: local, regional, national and international rules and regulations for food production and sale, including food quality and food safety, and industry lobbying activities

- Research and development: food technology
- Financial services insurance, credit
- Manufacturing: processed packed food, food processing machinery and supplies, food processing construction, etc.
- Food processing technology: preparation of fresh products for market, manufacture of prepared food products
- Marketing: promotion of generic products (e. g. milk board), new products, public opinion, through advertising, packaging, ublic relations, etc
- Wholesale and distribution: warehousing, transportation, logistics
- Retail: supermarket chains and independent food stores, direct-to-consumer, restaurant, food services.

Food Processing Sector overview Food processing is a large sector that covers activities such as agriculture, horticulture, plantation, animal husbandry and fisheries. It also includes other industries that use agriculture inputs for manufacturing of edible products. The Ministry of Food Processing, Government of India has defined the following segments within the Food Processing industry:

- Dairy, fruits & vegetable processing
- Grain processing
- Meat & poultry processing
- Fisheries

Consumer foods including packaged foods, beverages and packaged drinking water. While the industry is large in terms of size, it is still at a nascent stage

in terms of development. Out of the country's total agriculture and food produce, only 2 per cent is processed. The highest share of processed food is in the Dairy sector, where 37 per cent of the total produce is processed, of which 15 per cent is processed by the organized sector. Primary food processing (packaged fruit and vegetables, milk, milled flour and rice, tea, spices, etc.) constitutes around.

India's food-processing sector India's food-processing sector, though still developing, contributes 14 percent to the manufacturing GDP (5. 5 percent of aggregate GDP), produces goods worth rs. 2. 8 trillion (\$64 billion), and employs 13 million people. Much of India's food-processing industry is small-scale and involves very little value addition, although in recent years several multinational food-processing companies have started operations in India. A plethora of internal restrictions, including (a) prohibition on foreign direct investment in retail, (b) prohibitions on contract farming, (c) barriers to interstate commerce based on revenue and food security concerns, (d) some of the highest taxes on processed foods in the world, and (e) inefficient infrastructure and marketing networks seriously constrain growth of the sector. The almost year-round availability of fresh products across the country, combined with the consumers' preference for fresh products and freshly cooked foods has dampened demand for processed food products. The level of processing varies across segments – ranging from less than 2 percent of the production in the case of fruits and vegetables to over 90 percent in non-perishable products such as cereals and pulses.

In the latter, however, processing involves very little value addition, and is mostly confined to grading, cleaning, milling, and packing; with negligible use of additives, preservatives, and flavors. level of processing Forecasted “Unorganized” in fruits and vegetables includes unbranded pickles, sauces, and potato chips, but excludes processing by street vendors; “unorganized” in dairy includes processing by sweet food makers; “unorganized” in marine products includes processing by small fishermen. . At present, most inputs for the food-processing industry are sourced domestically, with the exception of some bulk commodities that are in short supply, such as pulses and vegetable oils, dried fruits and nuts, and small but increasing quantities of food additives and ingredients such as soy proteins, whey, and flavors and essence.

India annually imports vegetable oils valued at over \$2. 6 billion and pulses valued at \$560 million. Imports of food ingredients were valued at \$170 million in 2007/08, and include mostly spices and condiments, dairy products, cocoa products, fish and fish products, fruit juices, and other ingredients (yeasts, sauces, soft drink concentrates, flavoring materials, soy protein concentrates and isolates, etc.). Unorganized, small players account for more than 70 percent of the industry’s output in volume and 50 percent in value terms.

Most of them operate locally, add little if any value to products, and use outdated technologies. The government’s policy of reserving the food-processing sector for small-scale units, effective until 1991, discouraged large-scale domestic and foreign direct investment in the food-processing

sector. However, following economic liberalization in 1991, the food-processing industry was opened, resulting in increased investment in this sector, both domestic and foreign.

Over the last few years, several large companies, both Indian and foreign, have invested in the food-processing business in India, resulting in significant growth in this sector. Some of the major players in India's food-processing industry are listed in this report. There are hundreds of medium-sized regional companies, some of them aspiring to emerge as national players with their own established brands, who pose some competition to large firms. The domestic organized processed-food market is expected to triple in the next 10 years from about \$100 billion in FINACIAL YEAR 2004 to \$310 billion in FINACIAL YEAR 2015.

India aims to increase its share of world trade in this sector from 1. 7% currently (\$7. 5 billion) to 3% by 2015 (\$20 billion) Graph 2. 1 FMCG Market Size forecasting Sources:-web <http://www. foodprocessing/marketsize/. com> So here we have estimated that production of processed food is increasing linearly withrespectto FMCG Market size till 2015 E , its shows that very good potential of proceeds food in coming future. Major Players of Food Processing Industry Indian Food Processing Companies Profiles

Indian food processors may be divided into the following main categories: • Large Indian companies that have their production base in India or neighboring countries (for tax-saving purposes) • Multinational and joint-venture companies that have their production base in India • Medium/small domestic food-processing companies with a local presence • Small local

players in the unorganized sector Major Indian player in Food processing Industry Overview I. T. C LTD ITC is one of India's foremost private sector companies with a market capitalisation of nearly US \$ 19 billion* and a turnover of over US \$ 5. 1 Billion.

ITC has a diversified presence in Cigarettes, Hotels, Paperboards ; Specialty Papers, Packaging, Agribusiness, Packaged Foods ; Confectionery, Information Technology, Branded Apparel, Personal Care, Stationery, Safety Matches and other FMCG products. ITC's Agri-Business is one of India's largest exporters of agricultural products. ITC is one of the country's biggest foreign exchange earners (US \$ 3. 2 billion in the last decade). The Company's 'e-Choupal' initiative is enabling Indian agriculture significantly enhance its competitiveness by empowering Indian farmers through the power of the Internet.

This transformational strategy, which has already become the subject matter of a case study at Harvard Business School, is expected to progressively create for ITC a huge rural distribution infrastructure, significantly enhancing the Company's marketing Reach. ITC's wholly owned Information Technology subsidiary, ITC InfoTech India Limited, is aggressively pursuing emerging opportunities in providing end-to-end IT solutions, including e-enabled services and business process outsourcing.

ITC's production facilities and hotels have won numerous national and international awards for quality, productivity, safety and environment management systems. ITC was the first company in India to voluntarily seek a corporate governance rating. ITC employs over 25, 000 people at more

than 60 locations across India. The Company continuously endeavors to enhance its wealth generating capabilities in a globalizing environment to consistently reward more than 3, 78, 000 shareholders, fulfill the aspirations of its stakeholders and meet societal expectations.

This over-arching vision of the company is expressively captured in its corporate positioning statement. GODREJ PROFILE Started in 1897 as locks manufacturing company, the Godrej Group is today one of the most accomplished and diversified business houses in India. Godrej's success has been driven by the company's commitment to delivering innovation and excellence. Through the consistent application of this commitment and a century of ethical business conduct, Godrej has earned an unparalleled reputation for trust and reliability.

In 1930, Godrej became the first company in the world to develop the technology to manufacture soap with vegetable oils; that spirit of innovation has continued throughout the organization's history. Today Godrej is delivering consumers exciting innovations across a spectrum of businesses. The company's pursuit of excellence is equally well established and enduring. In the 1944 Mumbai docks blast, Godrej safes were the only security equipment whose contents were unharmed; an equal level of product quality continues to be expected from every product bearing the Godrej brand name. Godrej management understands that the company's greatest asset is the trust and faith that consumers have reposed in it, and recognizes that the company must continue to earn this trust. This translates to the organization delivering outstanding quality and value in everything it

does. Godrej's ethical and visionary practices have allowed the company to successfully expand into a number of businesses. Today Godrej is a leading manufacturer of goods and provider of services in a multitude of categories: home appliances, consumer durables, consumer products, industrial products, and agri products to name a few.

A recent estimate suggested that 400 million people across India use at least one Godrej product every day. The group has more recently entered the real estate and information technology sectors, and management views these as avenues for enormous growth. The 6000 Crore - (US \$1. 5 Billion) Godrej Group is one of India's largest professionally run private sector groups. It has a well-established presence in varied businesses ranging from foods and consumer durables to real estate and information technology. In 1997, Godrej completed 100 years of service to the nation. Today, the name Godrej is synonymous with Quality ; Trust.

It is amongst the most admired Business Groups in India, delivering quality products and services to its customers at competitive costs. All this, with the highest international standards of customer care. MTR Foods Limited Profile MTR Foods Limited is amongst the top five processed food manufacturers in India. We manufacture, market and export a wide range of packaged foods to global markets that include USA, UK, Australia, New Zealand, Malaysia, Singapore, UAE and Oman. Starting with the legendary MTR restaurant in Bangalore, India's silicon valley, we now offer "complete meal solutions'.

Our wide range of products include ready-to-eat curries and rice, ready-to-cook gravies, frozen foods, ice cream, instant snack and dessert mixes,

spices and a variety of accompaniments like pickles and papads. Our deep understanding of culinary expectations and needs has resulted in many new and innovative products. Our investments in infrastructure and technology ensure that we can scale rapidly and bring these to market. Today, consumers across the globe count on us to bring them all-natural, wholesome and delicious food that is also convenient and no-fuss.

We have also expanded our retail presence significantly: contemporary 'Namma MTR' and MTR kiosks now serve delighted consumers across Bangalore and Chennai. Parle Limited Profile Parle Products has been India's largest manufacturer of biscuits and confectionery, for almost 80 years. Makers of the world's largest selling biscuit, Parle-G, and a host of other very popular brands, the Parle name symbolizes quality, nutrition and great taste. With a reach pning even the remotest villages of India , the company has definitely come a very long way since its inception.

Many of the Parle products - biscuits or confectioneries, are market leaders in their category and have won acclaim at the Monde Selection, since 1971. With a 40% share of the total biscuit market and a 15% share of the total confectionary market in India, Parle has grown to become a multi-million dollar company. While to consumers it's a beacon of faith and trust, competitors look upon Parle as an example of marketing brilliance. Dabur India Limited Profile Dabur India Limited has marked its presence with some very significant achievements and today commands a marketleadershipstatus.

Our story of success is based on dedication to nature, corporate and process hygiene, dynamic leadership and commitment to our partners and stakeholders. The results of our policies and initiatives speak for themselves.

Leading consumer goods company in India with a turnover of Rs. 2233. 72 Crore (FY07)

2 major strategic business units (SBU) - Consumer Care Division (CCD) and Consumer Health Division (CHD)

3 Subsidiary Group companies - Dabur Foods, Dabur Nepal and Dabur International and 3 step down subsidiaries of Dabur International - Asian Consumer Care in Bangladesh, African Consumer Care in Nigeria and Dabur Egypt. 13 ultra-modern manufacturing units spread around the globe

Products marketed in over 50 countries Wide and deep market penetration with 47 C; F agents, more than 5000 distributors and over 1. 5 million retail outlets all over India. CCD, dealing with FMCG Products relating to Personal Care and Health Care

- Leading brands
- Dabur
- The Health Care Brand
- Vatika-Personal Care Brand
- Anmol- Value forMoneyBrand
- Hajmola

Tasty Digestive Brand and Dabur Amla, Chyawanprash and Lal Dant Manjan with Rs. 00 crore turnover each Vatika Hair Oil ; Shampoo the high growth

brand Strategic positioning of Honey as food product, leading to market leadership (over 40%) in branded honey market Dabur Chyawanprash the largest selling Ayurvedic medicine with over 65% market share. Leader in herbal digestives with 90% market share Hajmola tablets in command with 75% market share of digestive tablets category Dabur Lal Tail tops baby massage oil market with 35% of total share. CHD (Consumer Health Division), dealing with classical Ayurvedic medicines. Has more than 250 products sold through prescriptions as well as over the counter * Major categories in traditional formulations include:

- Asav Arishtas
- Ras Rasayanas
- Churnas
- Medicated Oils

Proprietary Ayurvedic medicines developed by Dabur include:

- Nature Care Isabgol
- Madhuvaani
- Trifgol

Division also works for promotion of Ayurveda through organised community of traditional practitioners and developing fresh batches of students Analysis Porter Five Forces Analysis for Indian Food Processing Analysis

The Porter's 5 Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps you understand both the strength of your current competitive position, and the

strength of a position you're looking to move into. With a clear understanding of where power lies, you can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it an important part of your planning toolkit. Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable.

However it can be very illuminating when used to understand the balance of power in other situations too.

Threat of Entry (high) The threat of new entry is quite high: if anyone looks as if they're making a sustained profit, new competitors can come into the industry easily, reducing profits. Profitable markets that yield high returns will draw firms. The result is many new entrants, which will effectively decrease profitability. Unless the entry of new firms can be blocked by incumbents, the profit rate will fall towards a competitive level (perfect competition).

Capital Requirements (low) The capital costs of getting established in an industry can be reduced because of the government subsidies provided to the food processing sector. Financial disaster for most participants is that the initial setup costs of new ventures were typically very low. Startup costs are so low that individual, self-financing entrepreneurs can enter. For example, in mineral water pouch business, costs for a company are around Rs 350,000 and remaining Rs 750,000 is subsidies by Government.

Economies of Scale (low)

In industries that are capital or research or advertising intensive, efficiency requires large-scale operation. The problem for new entrants is that they are faced with the choice of either entering on a small scale and accepting high

unit costs, or entering on a large scale and running the risk of underutilized capacity while they build up sales volume. These economies of scale have deterred entry into the industry so that the only new entrants in recent decades have been state-supported companies the main reason or source to achieve scale economies is new product development costs.

Thus, developing and launching a new product is very costly. Segment of the market for food processing Industry is very narrowly define so potential customer are very few that's why companies are not able to achieve economies of scales. * Absolute Cost Advantages(high) Apart from economies of scale, established firms may have a cost advantage over entrants simply because they entered earlier. Absolute cost advantages often result from the acquisition or alliances of low-cost sources of raw materials. Absolute cost advantages may also result from economies of learning.

Amul cost advantage in Pasteurization milk results from its early entry into this market and its ability to move down the learning curve faster than local player and then making alliances with they produce milk but marketed by the brand name of Amul. So new enter company alliance with well establish large firm can easily enter in the company Product Differentiation (high) In an industry where products are differentiated, established firms possess the advantages of brand recognition and customerloyalty.

New entrants to such markets must spend disproportionately heavily on advertising and promotion to gain levels of brand awareness and brand goodwill similar to that of established companies. One study found that,

compared to early entrants, late entrants into consumer goods markets incurred additional advertising and promotional costs amounting to 2.12 percent of sales revenue. Alternatively, the new entrant can accept a niche position in the market or can seek to compete by cutting price.

And in food processing industry there are many untapped market are available, so there are good opportunity for niche marketing in food processing industry e. g. sugar free is product that only targeting diabetic person and health conscious person only and it having 11% growth rate annually Access to Channels of Distribution (low) Whereas lack of brand awareness among consumers acts as a barrier to entry to new suppliers of consumer goods, a more immediate barrier for the new company is likely to be gaining distribution.

Limited capacity within distribution channels (e. g. , shelf space), risk aversion by retailers, and the fixed costs associated with carrying an additional product result in retailers being reluctant to carry a new manufacturer's product. The battle for supermarket shelf space between the major food processors (typically involving lump-sum payments to retail chains in order to reserve shelf space) means that new entrants scarcely get a look in. * Governmental and Legal Barriers(high)

Some economists (Amitabha Sen) claim that the only effective barriers to entry are those created by government. In taxicabs, banking, telecommunications, and broadcasting, entry usually requires the granting of a license by a public authority. From medieval times to the present day, companies and favored individuals have benefited from governments

granting them an exclusive right to ply a particular trade or offer a particular service. In knowledge-intensive industries, patents, copyrights, and other legally protected forms of intellectual property are major barriers to entry.

Regulatory requirements and environmental and safety standards often put new entrants at a disadvantage to established firms, because compliance costs tend to weigh more heavily on newcomers . e. g. Prevention of Food Adulteration laws is not only stringent one but time consuming also. It is considered as an archaic and no industry friendly food law. It substantial varies from Codex standard. Harmonization of multiple food laws is an urgent necessity. * Retaliation (low) Barriers to entry also depend on the entrants' expectations as to possible retaliation by established firms.

Retaliation against a new entrant may take the form of aggressive price-cutting, increased advertising, sales promotion, or litigation. The major food processing company has a long history of retaliation against low-cost entrants. Parle and other budget food processing have alleged that selective price cuts by MNC and other major food processing like Britannia amounted to predatory pricing designed to prevent its entry into new routes. 8 To avoid retaliation by incumbents, new entrants may seek initial small scale entry into less visible market segments.

New entered company market and targeted the small segments partly because this segment had big opportunity and large profit (niche marketing). Rivalry between Established Competitors (low) For most industries, this is the major determinant of the competitiveness of the industry. Sometimes rivals compete aggressively and sometimes rivals compete in non-price

dimensions such as innovation, marketing, etc. For most industries, the major determinant of the overall state of competition and the general level of profitability is competition among the firms within the industry.

In some industries, firms compete aggressively – sometimes to the extent that prices are pushed below the level of costs and industry-wide losses are incurred. In others, price competition is muted and rivalry focuses on advertising, innovation, and other non price dimensions. Six factors play an important role in determining the nature and intensity of competition between established firms: concentration, the diversity of competitors, product differentiation, excess capacity, exit barriers, and cost conditions. *

Concentration(high) Seller concentration refers to the number and size distribution of firms competing within a market.

It is most commonly measured by the concentration ratio: the combined market share of the leading producers. Where a market is dominated by a small group of leading companies (an oligopoly), price competition may also be restrained, either by outright collusion, or more commonly through “parallelism” of pricing decisions. Thus, in markets dominated by two companies, such as soft drinks (Coke and Pepsi), prices tend to be similar and competition focuses on advertising, promotion, and product development. Economists measure rivalry by indicators of industry concentration.

The Concentration Ratio (CR) is one such measure. The Bureau of Census periodically reports the CR for major Standard Industrial Classifications (SIC's). The CR indicates the percent of market share held by the four largest

firms (CR's for the largest 8, 25, and 50 firms in an industry also are available). A high concentration ratio indicates that a high concentration of market share is held by the largest firms - the industry is concentrated. With only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly).

A low concentration ratio indicates that the industry is characterized by many rivals, none of which has a significant market share. These fragmented markets are said to be competitive. The concentration ratio is not the only available measure; the trend is to define industries in terms that convey more information than distribution of market share. In food processing industry concentration ratio is high that indicate high concentration of market share is held by the largest firms like ITC (tobacco), Cadbury (chocolates) etc.

As the number of firms supplying a market increases, coordination of prices becomes more difficult, and the likelihood that one firm will initiate price-cutting increases. However, despite the common observation that the elimination of a competitor typically reduces price competition, while the entry of a new competitor typically stimulates it, systematic evidence of the impact of seller concentration on profitability is surprisingly weak. Richard Schmalensee concluded that: “ The relation, if any, between seller concentration and profitability is weak statistically and the estimated effect is usually small. In pursuing an advantage over its rivals, a firm can choose from several competitive moves: Changing prices - raising or lowering prices to gain a temporary advantage. Improving product differentiation -

improving features, implementing innovations in the manufacturing process and in the product itself. Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry.

Exploiting relationships with suppliers - set high quality standards and required suppliers to meet its demands for product specifications and price.

Diversity of Competitors (low) The extent to which a group of firms can avoid price competition in favor of collusive pricing practices depends upon how similar they are in terms of origins, objectives, costs, and strategies. In food processing industry it is very low here firm always try to compete rival strategies and there product prices e. g. coke and Pepsi, maggi and top Ramon , Amul ice cream and havmor ice cream etc Product Differentiation The more similar the offerings among rival firms, the more willing customers are to substitute and the greater the incentive for firms to cut prices to increase sales.

Where the products of rival firms are virtually indistinguishable, the product is a commodity and price is the sole basis for competition. Commodity industries such as food processing agriculture, mining, and petrochemicals tend to be plagued by price wars and low profits. By contrast, in industries where products are highly differentiated (perfumes, pharmaceuticals, restaurants, management consulting services), price competition tends to be weak, even though there may be many firms competing. ood processing industry it is very low here firm always try to compete rival strategies and there product prices because they have more or similer offering and there

product are virtually indistinguishable e. g. coke and Pepsi, magi and top Ramon , Amul ice cream and havmor ice cream etc * Excess Capacity and Exit Barriers Why does industry profitability tend to fall so drastically during periods of recession? The key is the balance between demand and capacity. Unused capacity encourages firms to offer price cuts to attract new business in order to spread fixed costs over a greater sales volume.

Excess capacity may be cyclical (e. g. the boom-bust cycle in the semiconductor industry); it may also be part of a structural problem resulting from overinvestment and declining demand. In these latter situations, the key issue is whether excess capacity will leave the industry. Barriers to exit are costs associated with capacity leaving an industry. Where resources are durable and specialized, and where employees are entitled to job protection, barriers to exit may be substantial. Conversely, rapid demand growth creates capacity shortages that boost margins.

On average, companies in growing industries earn higher profits than companies in slow growing or declining industries see figure 3. 4. In food processing industry it will not effect because food demand is always increase or maintain because it is directly related to population growth, and in this industry some exit barrier are working because of Government policies. Bargaining Power of Buyers (low) Also described as the market of outputs. The ability of customers to put the firm under pressure and it also affects the customer's sensitivity to price changes. Customer has enough option to switch so they have less bargaining power. The firms in an industry operate in two types of markets: in the markets for inputs and the markets for

outputs. In input markets firms purchase raw materials, components, and financial and labor services. In the markets for outputs firms sell their goods and services to customers (who may be distributors, consumers, or other manufacturers). In both markets the transactions create value for both buyers and sellers.

How this value is shared between them in terms of profitability depends on their relative economic power. Let us deal first with output markets. The strength of buying power that firms face from their customers depends on two sets of factors: buyers' price sensitivity and relative bargaining power. **Buyers' Price Sensitivity (low)** The extent to which buyers are sensitive to the prices charged by the firms in an industry depends on four main factors: *

- * The greater the importance of an item as a proportion of total cost, the more sensitive buyers will be about the price they pay.

Beverage manufacturers are highly sensitive to the costs of metal cans because this is one of their largest single cost items. Conversely, most companies are not sensitive to the fees charged by their auditors, since auditing costs are such a small proportion of overall company expenses. *

- * The less differentiated the products of the supplying industry, the more willing the buyer is to switch suppliers on the basis of price.
- * The more intense the competition among buyers, the greater their eagerness for price reductions from their sellers.

As competition in the world food processing industry has intensified, so component suppliers are subject to greater pressures for lower prices, higher quality, and faster delivery. *

- * The greater the importance of the industry's

product to the quality of the buyer's product or service, the less sensitive are buyers to the prices they are charged. The buying power of necessary processed food product like sugar salt etc. is limited by the critical importance of these components to the functionality of their product.

Relative Bargaining Power (high)

Bargaining power rests, ultimately, on refusal to deal with the other party. The balance of power between the two parties to a transaction depends on the credibility and effectiveness with which each makes this threat. The key issue is the relative cost that each party sustains as a result of the transaction not being consummated. A second issue is each party's expertise in leveraging its position through gamesmanship. Several factors influence the bargaining power of buyers relative to that of sellers: * Size and concentration of buyers relative to suppliers.

The smaller the number of buyers and the bigger their purchases, the greater the cost of losing one. * Buyers' information. The better informed buyers are about suppliers and their prices and costs, the better they are able to bargain.. Keeping customers ignorant of relative prices is an effective constraint on their buying power. But knowing prices is of little value if the quality of the product is unknown. It always works in food processing industry because people are not having full information about the product like k special of Kellogg which reduces the cholesterol of the consumer.

Ability to integrate vertically. In refusing to deal with the other party, the alternative to finding another supplier or buyer is to do it yourself. Large food processing companies such as Heinz and Campbell Soup have reduced their

dependence on the manufacturers of metal cans by manufacturing their own. The leading retail chains have increasingly displaced their suppliers' brands with their own-brand products. Backward integration need not necessarily occur – a credible threat may suffice. Buyers are Powerful in food processing industry

Buyers are concentrated - there are a few buyers with significant market share Buyers purchase a significant proportion of output - distribution of purchases or if the product is standardized Buyers possess a credible backward integration threat - can threaten to buy producing firm or rival Buyers are Weak in food processing industry Producers threaten forward integration - producer can take over own distribution/retailing Significant buyer switching costs - products not standardized and buyer cannot easily switch to another product.

Buyers are fragmented (many, different) - no buyer has any particular influence on product or price Producers supply critical portions of buyers' input - distribution of purchases Bargaining Power of Suppliers (low) Also described as market of inputs. Suppliers of raw materials, components, and services (such as expertise) to the firm can be a source of power over the firm. Suppliers may refuse to work with the firm, or e. g. charge excessively high prices for unique resources.

Analysis of the determinants of relative power between the producers in an industry and their suppliers is precisely analogous to analysis of the relationship between producers and their buyers. The only difference is that it is now the firms in the industry that are the buyers and the producers of

inputs that are the suppliers. The key issues are the ease with which the firms in the industry can switch between different input suppliers and the relative bargaining power of each party. Because raw materials, semi-finished products, and components are often commodities supplied by small companies to large manufacturing companies, their suppliers usually lack bargaining power. Suppliers are not Powerful because in food processing industry Credible forward integration threat by suppliers Suppliers concentrated Significant cost to switch suppliers Customers Powerful Suppliers are Weak because in food processing industry Many competitive suppliers - product is standardized Purchase commodity products Credible backward integration threat by purchasers Concentrated purchasers Customers Weak

Threat of Substitutes (high) In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices. The competition engendered by a Threat of Substitute comes from products outside the industry.

The price of aluminum beverage cans is constrained by the price of glass bottles, steel cans, and plastic containers. These containers are substitutes, yet they are not rivals in the aluminum can industry. The existence of close substitute products increases the propensity of customers to switch to

alternatives in response to price increases (high elasticity of demand). buyer propensity to substitute (high) relative price performance of substitutes (high) buyer switching costs (low) Pressure from Substitutes Emerges Mainly From Two Factors 1. Switching costs for customers to the substitute. . Buyer willingness to search out for substitutes. Also the threat of substitution may take four different forms, each of which we shall now discuss with reference to above factors. Substitution of need We take switching from one product (e. g. natural drink of Dabur) to another (fresh juice from local vendor or prepared at home). In this case, the buyers might be looking out for freshness and might not mind the nominal switching costs Food processing Industry will definitely remain, in one form or the other, as long as the manufacturers manufacture and consumers consume.

Food processing industry does not seem to become extinct even in the future. The issue that remains to be addressed is just - what forms it keeps evolving into. Here the Substitutes of food processing industry are fresh fruits and vegetables and food as a raw material , but they are yet very well developed in India, so their threat are comparatively very high but food processing industry break the boundaries of food product availability in certain season and area that is why food industry will sustain for longer term.

While the treat of substitutes typically impacts an industry through price competition, there can be other concerns in assessing the threat of substitutes. Strategic Implications of the Five Competitive Forces Competitive environment is unattractive from the standpoint of earning good profits when Rivalry is vigorous Entry barriers are low and entry is likely

Competition from substitutes is strong Suppliers and customers have considerable bargaining power Competitive environment is ideal from a profit-making standpoint when Rivalry is moderate Entry barriers are high and no firm is likely to enter Good substitutes do not exist * Suppliers and customers are in a weak bargaining position. But food processing industry is little bit attractive but not ideal, it gives considerable profit Because of the following point Rivalry is moderate Entry barriers are low and firm is likely to enter Good have some substitutes but up to certain extent * Suppliers and customers are in a weak bargaining position Conclusion Growing Indian economy and improving lifestyles of Indians contributing in a big way to the growth.

The Indian snacks market is worth around US\$ 3 billion, with the organised segment taking half the market share, and has an annual growth rate of 15-20 per cent. The unorganised snacks market is worth US\$ 1.56 billion, with a growth rate of 7-8 per cent per year. There are approximately 1,000 types of snacks and another 300 types of savories being sold in the Indian market today. There is a big market for snacks in India as urban Indian consumers eat ready-made snacks 10 times more than their rural counterparts. Consumers are willing to pay a premium for both value-added private and branded products, creating immense opportunities for manufacturers and retailers. The growth of food processing sector has nearly doubled to 13.7 per cent during the last four years. A dominant segment of the food industry, food processing is estimated to be worth US\$ 70 billion with a 32 per cent share.

It comprises agriculture, horticulture, animal husbandries, and plantation. The opportunity for growth is huge when seen against the fact that while a mere 1. per cent of food is processed in India, nearly 80 per cent of food is processed in the developed world. Significantly, processed food exports have increased from US\$ 6. 98 billion in 2003-04 to US\$ 20. 51 billion in 2007-08, recording a whopping 193. 83 per cent growth rate. It realise India's potential in this industry, investment target of US\$ 25. 07 billion by 2015 to double India's share in global food trade from 1. 6 per cent to 3 per cent, increase processing of perishable food from 6 per cent to 20 per cent and value addition from 20 per cent to 35 per cent.

At last 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. There are some Factors such as rapid growth in the economy, the technological innovations, 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, the industry and the Government.

* Reasons to Invest in Indian Food Processing Industry It is the seventh largest country, with extensive administrative structure and independent judiciary, a sound financial & infrastructural network and above all a stable and thriving democracy. Due to its diverse agro-climatic conditions, it has a wide-ranging and large raw material base suitable for food processing

industries. Presently a very small percentage of these are processed into value added products.

It is one of the biggest emerging markets, with over 900 million population and a 250 million strong middle class. * Rapid urbanization, increased literacy and rising per capita income, have all caused rapid growth and changes in demand patterns, leading to tremendous new opportunities for exploiting the large latent market. An average Indian spends about 50% of household expenditure on food items. Demand for processed/convenience food is constantly on the rise. India's comparatively cheaper workforce can be effectively utilized to setup large low cost production bases for domestic and export markets.