



Dairy section at Spar, Bangalore

More Power to Dairy

Fuelled by modern trade and changing consumer preferences, the dairy category in India has evolved into a dynamic space where an onslaught of brands, private players and new categories are leading growth and innovation

By Annie Johnny

The current size of India's dairy market is around 21 million metric tonnes and it is growing at 4 percent CAGR (thrice that of the global average), and is estimated to reach Rs 5 lakh crore by 2015. The country is also the largest producer of dairy products by volume, constituting 15 percent of the world's and 40 percent of Asia's output. Liquid milk production touched 116 million metric tonnes in 2010-11 up from 17 million in 1951.

While 'Operation Flood' spurred growth by increasing India's milk production and making the distribution system more efficient, the entry of private players, modernisation of retail outlets, value additions, and expansions in the dairy products are giving a fresh impetus to the dairy segment.

Observes Devendra Shah, Chairman and Managing Director of Gowardhan, "Although the organised dairy market is growing by 20 percent, I feel there is no significant impact of modern retail on dairy category. Only new products like yoghurt and cheese growth can be attributed to modern retail. This is primarily because of the easy availability of such products for trial and visibility".

Says Anil Jindal, Chairman, SRS Value Bazaar, "Dairy has recorded a steady growth through the years. Key triggers include rising consumer affluence, experimentation with food and increased consumption of non-traditional foods such as shakes, smoothies, probiotics, etc, more confidence in packaged products given their ease of use, availability of value-added and a diverse range of products. We

have definitely read this demand well in time and managed our space and inventory levels accordingly."

Packaged milk

The need for hygiene and convenience is changing consumer preference for packaged milk from loose liquid milk provided by the milkman. According to Dr R S Khanna, Director of Kwaliti Dairy, under the pasteurised milk pouches segment, full cream milk is growing at 55 percent, and is more strong in north India, especially Delhi, while toned milk is growing more in the southern market at a rate of 45-50 percent. This variation is because of preference for cow milk over buffalo in the south.

Although pouched milk still dominates the Indian market compared to the tetra-packed

UHT (ultra heat treated) milk, demand for UHT, which is growing at a rate of 15-20 percent is on the rise. Its relatively longer shelf-life, convenient packaging, and ready-to-drink convenience are driving demand. There is no need for boiling or refrigeration which makes UHT milk attractive to both retailers and customers. But unlike countries like Italy, Spain, and France where UHT milk is very popular, it has still to garner a loyal customer base in India.

“In our store, UHT milk comprises about 4-5 percent of the total milk sales. But sales primarily depend upon store location, broad geography and consumer profile of the area. For example, levels of consumption are higher in Gurgaon than in Faridabad. In India, the consumption is largely among people who have lived abroad or travel a lot to foreign countries and are therefore exposed to that lifestyle and are aware of its benefits (it is free from preservatives),” says Jindal.

However, he also feels that it is a trend that will pick up very soon as the adoption rate is improving. “It has become important to stock UHT milk because there are several casual consumers of UHT apart from a small/ niche loyal base. Secondly, it helps to complete the shopping basket of the discerning consumer who demands such products,” he says.

Elaborating on the benefits for retailers in stocking UHT milk, he adds, “It certainly helps retail outlets which are located in places that are mostly warm during the year, since it is convenient to store UHT tetra packs without having to worry about refrigeration. Also, because of the flat shape of the milk packet, it occupies lesser space in a store, which can then be utilised for other items.”

According to Khanna, UHT milk works better in remote areas where it is difficult to get fresh milk. “Though UHT milk is mostly bought by modern working couples because of its longer shelf life, it also works well for remote areas or in places where it is difficult to get fresh milk like the north-east or mountain regions. Even the army has stopped using milk powder and is preferring UHT milk.”

Value additions

Rising disposable incomes has led to the diversification of the dairy category as consumers are looking beyond pouched

Today, almost 30 percent of dairy products and milk is being retailed through modern store formats, an increase from 18 percent in 2007-2009

milk and the occasional butter and cheese spreads. This is giving rise to value additions such as flavoured milk, vitamin enriched yoghurt, flavoured yoghurts, etc. Categories like probiotic-enriched milk and yoghurt are the rising new stars of the dairy category. According to dairy consultant company Dairy India, the market for butter, cheese, ice cream, dairy whiteners and cheese spreads is increasing by 8-10 percent per year.

and advertisements, there is greater communication with the end-consumer. So, increased awareness has resulted in an increase in the basket of products that the consumer now buys. For example, cheese slices are now more commonly bought as compared to ten years ago when it was a rare purchase item. Even traditional products like dahi has got a new avatar in the packaged variety; in fact, the advent of packaged yoghurt

has been relatively spectacular with all the major brands claiming a stake in the market,” says Ram Nair, Director, Aligned Business Partners, a retail consultancy firm.

Comments Shah, “In the case of yoghurt and lassi, value additions have been helpful. But I think the most important factors are the growth in income, up gradation and affluence.”

“Value additions have definitely had a positive impact on the dairy category. People started buying more cheese spreads because of relevant range and variations. In certain cases, a family’s share of dairy spends went up because it found probiotic drinks useful for the children. In other cases, a family discovered the goodness and convenience of western styled tetra packed milk cartons. Apart from this, the availability of various skus at multiple price points also helps in trials, and eventually regular consumption,” says Jindal.

Packaged Dahi

Today, both regional and national dairy players are vying for shelf space with their dahi brands such as Nestle’s A+, Mother Dairy, Amul, Gowardhan, Britannia, and Metro Dairy, etc, leaving the consumer spoilt for choice.

“For a country which has a culture of making curd at home, packaged dahi’s growth has been phenomenal; and the segment is growing at the rate of 20 percent. It is one of those sub-categories that has directly emerged from the chillers of modern trade outlets to become a regular, even at small kirana stores,



UHT milk on display at SRS Value Bazaar, Gurgaon

“As the Indian consumer’s tastes evolve, so does the need for more flavours and variety and hence the need for wider range of choices. Also, with the advent of strong brands in the Indian marketplace, with companies launching new products followed by in-store promotions

Apart from better storage, modern retail spaces provide better visibility and in-store promotion opportunities for both the manufacturer and retailer to interest consumers in new products

informs Sharad Gupta who brings out a yearly book on the dairy industry for Dairy India.

Adds Gupta, “During the peak summer season, Mother Dairy alone produces more than 100 tonnes of dahi. That’s how much the demand for package dahi is rising. The last thing people want to do now is start making curd at home.”

Probiotics

The rise of health consciousness among consumers has brought sub-categories like probiotics to Indian shores. Compared to the global market for probiotic foods, which is around \$14 billion, and estimated to reach around \$ 19.6 billion in 2013, the Indian probiotics market at \$2 million is still at a very nascent stage. But, according to experts, it is set to quadruple by 2015. Currently, companies offering probiotic yoghurt and drinks are Yakult Danone, Mother Dairy with its Nutrifit probiotic drink and dahi, Nestle’s Actiplus and Amul’s Prolife.

“The market for probiotic foods is still very small in India compared to the West, besides which the penetration is still limited to the metros as awareness levels in tier 2 and 3 cities is still low. Not many probiotic products are available there as yet,” says Kiyoshi Oike, Managing Director, Yakult Danone. The brand has recently entered the southern market. Yakult Danone’s best performing market is north India especially Delhi/NCR. The company retails through both direct selling (which



constitutes around 40 percent of the sales) as well as through retail outlets which attribute around 60 percent of the sales. This year, the company plans to concentrate only on metros and is not looking at tier 2 and 3 cities.

Flavoured yoghurt

The American concept of yoghurt is spreading across the country with leading manufacturers Amul, Mother Dairy, and Nestle vying to capture a chunk of the market.

According to Khanna, yoghurt has the potential to grow and would soon reach growth

rates of 50-60 percent. “Flavoured yoghurt is very new in the market, so it is too early to estimate the size of the market, but it will definitely grow.”

Retailers too feel that the category is at a very nascent stage despite the furore created around the product by the manufacturers. “Not a lot of people are aware of flavoured yoghurt, so it has yet to catch up with the consumers. It is still a growing category,” says Deepakbhai Thakkar, Owner, Thakkar Super Market in Thane, Mumbai.

The category has yet to percolate to regions like east India where ‘mishti doi’ is very popular. “In eastern India, people prefer having Mishti Doi and same is the case with areas like Maharashtra where they have srikhand. Flavoured yogurt is concentrated mainly in the metros,” says Nishit Thacker, Director of Thackers Dairy, a regional dairy brand in Kolkata.

Cheese

With a 15 percent growth rate, cheese is one of the fastest growing categories which has grown from the occasional slice and spread to a more sophisticated fare. “Cheese is definitely a growing category,” says Thakkar, “While earlier I used to have a 15 day stock, now, I have weekly stocks because



Dairy Facts

- India’s dairy industry is estimated to reach Rs 5 lakh crore by 2015
- Current size of India’s dairy market is around 21 million metric tonnes and growing at 4% CAGR
- Liquid milk production touched 116 million metric tonnes in 2010 -11; it was 17 million metric tonnes in 1951
- Processed milk is estimated to touch Rs 5 lakh crore by 2015 on annual growth rate of 10%, according to industry body Assocham
- Packaged milk in metros has shown 30% growth rate.
- The market for butter, cheese, ice cream, dairy whiteners and spreads is increasing by 8-10% every year
- Almost 30% of dairy products including milk is being retailed through modern format, an increase from 18% in 2007-09.

of the increase in demand. One of the main reasons behind it is the change in consumer tastes. Now they want cheese with everything, whether it is parantha or pao bhaji. And since people are travelling a lot these days, they are aware of different varieties and flavours being consumed in other countries. Today, they can differentiate between an Emmental and a Gouda.”

For manufacturers, expanding their dairy offering with value additions may seem the way ahead, but retailers feel that new products or variants can only go so far and no further when it comes to sales. “Value additions may help drive sales initially, but they do not sustain it. For example, probiotic dahi had a lot of takers initially when it was talked about a lot, but largely people have now gone back to using regular dahi. So I feel value additions drive sales only temporarily,” says Vivek Nanda, Director, Om Daily Needs, a supermarket in New Delhi, where around 6 percent of total sale comes from dairy.

Modern retail and dairy

Modern trade has played a big role in the growth of the dairy category. Modern retail made it possible for retailers to offer dairy products that could not be sold through traditional retail due to infrastructural handicaps. Today, almost 30 percent of dairy products and milk is being retailed through modern store formats, an increase from 18 percent in 2007-2009.

“This is one category whose growth is linked directly with modern trade. Earlier, in traditional stores, the storage facility was not up to the mark to accommodate, let’s say, a range of yoghurts. So products would get damaged pretty soon. Packaged dahi whose package is puffed up indicates that the dahi inside has gone bad. Modern stores with their chillers, coolers, etc, have facilitated growth of products which have a short shelf life, and this has definitely helped growth of this food segment,” says Nanda.

Apart from better storage, modern retail spaces provide better visibility, and in-store promotion opportunities for both the manufacturer and retailer to interest consumers in new products.

“Consumers have more choices now. Earlier when they had to buy something from the neighbourhood store, they might make their decision based on the shopkeeper’s advice on which brand to buy. With properly displayed products on shelves in modern stores, they can view the various brands, and make their own selection by checking prices, ingredients

and nutritional value, etc,” says Sharad Gupta.

At SRS Value Bazaar, dairy occupies 5-6 percent store space and accounts for 4-5 percent of the total sales. Consumers can get all the well-known brands like Amul, Britannia, Nestle, HUL, Milkana, Govardhan’s Go, Nutrilite, Mother Dairy, Nestle, Kraft, Yakult, and Kwality, with the entire range of cheese, butter, cheese spreads, flavoured milk drinks, value-added drinks, curd, cottage cheese (paneer), and desi ghee.

begin to recognise brands which may have been previously invisible to them in traditional stores, which lack space for proper displays,” says Gupta.

However, there are some places where local brands do better than national ones because of the years of history behind them. “I stock brands like Chitale from Pune and Warana from Kohlapur. Both have a strong presence in their respective regions. In fact, in Pune, consumers prefer Chitale over national brand

The outlook for dairy in India is promising as the segment is poised for growth and expansion. Categories will evolve rapidly fuelled by consumer demand resulting in several sub-categories

The organised way of retailing dairy products has also benefited regional brands who had so far been out of the limelight. “Small players who did not have the supply chain network of, let’s say, Nestle, and could not expand to other areas, have benefited from modern retail. When a regional brand retails through chains like Reliance Fresh, it might be given premium space, which will help the brand get national exposure. So modern retail is the right place to introduce new products because of the high visibility areas, opportunity to put up a promotional banner, and of course, the high footfalls. People will

Amul. This is because people are used to the taste of their local brands, having grown up consuming them, and also due to their close association and loyalty with such brands,” says Thakkar.

In-store promotions

Modern trade has also shown the way for convenience and traditional stores to spruce up. Observes Thakkar, “Modern trade has made consumers aware of different products in the market since manufacturers prefer to introduce new products here. They often involve consumers in tasting and evaluating



Range of dairy products at SRS Value Bazaar

the product as part of the in-store promotion. While consumers might buy a product from a hyper/supermarket once or twice in a month, subsequently they will look for it in their neighbourhood stores. As a result, once demand pours in, these retailers begin to stock up these products too. Though they might not have the same number of skus as a hypermarket, they will find it necessary to upgrade to the best of their ability – maybe install a chiller for dairy products.”

Increased investments in the dairy retail front end is on the anvil - primarily, chillers/ freezers and specialised supply chains will need to be built up

Agrees Jindal, “The fact that a reputed retail brand like SRS Value Bazaar offers a particular dairy product adds to the overall confidence of the consumers. Such factors go a long way in taking the category ahead.”

Medium-level modern format retailer Deepakbhai Thakkar in Thane feels that schemes like ‘buy one get one free’ are very important especially when testing a new brand. “We have done promotions with Danone and Mother Dairy when they launched their yoghurt, and also with Gowardhan,” says Thakkar. In his store, around 8 percent of space has been allocated to dairy. “When a supplier comes with a new product, we always ask for a promotional scheme, at least for the initial months of the launch. Based on the response from my customers, I will decide on whether I should keep the new product or not. Schemes like ‘buy one get one free’ help us test the market response. We also offer discounts and bulk packs in consultation with the manufacturers.”

Says Shah, “We conduct regular promotions to increase visibility. We also help retailers in store promotions. But I feel our sales is based on consumer satisfaction rather than one-time sale.”

Challenges

Modern retail may be changing the dynamics of milk retailing in India. but it still constitutes

a small percentage of total dairy retailing. Almost 65 percent of retailing is still happening through the unorganised sector such as farmers, milk vendors, wholesalers and traditional retailers.

“In the urban markets, modern retailers have an edge due to factors such as big chillers/freezers, better communication opportunities with consumers, and specialised supply chains. But as the categories become mainstream, traditional retailers will give modern retailers a run for their money, for example, packaged dahi and UHT milk can be easily found in small neighbourhood stores,” says Nair.

Low margin in dairy is also a problem for retailers, besides which operational challenges like maintaining the right temperature, and refrigeration costs also eat up the margins, but since the category is an everyday necessity, they cannot ignore it. “Refrigeration of these products at the right temperature always remains a big challenge for retailers as the required temperature is different for different products, for example, butter needs a higher storage temperature than cheese,” says Tushar Kothari, Owner of Quality House supermarket in Buldhana, Maharashtra.

Investing in the right equipment will also help increase sales. Says Thakkar, “Most retailers have a habit of stocking all the products in one big chiller. This reduces the visibility of brands as products are stocked one on top of the other. Investing in a second chiller like in the supermarkets where consumers are able to see the entire range easily will pay off as sales increase.”

“It is also important to have a well-lit visual display of the products in a chiller to make this category look really tempting. The consumer should be able to see the sheer variety so that s/he is tempted to pick something up,” avers Jindal, whose SRS Value Bazaar supermarkets are present in Delhi/NCR, Sonipat and Palwal.

Despite these challenges, both retailers and manufacturers opine that the outlook for dairy in India is promising as the segment is poised for growth and expansion. Says Nair, “I expect a rapid change in the way dairy retail will happen in India. Categories will evolve rapidly fuelled by consumer demand resulting in several sub-categories. Adulteration will become a concern in the liquid milk category resulting in increased adoption of carton milk especially in the urban markets. Increased investments in the dairy retail front end is on the anvil, primarily, chillers/



According to Thakkar, the only way to deal with the problems in dairy is by increasing the product range and brands. “Margins are going to remain standard as manufacturers rarely increase them. What retailers could do is increase the visibility and range of products, and make them as tempting as possible, so consumers buy more.”

freezers and specialised supply chains will need to be built up to cater to this segment.”

“Big names in India, such as Reliance, ITC, DCM, Bharti, Coca-Cola and PepsiCo, are silently working to make inroads in the country’s milk industry. So, the Indian dairy market can expect some new action,” reveals Sharad Gupta of Dairy India. ■