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Overview of India's Consumer Goods Sector: Market Potential and Prospects for Italian Goods

Prepared for:
The Commercial and Economic Section
Embassy of Italy in India
50 E Chandragupta Marg
New Delhi 110 021

Prepared by:
Ace Global Private Limited
C 159, East of Kailash
New Delhi 110 065

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Overview of India's Consumer Goods Sector: Market Potential and Prospects for Italian Goods

April 2001: A milestone in India's External Trade

The new millennium brings a new milestone in India's foreign trade policies, especially with regard to import regulations concerning a wide range of consumer goods of interest to Italy. On April 1, 2001, India will have completely removed all quantitative restrictions on import of goods covered under the General Agreement on Tariffs and Trade, and implement its ***market access commitments*** made to the WTO in January 1995.

At the Uruguay Round of negotiations, India offered to subject only 66% of its 11000 tariff lines to market access. However, the list primarily consisted of industrial goods, and contained very few or almost no items in the agriculture and consumer product categories, on the grounds that India had serious Balance of Payments situation and such restrictions were justified under Article XVIII of the GATT agreements themselves. However, India's market access offers were not accepted by principal trade partners, who referred the issue to the Dispute Settlement Panel at the WTO.

Following bilateral negotiations, India released a three-part phase out schedule for nearly 2700 items with specific commitments for April 1998, April 2000 and April 2004, which were accepted by all principal trade partners, but not by the US, which observed that India was 'back loading' its phase out by postponing the import access for all important goods. India eventually lost the dispute at the WTO in 1999, and was asked to negotiate with the US for a mutually acceptable phase out date.

As a result, India eventually conceded to withdraw all quantitative restrictions being maintained for Balance of Payments reasons on all its tariff lines before April 2001. Thereafter, no licensing or quantitative ceilings will generally apply on the import of any class of goods into India, and border tariffs will be the only market access barriers to the flow of goods from all other WTO member countries. However, India has the right under Article XX (General Exceptions) to impose import restrictions on grounds necessary to protect public morals; to protect plant, animal and human life or health; to prevent the enforcement of monopolies; to protect patents, trademarks and copyrights; national treasures of architectural, artistic or historic value, etc.

For instance, the perpetual ban on import of beef and beef tallow- on cultural and social concerns- is fully defendable under Article XX, although it is an opportunity barrier for all meat-exporting countries, because beef is the primary meat source worldwide.

In respect of textiles and clothing, which are not yet fully covered under GATT, the earlier Multi Fibre Agreement, which provided for bilateral quotas in trade of textile articles, was converted into a transitionary Agreement on Textiles and Clothing, which will fully merge into the GATT on January 2005. During this period, countries were required to integrate textile articles with the general GATT principles of eliminating quantitative restrictions, with at least 51% of the tariff lines becoming free of quota restrictions before 2002. India's phase out schedule on textiles, which are covered under the classification of consumer goods, in maintaining BoP related restrictions, generally includes the phase-out commitments under the ATC provisions as well.

Italy in India's Consumer Goods Sector

Italy features among the top ten business partners of India in terms of investment and trade both. Italy is an important investor in India, and figures among the top ten investors in terms of cumulative foreign direct investment till 2000. Italy's trade with India (in the sectors of interest to this study) has shown steady growth in the past three years since 1997-98. Two-way trade in these sectors in 1999-00 was close to US$ 395 million, of which imports from Italy were US$ 53mn and exports, US$ 342 mn. Italy lags behind the UK, USA, Germany and France in trade with India. UK is the only country with a positive trade surplus with India in the sectors of interest. However, only one trade item- jewellery brings about this unique position.

India's Import Export Trade Trends, selected products of interest to the study (in US$ mn)

	1997-98	*1998-99*	*1999-00*
Trade with Italy	**260.83**	**373.52**	**394.41**
Imports	43.82	52.19	52.70
Exports	217.11	321.33	341.71
Trade with USA	**3970.75**	**4417.22**	**5318.77**
Imports	511.35	667.34	746.38
Exports	3459.40	3749.88	4572.39
Trade with UK	**1032.76**	**1240.51**	**2312.71**
Imports	505.22	635.52	1545.25
Exports	527.54	604.99	767.46
Trade with France	**361.56**	**483.62**	**530.23**
Imports	37.02	87.86	96.39
Exports	324.54	395.76	433.84
Trade with Germany	**727.82**	**795.43**	**849.29**
Imports	129.2	180.59	237.93
Exports	598.62	614.84	611.36

Source: CSO data, Ministry of Commerce

Foreign investment interest in the sectors of interest has been lacklustre. Cumulative foreign investment values approved during ten years (from Jan 1991 till Sept 2000) was less than US$ 500mn; in actual inflows would have been substantially lower, given the low conversion rate in foreign investment trends in general.

Although Italy's investment presence has been more significant in the automobile and engineering goods sector, there are several important names in the consumer goods sector as well: Benetton, Perfetti, Parmalat, Fila, Lotto, to name a few. In all, Italy accounts for nearly110 investment approvals in the items of interest to this report, and the cumulative investment value approved from 1991 till Sept 2000, stood at US$ 40 mn, compared with US$ 170 mn for the US, US$ 40mn for UK, US$ 115 mn for France and US$ 105 mn for Germany.

Foreign investment approvals[1] in 1991- July 2000, selected sectors, (figures in US$ mn)

Sector	*Italy*	*US*	*UK*	*France*	*Germany*
Leather	16.20	2.94	12.2	1.40	75.22
Food processing	10.56	126.3	9.84	53.56	12.76
Jewellery	0.94	0.64	0.08	0	2.44
Furniture	0.42	16.70	0.25	2.07	2.63
Apparel	9.77	10.28	13.29	2.06	9.11
Ceramic tiles	2.34	0	3.35	0	2.63
Lighting	0	12.80	1.59	57.56	0.95
Total (of interest to the study)	**40.23**	**169.66**	**40.6**	**116.65**	**105.74**

Source: India Investment Centre printouts

While the post liberalization period has been characterised by more FDI and less presence by way of trade, the opportunities under complete market access conditions will alter the balance seriously in some segments, where market conditions may not suit investment but offer considerable trade potential. Italy, being a world-reputed producer of several categories of consumer goods that shall be opened up for imports, stands in front of a *window of potential* for ' Made in Italy' products, and must examine and consider the opportunities emerging in various categories: food products, wines and spirits, fashion goods, home and office goods, etc. This report summarizes the state of the Indian market for a few

[1] all investment figures were obtained from India Investment Centre and authors do not take responsibility for their veracity

selected goods in order to assist Italian industry and trade players with a preliminary assessment of business opportunities for their products in India.

Section I An Introduction to India's Consumer Classes

As a country of enormous economic and social contrasts, India offers a complex marketing arena and demands high specificity in the assessment of its market opportunities for various classes of goods.

India's complexity goes beyond sheer numbers: its one- billion people inhabit four climatic zones- from the temperate north to the tropical south, from the parched west to the inundated east; speak one or more of at least 15 official languages, follow several religious and personal beliefs, differ enormously in their food habits and social customs, and live *together* under varying states of human development, from the highly affluent to the utterly destitute.

Besides internal contrasts, India is culturally different from several other markets including Asian markets for historical and social reasons. Consumer goods marketers find India a very unique market that may defy replication of strategies used successfully in other emerging markets, and must be dealt with on its own terms. In the experience of many transnational companies, dealing with India is like dealing with several small markets, at the same time…

Demographic Classifications

India officially classifies its population in five groups, based on annual household income (based on year 1995-96 indices). These groups are: Lower Income; three subgroups of Middle Income; and Higher Income. However, the rupee income classifications by themselves do not present a realistic picture of market potential for a foreign business enterprise, because of significant differences in purchase power parities of various currencies.

In fact, the Indian rupee has a very high purchase power parity compared to its international exchange value. For instance, while the exchange rate of one US dollar is 46 rupees, the domestic purchasing power of a US dollar in the US is closer to the purchasing power of six rupees in India, for equivalent needs and services. As a result, India ranks fifth in the world, on purchase power parity terms, despite being having low per capita notional income (US$ 340 per capita). This inherent feature of the Indian economy is very useful to market planners considering business opportunities in India.

Consumer Classes:

Even discounting the purchase power parity factor, income classifications do not serve as an effective indicator of ownership and consumption trends in the economy. Accordingly, the National Council for Applied Economic Research, India's premier economic research institution, has released an alternative classification system based on consumption indicators, which is more relevant for ascertaining consumption patterns of various classes of goods.

According to the NCAER, there are five classes of consumer households, ranging from the destitute to the highly affluent, which differ considerably in their consumption behaviour and ownership patterns across various categories of goods. These classes exist in urban as well as rural households both, and consumption trends may differ significantly between similar income households in urban and rural areas.

Structure of the Indian Consumer Market

Consumer Classes (Annual income Rs)	*1996*	*2001*	*2007*	*Change*
The rich (Rs.215, 000 and more)	1.2	2.0	6.2	416%
The Consuming Class (Rs. 45-215,000)	32.5	54.6	90.9	179%
The Climbers (Rs. 22-45, 000)	54.1	71.6	74.1	37%
The Aspirants (Rs.16-22, 000)	44	28.1	15.3	-65%
The Destitute (below Rs. 16,000)	33	23.4	12.8	-61%
Total	164.8	180.7	199.2	21%

Source: NCAER

The target market segments for aspiration and lifestyle goods are the 35 million homes representing the consuming classes and the rich, or some 150 million people.

Consumer classifications based on consumption trends reveal the spread of economic development as reflected in ownership patterns of goods and durables and penetration levels of various classes of goods, which differ considerably with income as well as between urban and rural populations, as they relate to lifestyle.

Socio Economic Classes

Besides income groupings, Indian households are also categorised by the education and occupation levels of the chief earning member of the household. These groupings are referred to as SEC classes, and are used extensively by market planners of new products in establishing the target market segments for their goods and services.

It is interesting to note that in 1997, the population of upper strata consumers (Sec A and B) was estimated to be 5.85 million households, concentrated in 16 Indian cities. The top seven cities Mumbai, Delhi, Chennai, Kolkata, Hyderabad, Ahmedabad Bangalore and consisting of, account for more than 80% of the total population of SEC A and B households. With in creasing economic prosperity, this population of high potential homes is expected to rise to 9 million by 2003, growing at 10% annually.

Socio-Economic Classification

Occupation	*Education*						
	Illiterate	< 4 yrs in school	5-9 yrs school	School certificate	Some college	Graduate	Professional/ post graduate
Unskilled	E2	E2	E1	D	D	D	D
Skilled	E2	E1	D	C	C	B2	B2
Petty trader	E2	D	D	C	C	B2	B2
Shop owner	D	D	C	B2	B2	A2	A2
Employer of							
- None	D	C	B2	B1	A2	A1	A1
- Below 10 persons	C	B2	B2	B1	A2	A1	A1
- Above 10 persons	B1	B1	A2	A2	A1	A1	A1
Professional	D	D	D	B2	B1	A2	A1
Clerk/salesman	D	D	D	C	B2	B1	B1
Supervisor	D	D	C	C	B2	B1	A2
Junior Executive	C	C	C	B2	B1	A2	A2
Senior Executive	B1	B1	B1	B1	A2	A1	A1

Age demographics

Compared with several advanced countries, where the overall population is aging, India is a very young nation, with more than 70% of its population below the age of 40, and more than 47% below the age of 20. This age distribution is of significance to various consumer product marketers, and explains the boom in all Indian cities in consumption of impulse products and leisure-related expenditure in general, since the onset of liberalization. The projected increase in the economically active population of young Indians holds the keys to India’s prosperity and its economic potential over the next twenty years, and is expected to unlock a new wave of consumer demand provided the current trend of economic liberalization continues and generates continued investment and trade opportunities in the economy.

Age distribution of Indian population (Millions)

Year	*Kids 0-4*	*Children 5-14*	*Adolescents 15-19*	*Young adults 20-34*	*Mid aged 35-54*	*Aged 55 & more*	*Total*
1996	119.5	233.2	90.7	224	178.1	88.7	934.2
2001	108.5	239.1	109.0	246.8	207.3	101.7	1012.4
2006	113.5	221.2	122.4	279.1	239.2	118.7	1094.1

<u>Private Final Consumption Expenditure</u>

The levels of disposable income reveal the potential for further consumption of goods and services in an economy. Developing economies, expectedly, reveal a higher share of expenditure on essential goods and services than developed countries, where higher disposable incomes generate some demand for lifestyle and leisure-related pursuits.

Indians spent close to 53 % of their net income on food and beverages alone, 10.1% on essential services (power, rent, water and fuels), 4.7% on clothing, 0.55% on footwear, 4.4% on medical care, and 13.66% on personal transport services… Recreation, education and culture accounted for less than 4% of expenditure.

However, consumption trends have changed structurally in the latter part of the 1990s. Private consumption (at constant prices) has increased by an average 5.8% during 1995-2000, compared with 4% in 1990-1995 and 4.6% in 1985-90. Within product classes too, the changes are interesting: compared with 1993-94 (mid point of the first half of the decade), expenditure shares in 1998-99 show significant changes.

Shares of essential goods have come down: food essentials from 50.4% to 45.68%, clothing from 5.4% to 4.9%, and footwear from 0.7% to 0.63%. On the other hand, shares of lifestyle products and services have risen: transport and communication from 11.26% to 14.51%, medical care and health services from 3.38% to 4.25%, and home goods from 3.05% to 3.25%. **(**A detailed break up of consumption trends appears in page8)

Geographical Dispersion of Market Potential

There is considerable variance in economic prosperity levels among various Indian states, linked to the overall wealth creation from agriculture, trade and industrial development. Accordingly, there are affluent and poor districts in most states, classified according to their market potential. At a national level, India has 500 active districts (excluding Jammu and Kashmir), of which the top 150 districts (Class A) account for 78%, while the next 150 (Class B) account for 15% of the national market potential for a wide category of goods. The remaining 200 districts (Class C), which have 40% of the geographical share, are backward and account for only 7% of India's market potential. The spread of affluent and non-affluent districts is uniform in all the four regions. However, the Eastern, Northeastern and Central regions of India have the largest share of backward districts.

Rural Markets

An important phenomenon in India's consumer culture is the emergence of the rural market for several basic consumer goods. Three-fourths of India's population lives in rural areas, and brings one-third of the national income. This rural population is spread all over India, in close to 0.6 million villages. Nearly 45% of rural Indians are literate (men 59%, women 31%), and 33% of all villages (0.21 million) are connected by *pucca* roads. In all, there are more than 3.8 million retail outlets in rural India,

averaging 5.8 shops per village (the term ‘ shop’ refers to any type of premises- huts, stalls, shacks, included-that sell goods).

With nine consecutive good monsoons resulting in improved returns from agriculture (which is India’s largest economic sector and accounts for 30% of GDP), spending power in India’s rural area s has increased in recent years. Overall, the rural market has been growing at 3-4% per annum, adding more than 1 million new consumers every year, and now accounts for close to 50% of the volume consumption of fast-moving consumer goods (FMCG) in India. As a result, it is becoming an important factor in the market development strategies of all FMCG companies, including multinational companies in FMCG as well as consumer durables businesses.

Simultaneously, the increased enrolment in schools and increased reach of mass media, especially television, has generated a wave of rural demand for several lifestyle and aspiration products. For instance, branded food products grew between 4 and 42% last year, while all categories of toiletries and cosmetics (including insect repellents, personal hygiene products like sanitary tissues) grew more than 16% in rural areas. Sales of disposable razors rose by 8%, while sales of razor blades fell by 1%, indicating the aspiration and lifestyle-determined consumption trends in such products.

Rural Market Penetration levels selected goods

Durable	*Rural share %*	*Product*	*Penetration%*
Refrigerator	24.30	Coffee	7
Black and white television	62.65	Biscuits	60.1
Washing machine	14.64	Toilet soap	91.6
Pressure cooker	51.51	Toothpaste	35.6
Instant Water heater	2.04	Talcum powder	16.4
Mixer/grinder	27.43	Hair oil	16.0
Colour television	28.77	Shampoo	39.8
Scooter	28.56	Razor blade	47.1
Motorcycle	47.87	Skin cream	15.5

At the same time, given the total dependence on agriculture output, rural consumers are highly sensitive to price, prefer small consumption packages, and tend to discount intangible benefits and aesthetics to more functional product attributes. This often calls for a segmented marketing mix tailored at specific niches including well-differentiated brands for the rural market, rather than ***‘a- single-size-fits-all’*** approach.

India’s rural areas also have a high incidence of weekly floating and assembly markets besides seasonal markets linked to special occasions, festivals, and harvest seasons, etc. Given the lower quality of infrastructure (all weather roads, telecommunications density, organised banking, finance and credit systems) in rural markets, cost-effective marketing and distribution of goods in rural areas is a continuing challenge in India. The growth of the rural market is considered very important to the overall growth in all essential and basic consumer goods.

Organized Retail

Organized retail account for less than 1% of the US$108 billion Indian market, in terms of final consumption value of retail goods. Even in food products, which represent a market size of US$8.7 billion, less than 1.5% is sold in organized retail formats. However, with shopping becoming a convenience as well as an enjoyable experience for India’ s upmarket consumers, retailing is fast - becoming an industry by itself, and attracts corporate attention from Indian as well as international players. Retail shelf space is slated to explode from the present level of 0.5 million square feet to more than 7 million sq, ft by 2004, as inferred from the projects underway in the major cities.

The above indicators assist in feeling the pulse of India’s consumer psyche and developing the framework to analyse market opportunities for new categories of essential and lifestyle goods. Market

Market estimates of a few specific goods are overviewed in the next section.

Section II Market Opportunities in Selected Sectors

For the purposes of this study, product categories falling in three major sectors: Food Products, Household Goods, and Personal Products, were studied to determine the overall market size, the presence of any significant Italian enterprises in these categories and the future prospects for Italian products in specific products.

Overall Market

The overall value of the Indian (domestic) market of interest to this study is estimated to be in the region of US$ 27 billion. Personal products are the largest sector of interest to this study, with a sector market value of US$ 16.2 bn, followed by processed foods (US$ 6.2 bn) and household goods (US$ 5.5 bn). The market estimates pertain only to specific products of relevance to the study and do not contain market sizes for essentials like cereals and coarse food grains, which would alter the rankings significantly.

Sector	Indian Market	Import	Export
Food Products:	$ 6.2 bn	$ 0.15 bn	$ 0.35 bn
Household goods:	$ 5.4 bn	$ 0.8 bn	$ 0.17 bn
Personal Products	$ 16.2 bn	$ 1.72 bn	$ 6.2 bn

External trade with five selected countries - US, UK, Italy, France and Germany- was less than US$ 10 bn in 1999-2000, with imports, close to US$ 2.7 bn, representing only 10% of the domestic sector value.

Interestingly, gold and jewellery products are the dominant import group, with an overall import value of US$ 8.2 bn in 1998-99 and US$ 4.7 bn for the first six months of 1999-2000, of which the five countries accounted for more than 20%. Gold and gemstones are major import items on account of the export oriented jewellery business which is India’s biggest export revenue earner, as well as the large domestic market for gold jewellery: India is the world’s largest consumer of gold with more than 20% share of annual trade in gold bullion. Excluding the gems and jewellery sector, imports account for less than 2% of the Indian market for the sectors of interest to the study.

Market Information on specific products in each sector are provided in the following sections.

Food Products

Sector Market Value	**US$ 6.2 bn**
Milk and Milk Products	US$ 2.17 bn
Aerated Waters, Wines and Alcoholic Drinks	US$ 2.19 bn
Selected Bakery and Culinary Products	US$ 1.56 bn
Chocolate and Confectionery	US$ 0.28 bn

	1997-98	*1998-99*	*1999-00 6 m*
Imports from Italy	-	-	US$ 1.80 mn
Investment from Italy	US$ 10 mn		
Products offering prospects	Bakery and culinary products, confectionery, spirits		

India has a sizeable output of food products, in keeping with the essential needs of its huge population. Given its substantial arable area and wide climatic variations, India has been a significant producer of food grains, besides a range of fruits, vegetables, oilseeds and other commercial crops. Nearly 65% of Indian population is directly engaged in agriculture.

However, the structure of India's food sector reveals a very low share of added-value products in comparison to other markets. This is because of several factors:

- A large share of agriculture output is for subsistence purposes i.e., for direct consumption by the farmers
- Market mechanisms do not support commercial risks and tend to be highly exploitative
- Absence of adequate storage and transport infrastructure causes high risks of perishability for processing in distant locations
- Cooking habits and high percentage of non-working women in several parts of India lead to low purchases of mass-produced convenience foods and other added-value products

As a result, less than 3% of India's fresh produce is processed into added value products. As a report (1996) by global consulting firm Mc Kinsey & Co. aptly put it, '*India is an agriculture giant but a foods pygmy.*' However, based on consumption trends in countries passing through similar states of economic development, the report suggests that the market for mass-based foods is expected to rise swiftly in India by 2005. In value terms, the processed food sector represents a market of US$ 17.40 bn, roughly 10% in value of the entire food sector. Primary foods account for more than 70% of the sector value, unlike in the more developed economies where primary foods have lower than 25% share of food output market value.

At the same time, import of processed food products has been negligible in India, on account of the restrictive import policy caused by a traditionally adverse balance of payments position. Food products, as part of consumer goods in general, were classified under ‘non-essential’ imports and subjected to quantitative restrictions (prior approvals in the form of licences) besides ‘deterrent’ import duties (more than 300% in come cases). As a result, imports were confined to diplomatic stores and hotels and other institutions that catered primarily to foreign tourists and earned in foreign currency to offset such imports.

April 2001 marks the end of the phase out period, following which no quantitative restrictions shall apply on import of any food products. However, imports shall be subject to tariff regulations, preferential tariff agreements, besides regulations on concerns of health, phytosanitary and technical standards. Opportunities for products of interest to Italy are briefly overviewed in the next section.

Milk and Milk Products

Market Value	**US$ 2.17bn**
Packed market milk	US$ 260 mn
Butter and cheese	US$ 76 mn
Ice cream	US$ 3.26 mn

India is the world’s largest as well as lowest-cost producer of milk, with an output of 78 million tonnes in 1999-2000, and an ex-farm value of US$ 12 bn. Milk production continues to grow at 4-5% per annum.

The value-added dairy products industry, has a market of US$ 22.8 billion, and is growing at 5-6% per annum presently. However, a substantial share (almost 55%) of India’s milk output is consumed fresh or in short-life products. In processed forms, pasteurised market milk, with a market value of US$ 0.3 bn, is the most important product. Output of processed products in 1999 was estimated to be 0.12 million tonnes of milk fats (ghee), and close to 0.3 million tonnes of milk solids, of which infant milk powder and malted weaning foods were the most important products, followed by butter and cheese.

Yet, India’s milk balance remains precariously positioned. India observed serious shortages in milk in the early 1970s, and took recourse to multilateral aid to set up a national grid of milk collection and processing to ensure self-sufficiency in basic milk and dairy products. The initiative, termed ‘Operation Flood’ resulted in India’s spectacular turnaround, leaving a marginal surplus in its milk balance in 2000. However, some parts of India, especially the north, still experience seasonal shortages in summer months, resulting in import of milk solids from the EU and Oceania, by nodal agencies nominated by the government. Imports were placed at 20.000 tonnes in 2000.

The basic needs of a growing population and rapid urbanization are expected to create a demand of 100 million tonnes by 2005, besides new preferences in convenience and fad foods like pizza, ice cream and other foods using milk ingredients. That necessitates a substantial growth in the milk production system to prevent a second round of national shortages, which would also affect processing industries as much as consumers.

India's dairy sector has a complex structure: more than 80% of the milk supply is in private hands, co-operative networks of dairy farmers or milkmen, state-cooperative owned collection points and processing centres process 13% of the output, while 7% is processed by private sector units having their own designated collection zones (milk sheds). The largest player in the market is a state agency, the National Dairy Development Board, which handles a nation-wide milk grid to supply pasteurised milk in all the important cities of India through its co-operative network.

Several other state-owned co-operatives, principally Punjab and Andhra Pradesh are important regional players as well. Important private sector players now include Nestle, which operates a huge processing facility in Punjab for its captive needs in baby/ weaning foods, and Britannia, which sources a wide range of products from a large processor in Maharashtra. Besides, these, there are several smaller processors in various parts of the country, producing basic milk powder, ghee and cream, or other value added products like cheese and butter products.

Market Milk

Liquid milk is India's principal market product from the dairy sector, and is placed at 100 billion litres a year, or 273 million litres a day. A huge portion of this market, close to 80 % is in the unorganised sector, sold on a daily basis at the doorsteps. Within the organised sector, cooperatives are the more important players. The market for pasteurised, packed milk is less than 900,000 tonne segment, valued at US$ 260mn approximately. The most important brands in the market milk segment are: Mother Dairy, the umbrella brand of the NDDB co operative, which controls 9% of all liquid milk distribution, and several regional cooperatives from Punjab and Andhra Pradesh.

More than 70% of market milk is retailed in plastic sachets, and the penetration of aseptic packing is negligible, except in very cities. However, Britannia and Nestle, who are emerging as the larger private sector players in the segment, are actively considering UHT milk, as it opens alternative retail formats such as supermarkets, groceries and other areas, without refrigeration needs. However, UHT concept is currently under testing for price acceptance. Though it has a long shelf life of six months, the market

prices at US$ 0.52/ kg are almost twice the market prices for milk in plastic pillow pouches. Italian dairy major Parmalat has acquired 51% in a milk processing facility in West India, and is in the process of restructuring and expanding the venture.
Flavoured milk, cold coffee and buttermilk are new products that have segmented market shares at present. The flavoured milk market is worth US$ 58.7mn, dominated by strong regional brands. However, their prospects for national brands in the face of the well-entrenched fruit drinks remain to be determined at the market place.

Butter and Cheese

Butter and cheese have become freely available only in the 1990s, after India decontrolled the dairy sector and allowed the unregulated entry of private sector players into milk processing. India's butter market is estimated to be 35000 tonnes, valued at US$ 76 million. The leading cooperative producers Amul, Vijaya and Verka dominate the market, while Britannia is the sole private brand on the market. There are several unorganized players in the segment. India's butter tastes are fixed, for a golden yellow salty product made from buffalo milk, unlike other markets, where cow milk is the main ingredient. Butter variants are not yet available in India, although butter substitutes- margarine and vegetable fat spreads, especially - have been available for some time.

Unlike butter, which is purely generic, cheese has become a category on the Indian market only recently, even though India has had a cheese brand Amul, for several decades. The market has come a long way from the hard canned cheese blocks of the eighties to a variety of slices, cubes and spreads, with more than five brands in the market. However, tins are still very popular in the Indian cheese market and account for more than 50% of the cheese sold in India. Products are increasingly available in single-serve formats, and the popular conception of a cheese-slice being the equivalent of a glass of milk has been successfully exploited in Britannia's successful campaign focussed at fussy children.

However, the Indian market taste is totally different from the European: the major use being as a breakfast accompaniment or a spread on breads, only soft and salty cheeses such as Cheddar, Camembert and Edam (except the mozzarella which is popular for pizzas) have been accepted in India, while several other world-renowned ripened cottage cheeses are simply *unacceptable in the mass markets.* Cheddar is the most popular cheese sold in India, and is mostly retailed in branded form by the organized sector. On the other hand, most of the demand for Mozzarella cheese is catered to by the unorganised sector.

The current market is estimated to be 7-8000 tonnes, valued at US$ 26 million. Industry players estimate market growth to be 15%. The organized sector, comprised by three cooperative brands Amul, Vijaya and Verka, and two private brands Britannia (Danone) and Le Bon (from an Indian joint venture of

French company Bongrain Lait) account for 5000 tonnes, valued at US$ 17.4 million. Amul leads with a 50% market share, followed by Britannia with 20%, and Vijaya from Andhra Pradesh and Verka from Punjab with 10% each. Some players like Kraft Foods did not find the market large enough to enter at present, although several products have been supplied in select upmarket outlets.

Import prospects

India has a very small cheese market at present. Given the economics of large-scale processing, it is unlikely that huge capacities will be set up in the domestic market. As a result, import opportunities from competitive suppliers seem attractive. The present import duties, at 44% are already close to the bound tariff levels of 40% and, given the huge volumes of subsidised exports from Europe allowed under the WTO agreements, the prospects of competitive supplies into India are realistic. Presence of an effective distribution network holds the key to succeeding in import-based alliances in India. Several food companies that are not present in dairy products would be interested in distribution and marketing tie-ups with leading Italian companies.

Even in the mainstream product, market milk, India has negotiated for a tariff rate quota for milk powder allowing further imports shall attract duty of 60% duty- free access for 25000 tonnes, while imports beyond this quota shall attract a normal duty of 60%.

Ice Cream

The liberalization of the dairy product sector also brought in new opportunities in the ice cream market. Until 1997, ice cream was reserved for exclusive manufacture in small-scale industrial (SSI) enterprises, barring a few licensed manufacturers and captive plants of food retail outlets and hotels. When the product was struck off the SSI list. The largest player was Hindustan Lever, the Indian subsidiary of Unilever, which had acquired a few existing brands, was quick to move into leadership in a market that now stands at 110 million litres, worth US$ 152 million. The West (40%) and the North (30%) are the important regions for consumption, accounting for over 70% of national consumption. The overall market is considered to be growing at more than 10%, driven by increased penetration in all regions as well as the increased outdoor spends in India by and large.

The Indian market reflects a strong leaning toward outdoor consumption. Cups account for approximately 45% of ice cream volumes, while cones account for 16%, the rest being stick ice creams or lollies. Family packs are yet to make a serious presence on the market.

Lever claims to have 60% of the national market, and has launched its global brand Walls nationally. The second largest player, Amul, has an estimated 15% market share, while regional players have the rest of the organised sector market. International names Baskin Robbins, following the parlour route with 50 outlets all over India, and Blue Bunny, positioning family consumption packs, are present in some cities, too.

Logistics of storage are becoming critical for the nationwide distribution of ice cream. Lever has invested an enormous US$ 43.5 million in nationwide cold chain, consisting of refrigerated trucks, insulated carts and cold stores, an investment unmatched by any other player. Also, Lever has brought in a new product line made from vegetable fat and not milk fat, which has better resistance to the hot conditions in some regions.

Aerated Waters, Wines and Alcoholic Drinks

Market Value	**US$ 2.19bn**
Aerated Drinks	US$ 760mn
Bottled water	US$ 239mn
Fruit based drinks	US$ 304mn
Alcoholic Spirits (branded)	US$ 652mn
Coffee	US$ 239mn

Aerated Drinks

India's aerated drinks market is worth US$ 760 million, divided between two global players, PepsiCo and Coca Cola Inc., both having set up operations in India less than ten years ago. In volume terms, the market stands at 280-290 million crates (24 bottles each), and represents a concentrate value of US$ 17.4 million. West and North India account for more than 60% of the national market. More than 70% of the demand originates in urban areas.

The market is divided between Coke, which leads in total volumes, but not in any category, and Pepsi, which leads in the cola segment, but has 45% of the total market share. The product formats have expanded in recent times: returnable glass bottles 300 ml, glass/ PET bottles for outside consumption in 1 litre/1.5 litre/ 2 litre packs, personal packs 0.5 litre, aluminium cans 330 ml and vending machines. Cola and Orange are the main consumer flavours.

Coca Cola's entry in the Indian market followed its acquisition of India's premier bottling brand Parle, which had a dominant market share in all categories: colas, orange, clouded drinks and clear drinks and well-established brands. However, its business strategy of buying over all the franchise bottlers, slowing down the production of acquired Indian brands, and even not allowing franchisees the bottling of its main product the Coca Cola has set it behind Pepsi in terms of market share in several territories.

Further, both Pepsi and Coca Cola are pursuing a generic approach of company owned bottling units (COBO) and moving away from the franchisee owned bottling operations (FOBO), and are setting up integrated lines for a range of carbonated beverages, club soda and pure drinking water, in plants built to global standards. There is also a perceptible shift to plastic bottles from the formerly popular returnable glass bottles, which incurred complex logistics and accounting for breakages, loss etc.

As in the rest of the world, the carbonated drink market is a two-horse race between PepsiCo and Coke, and the story is no different in India. There are no opportunities for a sizeable third player as even Cadbury Schweppes discovered when it forayed into the market a few years ago. As a result, import opportunities for standalone brands are non-existent.

Aerated water/ soda is a smaller, steady market for both players, with focus on the institutional as well as retail markets using the same channels as the mainstream soft drinks. India is a market for hard liquor, and soda is a preferred dilutant to whisky and other forms of alcohol. The soda industry was highly dispersed with various franchisee bottlers, and is now consolidated under the COBO formats of the two giant bottling brands.

Bottled Water

Although mineral water was first introduced in India more than 25 years ago, it only now that it is emerging as lifestyle symbol in India. A few years ago, it would have been unthinkable for Indians to buy water: it was only tourists who bought bottled water. However, as potable water supply from civic authorities tends to be unreliable as well as unsafe, and the spread of several water-borne diseases, there has emerged a market for private supply of safe drinking water, and the urban population has become accustomed to paying for safe bottled water.

Yet, the term mineral water is misleading… India's several products actually refer to treated, sterilised and conditioned water, but not necessarily fortified with minerals as the term mineral water suggests. However, the name continues to be used by all, despite legislation not to use it on the product package unless specifically fortified with minerals.

From a nascent stage less than ten years ago, the market is presently estimated at 1 billion litres, with a value of US$ 239mn, of which the branded market is worth US$ 130mn The category growth is estimated to be 55% at present, and expected to continue at 25-30% in the next few years. Products are available in individual bottles in 0.5 litre, 1 litre and 1.5 litre packs, as well as bulk 'dispenser' packs, the latter becoming popular due to the economy from larger and reusable packaging. In fact, dispenser packs (20 litres) account for almost 50% of the market by volume.

The usage aspects are very interesting and reflect the concerns of consumers regarding out door consumption. Hotels /restaurants account for 68% of the consumption, while offices, hospitals and conventions represent additional 13%. Households account for less than 20% of the total consumption, which is heavily in form of bulk dispenser packs.

Bottled water has low entry barriers as a business, and there are more than 200 products available in various parts of India. However, there are less than ten brands recognized nationally. The largest brand in the market is Bisleri, the pioneer in the segment, belonging to Parle Exports, which was India's largest soft drinks brand before its acquisition by Coca Cola. The acquisition of the bottling business by Coke at the time did not include Bisleri, which now has a 55% market share, and is bottled at 12 locations all over India.

Several international players consider the segment a volume business for their portfolio and have launched their brands: Pepsi (Aqua Fina), Coca Cola (Kinley), Danone (Volvic, Evian imported from Europe), Nestle (Perrier, and Pure Life) are among the new entrants. Several players, especially Danone and Nestle are segmenting their products into a 'popular' class met from Indian facilities, and a 'premium' class, met from international natural spring sources. The latter, though very expensive, have a brand appeal in a small niche (elitist) market in India.

Imports of mineral water have been allowed in April 1999, with customs tariffs of more than 80%. Consequently, products like Evian, Volvic and Perrier are priced five times higher than Indian bottled waters. Import prospects for Italian mineral waters face challenges in price points, and must draw on their brand appeal to stake market shares in the top end of the segment, along with Danone and Nestle.

Wine and spirits

India's alcoholic products sector, governed by both federal and state legislation, has been a subject of much political intervention. Alcohol is completely prohibited in some states, while production and distribution is highly regulated all over India, and in some cases, even a monopoly of the local government.

India's alcoholic spirits market is dominated by beer and whiskey, besides a huge, cheap 'country liquor' segment. In all, potable alcohol production is close to 900 million litres, valued at US$ 652 million, of which 70% is used in mixed spirits (country liquor), and 30% in Indian Made Foreign Liquor (IMFL), a term that is used only in India and describes the popular spirit categories of the West. Branded products account for close to 80 million litres, less than 10% of the market volume.

The break-up of market volumes is Beer: 65 million cases (1 case is 12 bottles), equivalent to 5.0 million hectolitres; Country Liquor: 630 million litres; and IMFL: 270 million litres.
Whisky, with revenues of US$ 65.2mn, is India's main product line, taking up 55% of volumes and 66% of value. Brandy comes second with 20%, Rum, third with 10%, whereas other spirits including white spirits and wine represent less than 5% of volumes, in the 63 mn cases market.

Compared to the overall category growth of 12%, the white spirits and wine segment are growing much faster.

Wine is a very small segment in India, with a small base of 0.2 million cases, valued at US$ 5.4 million, largely supplied by a three Indian producers. Contrasting with its wide popularity in several markets, wine does not find space among Indian food habits. Most wine consumption takes place in social gatherings and celebrations, usually of an international nature. As a result, it remains a social habit of the elite. However, the increasing presence of expatriates and the availability of imported wines at premium hotels has created some demand in recent times, but prices are prohibitively expensive to promote large-scale consumption. Imports, however, have been growing: In 1998-99, 2500 cases each of champagne and cognac were imported, which rose to 3500 cases in 1999-00.

India has a negligible wine production base. Therefore, imports will remain the major mode of supplies in the market, once the segment is opened up for market access to international players. At another plane, demand must be generated even through increased awareness of products, origins, food combinations, health aspects, serving etiquette, etc, in order for wine to get established as a premium social product in India's entertainment world.

The tariffs proposed from April 2001- 329% on liquor spirits and more than 100% plus specific excise duty of Rs 9 per litre on champagne and wines- are stiff, and do not encourage large volume imports. Italy is a reputed player in the global wine market, and will be expected to generate an image for its wine origins in India. The key to gaining mass-market acceptance will continue to be price competitiveness for what is perceived to be a high value product. Therefore, the prospects at this stage are indeterminate, and must be examined in specific market segments through more primary research of socio cultural aspects. Besides the deterrent tariff levels, wine imports also have some potential non-tariff barriers that are explained later (see page 57)

Fruit juices and drinks
Even though India is a large producer of fruits and vegetables, producing nearly 30 million tonnes,
It does not have a world-scale fruit processing industry in any category of fruit products. On the other hand, with the easy availability of fresh products, processed and packed fruit products have been

generally perceived to be high-priced and out-of-reach by the masses, besides raising concerns about the use of synthetic ingredients and preservatives. At the same time, the low hygiene levels at public juice stalls prevent out-door consumption of juices in fresh forms, too.

India's fruit beverage segment consists of two clear segments: natural fruit products- pulps, juices and fruit drinks; and synthetic drinks, containing fruit flavours. The total fruit market is placed at US$ 326 million, of which natural products account for less than 25%, i.e., US$ 76 million. Fruit drinks and nectar, with US$60 million, sweetened fruit juice with US$ 13 million, and unsweetened juice approximately US$ 2.2 million make up the natural products category. Fruit processing stood at 980,000 tonnes in 1999-2000, much lower than the installed capacities of 2.1 million tonnes in India's licenced units. Mango drinks account for about 70% of the market, orange being the next preferred flavour. Grape, guava, apple, litchi and pineapple are the other popular fruits in juice form. The institutional market (airlines, hotels, restaurants) account for 15 percent of total sales, with the remaining 85 percent of the sales coming from retail outlets.

Despite a smaller share of the total market, natural products are now the fastest-growing segment, with recent trends suggesting a 40% growth, while synthetics have been growing at only 10%. The growth has been spearheaded by the entry of several large players including international brands like Tropicana, Dole and Sunkist (all now part of the same entity).

The entry of aseptic packaging (Tetrapak) has been a major boost to the natural fruit products industry, which makes it possible to process seasonal fruits and store them for retail consumption in even off-season months. According to industry estimates, Tetrapak forms accounted for 21,000 million litres (23,000 tonnes) of fruit juice last year, and growing at a rate of 30-35% presently; India's three most important brands Tropicana, Real and Onjus, are all available in 1 litre and 200 ml Tetrapak, with a shelf life of six months.

Fruit juice economics are driven by international commodity exchanges, where India is not even a player today. On the other hand, Indian processed fruit prices are higher than international levels due to low productivity of the species, which are predominantly used for fresh consumption. In fact, the pioneering effort in India came from this reality: India has very low yields in orange compared with the other competitive origins, and Onjus, India's most popular orange juice brand is imported in bulk from Argentina and Brazil, and packed in India on a leased Tetrapak machine.

With the opening of the Indian market, opportunities are emerging for international commodity players in the segment, to supply concentrates or pulp in bulk and arrange blending and packaging in India to meet the needs of a small market (by international standards), without extensive investments in grass roots processing. The prospects for supplies of temperate fruit based drinks, as well as juice mixtures, are highly interesting, as they are not climatically suited to be cultivated in India.

Coffee

Coffee, India's second beverage drink, after tea, has seen several fluctuations in recent years, due to international prices and production trends. Coffee bean production for 1999-2000 was estimated to be close to 283,000 tonnes, consisting of 120,000 tonnes of arabica and 163,000 tonnes of robusta. The output grew by 6.4% over the previous year, and is likely to grow at a similar pace in the near future.

The Indian coffee plantation sector is driven by a predominantly export-led demand. India produces only 4% of world coffee output, but exports more than 75% of its production of beans. Exports in 1999-2000 accounted for nearly 140,000 tonnes, recording a decline of 8% from the previous year due to adverse market conditions in Russia, India's principal market. Instant coffee exports represented 30,000 tonnes in total exports. Indian coffee does not enjoy a premium image on the international market and is used as a filler or thickener in blended coffee.

Domestic consumption of ground and roasted coffee is estimated to be 55,000 tonnes, valued at US$239 million in retail terms, and is growing at 7% annually. The highest coffee consumption is in southern India (where coffee is planted), which accounts for 75% of national consumption. The West is the second largest region with 15% of consumption share. Most of the coffee consumed in India is processed (roasted) in small retail establishments or within homes themselves. Nestle, Brooke Bond (Lever) and Tata Tea, are the nationally established players in the branded coffee market. Nestle leads with a 50% share, followed by Brooke Bond at 38% in the domestic market.

Domestic per capita consumption too has been challenged by the price differential between tea and coffee, which has led to significant shifts in preferences towards tea by the masses. To draw consumer attraction in the segment, two important developments are taking place in the market: out door consumption being promoted by coffee chains, and the emergence of instant cold coffee as a segment.

In the past two years, international coffee chains have made a beginning in India. Java Coffee Co, Singapore has opened its famous Barista chain stores, and plans to have 40 outlets in 10 cities by 2001. Similarly, Quiky Corp, US has licenced an Indian company to establish a chain of coffee pubs in southern India, the first of which is operational in Chennai. This is expected to create a new avenue for a growing segment of retired browsers, especially in the southern states of India. On another dimension, studies by market leaders reveal a potential for 7000 tonnes of chilled instant coffee in Tetrapak formats, which can be positioned against other packaged fruit beverages and soft drinks.

Import of coffee beans is restricted at present, while imports of roasted coffee have been opened up last year. Import prospects would depend on the generation of Indian awareness to international flavours especially the enormous range of Brazilian and Italian coffee preparations, which appears to be more feasible initially through coffee bars and dining places than at the retail outlets.

Selected Bakery and Culinary Products

Market Value	**Rs. 1.56 Bn**
Bakery Products	US$ 1.41 bn
Pasta products	US$ 76mn
Packaged Soups	US$ 6.52mn
Ketchups	US$ 21.7mn
Olive Oil	US$ 3.26 mn
Packed snack foods (RTE)	US$ 304.3mn

With a 65 million tonnes grain output of wheat, India has a large wheat processing industry, with more than 700 roller flourmills and a highly dispersed bakery sector, consisting of primarily small, cottage-type industries. More than 30 million tonnes of wheat is consumed as wheat flour at homes, the rest being used in the industry, especially bakery goods. Wheat flour, bread and biscuits are the major products of the bakery sector, accounting for more than 97% of the processed output, with pastas and other products forming a small but growing niche.

The biggest developments in the sector have been the de-reservation of the bakery sector which has led to the entry of large multinational brands in the sector, and the arrival of the international food service chains McDonald’s, Pizza Hut, Domino’s Pizza and several others, which represent a growing industrial demand for bakery products such as burger buns, pizza bases, pastries, croissants and puffs.

International companies are even targeting the packaged wheat flour as a volume segment for growth: India consumes close to 30 million tonnes of wheat for domestic use, and less than 1% of which is in packaged form. The enormous opportunity to brand a staple food like flour has attracted international giants like Pillsbury, Unilever, Best Foods (Corn Products) ConAgra and Cargil, who are aggressively marketing packaged wheat flour in their brands. The packaged flour market grew by 50% during 1997 – 2000, and is currently a US$43.47mn business, yet less than 1% of the entire flour market.

India’s bakery products output consisting (primarily of bread and biscuits) is estimated to be close to 3 million tonnes, worth US$1.41 billion in market value. Until 1997, bakery goods featured in under a special list of products exclusively reserved for production in small-scale industries[1]. Consequently, 50,000 small-scale units dominate the bakery industry, while there are only 15 organized producers (which operate under an industrial licence, and were in existence at the time of the reservation policy's induction). The unorganised, small-scale segment is widely dispersed, but accounts for 66% of total biscuit, 80% of bread, and 50% of cake production in India.

Post de-reservation, however, the aggressive entry of large players at the national level has been eroding market shares of the small-scale sector.

Biscuits

The Indian biscuit market is the largest in the world, with demand of over 1.2 million tonnes per annum, worth US$. 1.13 billion in market value, and growing by more than 6% following de-reservation from small-scale status in 1997. Biscuits represent the largest segment of the bakery industry: close to 55% of its volume and 80% of its value.

The important product categories are: Glucose, the lowest end of the spectrum (42%), Milk biscuits 14%; Marie14%, Cream 9%, Crackers 12%, and others represent the remaining 9% of the market. Regionally, the North has the highest share of the market (34%), followed by the South (24%), West (22%) and the East 20%.

The important organized sector players are:

- Britannia Industries (now a Groupe Danone joint venture) having 50% of organised sector share
- Parle Biscuits, the second largest player in India, having 20% of organised sector share
- Surya food and Agro Limited- Priya Gold, a strong regional player in the East
- Bakeman Products, a regional player, strong in the North
- Ampro Biscuits, a regional player in the South.

Britannia Industries Limited, present for more than 40 years, is the oldest player in India's biscuit and bakery products market. With a 50% share in the organized market, it had revenues of US$. 240million, of which biscuits accounted for close to US$ 163mn in 1999. It offers a wide range of products, including several international brands of its collaborator, the Danone Group, covers all product segments, and has a national network of more than 14000 distributors and 0.4 million retailers. However, the premium segment provides a substantial 66% share of its volumes.

[1] Small-scale units are by definition, units which have a maximum investment of Rs 10 mn in plant and machinery, and enjoy exclusive privileges to produce a list of more than 800 products (including several food products),which shields them from competition by large players. Besides industrial protection, these units also enjoy special fiscal benefits

The other prominent players are focussed in specific regions, with the exception of Parle Biscuits (based at Mumbai), which is Britannia's closest competitor. New players considering the market include international giants like Sara Lee, Unilever, Nestle (which bought over Osein Foods, Israel which has a joint venture in India), United Biscuits, General Biscuits and Arnotts.
Biscuit imports were opened up in 1999, after which several products came into the market from a variety of origins: Sri Lanka, UAE, Malaysia and Indonesia at the lower end, and Europe (Denmark, UK) and USA at the higher end. However, given the high import tariffs, retail prices of such products have been much higher than even the most premium Indian products, as a result, they are sold only in select outlets in major cities, and usually positioned for the festival season, in which it is customary for Indian businesses to send gifts along with greetings.

Bread and cake
India's bread market is estimated at 1.1 mn tonnes, valued at US$ 282mn. The market is growing at a rate of 5 percent. Bread consumption patterns in India are highly skewed: urban areas account for more than 80% of the total consumption. Also, regions show wide differences in consumption trends. The South, especially the state of Kerala has the highest per capita consumption of bread in India, followed by the North.

The main product varieties include: Milk bread (85%), brown bread (10%), fruit bread/ buns (3%) and others including specialty products (2%). Growth rates are expected to remain around 5%, as the options of breakfast foods are slated to increase in urban India on the one hand, while penetration in semi urban areas is expected to increase. The market for cakes, a segment in which all the major bread brands operate, is estimated at 0.6 mn tonnes. Britannia remains the only national brand in cakes, even though a few regional players in south India are emerging as serious challengers. Branded cake, given its higher shelf life, has been positioned primarily as a festival season product or as a 'snack on the move', and is more visible in public places, school canteens, outlets linked to outstation travel- bus terminals, railway stations, etc.- and several tourism destinations. However, apart from the few brands, the cake market is by and large in the unorganised sector.

The highly perishable nature of bread places challenges on the growth of manufacturing plants per se and facilitates proliferation of the small, neighbourhood bakery concept in India, and imposes stiff demands on distribution and logistics. Typically, bread units cater to the vicinity (city or town level) and a few suburban areas, and supply two or three lots over a normal day, in order to offer oven fresh-deliveries. Britannia Industries has been the only large private sector player in this segment in India, the rest being small local players or regional players in various parts of the country.

For several years, since India's food shortage days in the 1960s, bread had remained a controlled item, covered under India's Essential Commodities Act. The nature of controls included licensing of capacities, reservation of bread for small-scale industries, controlled allocations of wheat grains to the bakery industry, as well as government-determined retail prices on bread in important cities, especially Delhi. In order to facilitate the easy availability of bread in the retail markets, the government also set up its own bread making plants in 14 regional locations all over India, under a government-owned corporation, Modern Foods, which holds 35% market share nationally. Modern Foods supplies to government hospitals, hotels and all public institutions under the control of the government besides the normal outlets at state-controlled prices.

However, in 1997, the government removed price controls on bread and quantitative allocations on wheat licensing, though it retained the small-scale status of bread as an industrial sector. As a result, several local brands of bread have emerged in the main markets in metro cities. Though a few multinational brands showed interest in the segment, regulations covering foreign investment in the small-scale industry prevented their entry into the Indian market. *The major highlight, however, was the government's disinvestment of 74% of its stake in Modern Foods, which was acquired by Hindustan Lever (Unilever Indian subsidiary) through a tender in January 2000.*

The leading players in bread are:
Modern Foods (now with Lever), the largest player in the country (sales US$ 32.6mn)
Britannia, the second largest player, with a national presence (sales US$ 11Mn)
Harvest Gold and Bakeman, important players in north India, and (US$3.3-4.3 Mn)
Wonder and Elite, the two leading brands in some parts of south India (US$4.3- 9 Mn)

A notable development in the segment has been the *exclusive tie-up* between McDonald's and Cremica Foods, a Punjab-based bakery, for the production of burger buns for all Mc Donald's service outlets in India. The tie-up involves processing the buns according to Mc Donald's rigid technical specifications, and involves a commitment not to work for any competing food service chains in India.

Import prospects for bread appear remote in India, given the low shelf life as well as unit prices operating in the market (US$. 0.17per loaf of 400 g). However, the inadequate range of products as well as absence of branded products suggests interesting prospects for cake, which allows for higher market prices and also does not have the shelf life problems of bread. International flavours, based on exotic ingredients not found in India will represent a niche market for Italian players, besides trade possibilities in a host of bakery ingredients.

Pasta Products

The Indian market consumes four types of pasta products: *vermicelli* (a rice or wheat based pasta widely consumed in Indian homes), rice noodles (as used in Chinese cuisine), and two European pasta products, instant noodles and macaroni. According to 1997 estimates by Nestle, the noodle and vermicelli market is around 60,000 tonnes, with a market value of US$76million, while macaroni is an additional 5000 tonnes. There are less than ten organized players in the market, accounting for close to 20,000 tonnes, the rest being met by the dispersed, unorganised sector. Nestle rules in the branded noodles market with a sale of more than 18000 tonnes from its Maggi instant noodles, contested by Nissin Foods' Top Ramen, which has a 20% market share. Instant noodles have been a great success in India given their convenience and an any-time appeal with children. The noodles market grew by 10% in the first half of the 1990s, and maintains a healthy growth of 8%, enabled by product penetration in the second tier markets as well as new product extensions.

Vermicelli is used in special food preparations, in several parts of India, especially in the South and in the West, and has a demand of close to 30,000 tonnes. There are several local and regional brands in the segment, but no truly national brand as of now. The macaroni market remains unbranded too: Nestle's attempts to bring instant macaroni to the Indian homes bombed, and the product was withdrawn in less than a year of its introduction, during which less than 500 tonnes were sold. Recent times have seen the emergence of umbrella brands (Ching's Secret, for instance) for Chinese ingredients with rice noodles as a product segment, supplemented by a range of Chinese ingredients like soy sauce, ajinomoto and chilli sauce.

Italian pastas have high brand image in the upper income households in the cosmopolitan markets of India. Consequently, when pasta product imports were opened up in 1999, several imported brands were soon visible in the upmarket shopping areas. A Mumbai-based edible oil brand company (Postman Industries) is understood to have an exclusive import tie-up with **Barilla**, while Nestle is understood to have introduced its Italian **Buitoni** brand of pastas on a low key in 2000, as well. Food service chains are aggressively promoting pasta dishes as an additional product line to the highly popular pizza, and promoting taste and awareness among Indian masses.

However, these brands have limited market appeal in the absence of a critical mass of familiarity with the enormous range of pastas among Indian homes (something pizza products have now achieved) as well as the absence of the complete range of ingredients especially the sauce dressings and grated cheese that are essential accompaniments to enjoy pasta *Italiano*. As a result, they are available in less than 500 premium outlets in the main cities, compared with the 1 million retail outlets that stock noodles at present.

If the market awareness is successfully bridged, pastas have exciting prospects as mass-based foods in India, which has always revealed greater affinity for Chinese and Italian foods than other cuisines of the world. The pasta market is expected to overshoot the macaroni market in volume, once the price points are successfully established in India.

Packaged Soups

Soups in some form have always been a part of traditional Indian food habits, especially in the northern and southern parts of India which British military establishments were most associated with. In fact, the famous British *mulligatawny* soup is derived from an Indian appetizer made with black peppers. However, Indian soup products tend to be lentil-based and thin consistency, unlike the starchy, vegetable based products popular internationally. As a result, ‘western soups’ remained confined to experiences at restaurants and other formal outings.

The branded soup market is presently estimated to be close to 500 tonnes, valued at US$6.52 million (1999-2000) and is growing at 20% per annum. Powdered soup constitutes 93% of the total market, and the market share of Maggi from Nestle stands at 30% while Knorr stands at 57% and Kissan, the other brand from Levers, had an 8% market share.

The first attempts to bring soups/ bouillons to the home table were made in 1988 by Nestle, which introduced soup cubes in several flavours after studying that the up market SEC A and B households were avid soup-drinkers (40%had tried home made soups). By 1992, the market had reached 100 tonnes, with a single player, Nestle. Subsequently, however, Nestle lost market shares to Knorr, the world leader, which pursued the market aggressively with a wider suite of products. In 1998, the market had grown to 425 tonnes, with Knorr having a 57% share. In 1999, with the global sale of Bestfoods to Unilever, the Knorr brand has come into the hands of Unilever’s subsidiary in India, making the soup segment, a two-horse race between Nestle and Lever, along with sauces and pasta.

The rise of the institutional market is an interesting trend in the segment. As a result, Nestle as well as Lever have commenced bulk supplies (25 kg packing) for use by caterers, canteens and hotels, which still account for a substantial share of the consumption. On the other hand, single-use packs, initially introduced keeping in mind the retail as well as self-service food establishments, have performed below expectations.

Interestingly, the soup segment has seen significant imports by the brands: Imports averaged above Rs US$32.6mn in the past three years, representing more than 50% of the market value. The principal reason for imports has been the absence of adequate availability of dehydrated ingredients that are necessary for a soup mix.

Sauces and Ketchups

As in soups and pasta, it is a two-horse race in India's tomato ketchup segment, with Nestle and Lever having near-equal shares in a tomato ketchup/ sauce market valued at more than US$21.7mn last year. Despite being a new and strictly urban category, the segment has been growing by 25%, led by successful adaptation and identification of novel products keeping the spicy and tangy Indian tastes in mind.

As a result, sauces are becoming accompaniments to even traditional Indian foods, and market volumes have crossed 18.000 tonnes, and growing by 25 % per annum. Maggi (from Nestle), is the market leader, having a 53% share, followed by Kissan (from Lever), which runs closely at 48%. The world leader Heinz, present in India for several years albeit in the infant foods business, is the latest entrant in the segment, having commenced its real Tomato Sauce in 2000 after a wait-n-watch attitude during the aggressive race between the other players.

Though ketchup accounts for more than 30% of total sales value for the Maggi brand, Nestle has followed the route of outsourcing its needs from preferred suppliers in more than one region. On the other hand, Lever's entry in the category has followed its generic approach of acquisitions; in 1999, Lever acquired the entire tomato and chilli sauce processing facility set up in Punjab, as part of its contractual conditions for entering the Indian cola market. The said unit, built to global standards, has an enormous capacity of handling 15,000 tonnes a month in season… With the acquisition, Lever has built a strategic advantage of working with dedicated farmers on assured contracts, consuming their increasing harvests of tomato, including bumper harvests in some years.

The key to the category's growth lies in rapid expansion of distribution network for the product, besides developing other tomato products- paste, puree and juice- in integrated processing units, while developing an adequate supply chain for raw materials at economical costs for processing. Given the international fluctuations in tomato puree and paste, import prospects in hot bulk appear to be interesting, given that Indian costs of processed tomato are uncompetitive internationally.
The prospects of Italy need to be ascertained individually for various products.

Olive Oil

India has no indigenous production of olive oil, due to its climatic conditions. While several states as well as some foreign enterprises (notably Israel) experimented with olive oil cultivation in some parts of India, such experiments have been futile, so far. However, olive oil has been in use in small niche segment of the Indian market, largely supplied by smuggled goods, and following 1997, when the government opened up imports for the product, through direct imports by a few Indian traders.

There are no reliable estimates of the market for olive oil in India, due to the influence of the grey market in the product. Imports suggest that the market value is more **than US$3.26 million (CIF value),** and has been sluggish during the past three years. Institutional imports are an important element in the consumption of olive oil. Italy and Spain are the leading suppliers, and the most popular name in India is the Figaro (Spain), widely available in retail and beauty stores. **Bertolli and Sasso** are the prominent Italian brands on the market.

An important aspect of the market is that the **usage has been essentially as a body oil and beauty product**, not as a food product. A major reason for this perception has been the promotion of several important cosmetic products – Johnson's baby oil, baby cream and body lotion, Proctor and Gamble's Oil of Olay, etc, highlighting olive oil as a principal and active ingredient. The general perception in the Indian mindset continues to be so even today, although edible usage of olive oil is well known in the upper income homes.

An important reason for the widespread perception about its primarily 'cosmetic' image has been the import policy, which initially allowed import of non-edible grade oils**-** including those made from olive and other seeds, but continued to restrict the import of all edible oils until 1999. As a result, customs regulations called for special declarations in invoices as well as on the product packages that the imported goods were 'not for edible purposes'. Therefore, when the first products came on the retail shelves, they were believed to be for cosmetic use only. The problems worsened to an extent when edible oil imports in packed form were opened up, **as there was no difference between the non- edible and the edible olive oils from the same brand.**

Entrusting the brand development to traders and the lack of brand monitoring by the manufacturers is considered to be the major cause of such confusion with regard to olive oil. Realising the long term disastrous effects of such a negative image, leading European players Bertolli (Lever) and Sasso (Nestle) have streamlined their channels, discontinued dealing with third parties, and are playing a direct role in the positioning of olive oil in the right segments of the market with their mainstream distribution networks in India.

However, the positioning of olive oil as a cooking medium calls for a major promotional exercise, given the predominance of groundnut, safflower and sunflower oil in the 1.5 million tonnes premium edible oil market, including strong positioning on the low-cholesterol platforms. Landed prices of olive oil being significantly higher, the penetration in the edible oil market appears to be a daunting challenge.

On the other hand, promoting awareness of its usage as a salad dressing and ingredient for special (Italian) cooking is likely to retain the premium image of olive oil and promote its usage in the upper echelons of Indian society and create the basis for a strong image for Italian brands.

Ready to Eat Foods

India's present state of economic development does not correspond with the existence of a large ready to eat foods category. In fact, there is no specific classification for the Ready to Eat (RTE) category in India as such, and various confusing estimates have been proffered, depending on the inclusion or exclusion of product types. However, there is near-total absence of frozen, canned or freeze-dried products, which form bulk of the global RTE product line up. As a result, India's closest equivalent to RTE foods comprises of packaged snack foods and a small range of ready to cook products such as instant noodles, dehydrated foods and dessert mixes.

According to APEDA, India's apex export authority for food products, the snack product market- including sale at street food stalls- is US$5.43bn. However, packaged sweetmeats and savouries form only a small (6%) but fast-growing part of the market. However, the packaged snack food market is of the order of 350,000 tonnes, valued at approximately US$0.30 bn. Large and organized players process less than 10% of the volumes. The products include several Indian ethnic snack preparations, besides the more popular potato chips, sticks and fries. Overall growth in the segment has been in the range of 7-8%, and is expected to continue at similar levels, given the mass appeal with younger age groups, especially children.

Potato chips and fries, an important segment in the branded snacks, account for less than 18000 tonnes, of which branded chips account for 6000 tonnes, led by Frito Lay, which is available nationally, and has an 85% market share after acquiring its principal competitor. The other players are present only in small regional pockets. Proctor and Gamble has made an entry with the famous Pringle brand of extruded chips, importing the product from its facilities in the Far East. After the steep import tariffs, the product is priced four times higher than indigenous products from PepsiCo.

Potato chips processing in India is also fraught with technical issues, especially the development of suitable processing varieties in India's climatic conditions, which are different from the US or Europe. Given India's phytosanitary regulations, large-scale propagation of new varieties has remained a bottleneck and affected the raw material availability to the processing industry for now. However, a few suitable indigenous varieties have now been developed and the supply constraint is expected to be removed effectively, paving the way for increased production levels in the future.

The low share of potato fries is also explained by the enormity of ethnic varieties in India: there are more than 300 variants of tastes, forms, textures, aromas, bases, shapes and fillings in the market. However, manual processing, inefficient technology, an absence of brand equity, low entry barriers, and poor levels of product quality standards as well as testing facilities characterize the ethnic snack foods industry.

The enormous opportunity in the 300.000 tonne market for ethnic products and the gaps in product processing standards, as well as packaging, have created new business lines for a few organized players like Frito Lay, Britannia and a few Indian brands, who have successfully entered the savouries market, and carved a 10% share for themselves. The market leader is an Indian brand ‘ Haldiram’s’ with a 10,000 tonnes annual sale, followed by Frito Lay, which sells close to 3000 tonnes under its new umbrella brand ‘Lehar’, sourcing the products from an exclusive supplier.

A wide product range, aggressive promotions and attractive price points are considered the most important factors to competitive shares in the packaged snack foods. Potential for Italian products depends on the feasibility of importing ‘pellet products’ in bulk, to be fried and packaged in local processing units and sold in the Indian market. Such an approach will require franchises and tie-ups with processors.

Meat and Sausage Products

India has a large livestock sector, comprising of poultry, fisheries and meat. Meat production has shown impressive growth in recent years, recording a three-fold increase in the last eight years, and touching 4.5 million tonnes in 1999-2000. Processed fish products accounted for an additional 5.3 million tonnes, taking the total meat output to 10 million tonnes. Major meat products are beef (1.3 mn), buffalo (1.2 mn), poultry (0.6 mn), mutton (0.68 mn) and pork (0.4 mn) A substantial part of the output of buffalo and mutton is exported, mainly to the Middle East markets.

The share of further processing India is negligible, largely due to the high incidence of domestic cooking. There are 128 registered meat-processing facilities in India, which serve the needs of the institutional market, primarily. However, of late, several retail outlets have begun to serve semi-prepared (marinated/ minced, breaded) parts, which are ready to cook. However, ready to eat products like sausages, salami etc are not widely available in retail forms, due to the absence of chilled or refrigerated facilities in the outlets.

Convenience, exposure to food service outlets, and willingness to try new products is driving demand for prepared meat products and ingredients. With the arrival of large organized retail chains in the major cities, the market infrastructure is ready for the introduction of new products including exotic products.

India presently restricts import of all meat products, but is committed to open the sector for imports from April 2001. It is known that international prices are far below Indian prices, and come with a higher quality standard. As a result, the Indian market will experience international quality meat products for the first time ever. Given that some producer countries subsidise exports of meat and poultry, the landed prices are expected to be competitive even despite stiff duties on some comparable products being made in India.

With an enormous range of delicacies, Italian suppliers should find prospects for imports very encouraging and actively seek tie-ups with retail chains in India to promote their brands in a nascent but high potential mass-market.

Spices, Seasonings and dried herbs

India is the world's largest producer of spices, and also the largest exporter. The main Indian spices are black pepper, red chilli, coriander, clove, saffron, turmeric, fenugreek, cardamom and cinnamon. However, basil, thyme, oregano and such European seasonings are not popularly used in India, except in the hotel and fast food service industry. Import of spices, herbs and seasonings is restricted and a small niche market opportunity is expected to emerge in the upmarket grocery and food retail chain stores for premium imported products.

Chocolate and Confectionery

Market Value	**US$ 282.6mn**
Sugar boiled confectionery	US$ 65.2 mn
Chewing and bubble gums	US$ 87mn
Milk chocolate	US$ 130mn

India's market for chocolate and confectionery is under a process of evolution and restructuring under new market forces that have influenced its course since liberalization.

The total market for confectionery, chewing gum and chocolates is estimated to be US$0282.6million, of which hard-boiled candy and toffee have the greatest volume and value shares. Like in several other food products, India's reservation policies applied to confectionery, too: manufacture of hard- boiled confectionery was reserved for small-scale enterprises. As a result, there are more than 5000 small establishments in the sector, which make up 70% of the volumes and close to 50% of the value.

In volume terms, the total market is estimated to be in the region of 250,000 tonnes, consisting of:

Sugar boiled confectionery: 110,000 tonnes
Hard-boiled toffee: 90,000 tonnes
Adult candy, éclair and chews: 20,000 tonnes
Chewing and bubble gums: 8,000 tonnes
Milk chocolate: 25,000 tonnes
The organized players, including five multinational companies, account for 30% of the volumes, or close to 80,000 tonnes of product. A McKinsey & Co. report in 1997 stated that the confectionery and chocolate market would grow by 40% and touch US$ 1.41bn by 2005. However, market conditions indicate a much lower growth rate, closer to 12%.

Consumption patterns in India reveal that the market is entirely driven by children below 14 years, accounting for 75% of consumption, while the youth segment 15-24 accounts for 15% of total consumption. While volumes come from the lower age consumers, their spending power is limited, and product design is constrained by the Rs. 1/- barrier. As a result, most products are retailed in loose form, by pieces. To diversify revenues, some companies have positioned several new, up market products, to drive up consumption by adults. Milk chocolate bars are now focussed as impulse products for grown ups.   The most interesting product segments in recent times have been chewing gums and milk chocolate, which have grown faster than the other segments.

Chewing Gum

A staid product segment till 1992, chewing gums became hot after the entry of Italian confectionery giant Perfetti, which is now the market leader in all chewing and bubble gum products. Meanwhile, the category itself has grown from 300 mn in 1992 to more than US$ 87mn in 2000, revealing average growth of more than 60% until 1997, and then at a steady 25% till 2000.   Bubble gums account for 65% of the market, substantially higher than chewing gum, which are perceived to be adult products.

The market is dominated by foreign players: **Perfetti,** having close to 60%, is the leader in both chewing and bubble gum segments, followed by General de Confiteria (Agrolimen), Wrigleys (which does not manufacture in India) and Warner Lambert, which was India’s first player with its famous Chiclet chewing gums.

Indian players in the gum segment include Nutrine, Candico, and Parle, who have a substantial presence in confectionery, and have been quick to see the potential in chewing gums to flank their existing product lines. Gum sales tend to depend heavily on promotional schemes for trade channels and are a low-margin category by themselves, compared with chocolate. Perfetti, following up the success of its gums, has brought in its international line of had boiled confectionery (*Alpenliebe*) to seek market shares in the candy market.

Chocolate majors Cadbury as well as Nestle have made inroads into the candy segment, taking away markets from the unorganized sector. However, because the sugar-boiled candy is still reserved, they are constrained to outsource their requirements from other players.

Milk Chocolate

The presently 25,000 tonnes chocolate market, with US$ 130.4million in revenue, is growing by 15%. India's milk chocolate segment was synonymous with one name, Cadbury for several decades. Cadbury still remains No. 1 in the segment, with volumes of 16000 tonnes and revenue of US$ 60.8 million from the segment in 1999-00. Nestle is the second largest player, with a revenue of US$. 30.4mn from chocolate

The most important categories in chocolate are: moulded slab chocolate (50%) and count-line bars (33%), while enrobed wafer/ biscuits, sugar-panned and chocolate-panned products account for 15% of the market. Unlike candy confectionery, the consumption of chocolate in higher age groups is significant, at 30%. Another important consumption lever in chocolates is the growing gift market. Chocolate boxes are an accepted gift in India, during the festival season, at birthdays and while visiting people; this cultural aspect has created a niche, seasonal market for specially packed assortments.

In 1985, when Cadbury was the only brand in India, India's co operative giant, Amul entered the milk chocolate segment with a high capacity plant (imported from Carle Montenari, Italy), and soon attained a serious market share by distributing chocolate at lower prices through its channels for milk products, butter and cheese, which were always in shortage! By 1992, Amul had a 25% share of the chocolate market. However, the focus on a cooperative approach constrained Amul from being aggressive on its supply chains, and saw it losing shares to Nestle when the latter launched its international Kit Kat line of wafer chocolate. Since then, Nestle has closed in on Cadbury, with a product-for product competition between the two brands, while eroding Amul's market shares substantially. Nestle now has a 30% share of the US$130.4million market.

Import opportunities for chocolate have become interesting after the opening of market access in 1998, which resulted in international players appointing distributors in India. Important brands that are now available, although on a low scale are: Hershey, Mars, M & M, Lindt, **Ferrerro Rocher** and several Belgian and Swiss brands. However, import volumes are negligible compared to the domestic volumes, mainly due to the 68% customs tariff that is levied on imported products. Meanwhile, Nestle as well as Cadbury have begun sourcing some products from their plants in other parts of Asia, to test the Indian market for extensions and new categories.

However, several products have not performed well, given the Indian climatic conditions, which require a higher melting point for the cocoa butter. Retail displays of several imported products have been below mark, and often beyond the manufacturer’s control in the absence of strict vigil on the quality of storage and handling of its product. Poor treatment of the retail aspects potentially affects brands more than the importer agents, as in the case of Mars and Ferrerro Rocher, which had retail problems due to product damage and loss of visual appeal related to storage conditions.

Therefore, imported products must have tropical formulations for a brand and ensure strict vigil on the distribution process of their brands, in order to succeed in India. That indeed has been the secret at Cadbury and Nestle.

Household Goods

Sector Market Value	**US$ 5.5 Bn**
White Goods	US$ 1.0 bn
Brown goods	US$ 260 mn
Kitchenware	US$ 30 mn
Furniture	US$ 3.25 bn
Lighting	US$ 400 mn
Ceramic and sanitary ware	US$ 300 mn

	1997-98	*1998-99*	*1999-00 6 m*
Imports from Italy	US$ 33.51 mn	US$ 33.1 mn	US$ 27.8 mn
Investment from Italy	US $ 100 mn		
Products offering prospects	Furniture, lighting products, premium sanitaryware, kitchenware		

India’s economic liberalization is most visible in the homes of the Indian people, which have seen more goods entering their doorways in the past five years than in the preceding forty years of independence. In the consumer sector, liberalization has brought about transformation by generating new lifestyle needs, and bringing the latest world-class products to meet those needs. That many of these needs are being met by foreign brands is a reminder the entry barrier that had existed between the Indian market and international manufacturers.

India’s home goods can be broadly classified in three classes: home appliances; furniture and lighting, and ceramic and sanitary ware. The total value of the Indian market in these categories is close to US$. 5.43 billion.

Domestic appliances

Domestic appliances span a wide range of products but can be broadly categorised as white goods, brown goods and small appliances Cumulatively, these categories represent a US$1.41 billion market, with a growth potential of 8-10% in the near future.

White goods

A perceptible harbinger of the economic reform era in India is the white goods segment. The US$ 1.08 bn white goods market is expanding by 8-10% a year with a product range covering air conditioners, refrigerators, microwave ovens, washing machines, vacuum cleaners, electric irons, etc.

The large brands tend to be present in a wide range of home goods. The more important Indian and international brands in the market are:

BPL - comprises six business divisions - consumer electronics, consumer non-durables, components, power, medical electronics and communications.

Godrej -GE Appliances - a 60:40 joint venture between the Godrej group and GE of the US.

Voltas - a Tata group company, manufactures refrigerators and washing machines in the white goods segment Voltas has technical tie -up with Samsung Electronics of Korea for manufacturing washing machines. Its Allwyn brand of refrigerators is manufactured in technical collaboration with Hitachi of Japan.

Videocon - a major player in market of washing machines and refrigerators.

Electrolux AB, a Swedish white goods major, has finalised a deal with Voltas to buy out the latter's 26% equity stake in their joint venture, Electrolux Voltas.

Whirlpool - expanded its sales by 26% in 1999 while the white goods industry grew by a mere 8%. It is the market leader in the refrigerator segment with 24% market shares both in direct - cool and frost-free segments.

National Panasonic, which invested over US$. 21.7mn for setting up fresh manufacturing facilities for washing machines and air conditioners.

BSH of Germany, Europe's largest white goods manufacturer has since remained confined to southern and western Indian markets. Samsung and LG have set up 100% subsidiaries in the name of Samsung India Electronics Ltd, and LG Electronics India Pvt. Ltd.

Washing Machines

The overall market for washing machines is estimated to be over 1.2 million units. Semi automatic machines form the bulk of the business, with a share of 64%, and are priced at the lower end. Top loading models are more popular than front loading models in India. Fully automatic machines make up a market of some 360,000 units (around 30% of the total market). The premium washing machines, on the other hand, are estimated to constitute only 6% of the market. The urban market accounts for 82% of the market.

Leading Players in the segment are: Bosch, BPL, Videocon, and Whirlpool. IFB with a share of over 22 to 24% is the leader followed by BPL (20 to 22%), Videocon and Whirlpool (both at over 16 to 18%). Other brands, such as Godrej - GE, Electrolux, LG, Daewoo and Samsung have small shares below 5% each. The others make up for some over 20% share.

Refrigerators

Among consumer durables, the refrigerator ranks only next to a TV and a grinder in Indian middle class homes. Therefore, the companies are looking forward to penetrate wider and deeper into Indian market.

The market for refrigerators in 1999 was estimated at more than 3 million units. The home market represents 85% of the demand, and urban homes account for 78% of refrigerator sales.

By capacity, the market is dominated by 165-litre capacity, which accounts for 75% of volumes. However, the emerging trend is in favour of larger sizes, between 200 and 300 litres, and advanced features especially frost-free. Replacement demand has increased with the introduction of such features. Frost-free models account for 15 to 20% of the market at present, within a few years of introduction. In the direct cool segment, Godrej-GE and Electrolux (formerly Kelvinator) run neck-to-neck, and together, account for 50% of the market. In the frost-free refrigerator segment, the Indian major BPL constituting 30% of the segment leads the market, closely followed by Godrej - GE at 20% and Whirlpool at19%. New entrants LG and Samsung have attractive shares close to 10% each.

Air Conditioners

India's air conditioner market is estimated close to 300,000 units, valued at US$0.32 billion. The market remained largely in the hands of unorganized assemblers, due to their preferential status: they were exempt from the 100% excise duties (VAT) levied on the product, which was held to be a luxury good. The reduction in excise duties, from 110% in 1991 to 40% in 1996 and further to 30% in 1997, has helped in bridging the price gap between the organised and informal sectors. The big branded players seem to have succeeded in making deep in roads into the unorganised segment of the US$0.32 bn market AC market. The emerging trends indicate that the unorganised sector 's market share could come down to a mere 30% in the near future.

According to industry estimates, the air conditioner market should touch 390,000 units in 2000-01 as against 300,000 units in 1999 - 2000, suggesting a 30% growth rate. Corporate and industrial customers account for 55%, while government account for another 20% of the market. Penetration of split units is higher in these segments, close to 15%. The North and West are the principal consumption regions, accounting for 72% of the demand.

The Indian air conditioners market is predominantly for window-mounted room air conditioners, accounting for 65% of the market value and 81% of volumes. The recently introduced 'split' air conditioners have 18% by value and 13% by volume of the market. Carrier is the market leader in the unitary product segment with 30% market share in the window AC and mini-split market. Other international brands include National, LG, Samsung, Mitsubishi and Hitachi, while the major Indian players are Voltas, Videocon and BPL.

Vacuum Cleaners

In keeping with the changes in general life styles of urban middle class, vacuum cleaners are yet another product that find an increasing acceptability in India. The overall market was placed at around 270,000 units in 1998, and growing at 20% annually.

Eureka Forbes, an Indian company, under licence from Electrolux pioneered the vacuum cleaner 's entry into the Indian household through its door-to -door marketing campaigns, and was the market leader for a long time. Following the success of Eureka Forbes, other brands have entered the segment. Important competitors are Indian white goods major, BPL (Sanyo), Rowenta and Maytag Corp of US (Hoover), all focusing on the home market, and Diversey Lever, which is targeting heavy-duty vacuum cleaners for industrial and commercial usage.

Brown goods and home appliances

Brown goods- electric irons, toasters and ovens, and other domestic appliances are indicators of the changing consumer scenario. The major international players in the sector are Philips, Rowenta, Moulinex, Black & Decker, and Sheffield, while several Indian players have a serious presence in some categories. Until recently, several classes of home appliances were reserved for small-scale enterprises, resulting in functional but technologically poor products, in general. Until recently, most brown goods - electric irons, toasters, mixers, room heaters, and ovens - were reserved for the small-scale sector. Given the reservation constraints, most brands were sourcing their products from smaller units, sometimes launching identical products, too. However, even after de-reservation, the unorganised sector has a 50% share of the market. Reliable production data is not available on these products due to the dominant role of the unorganized sector. However, some indications of market volumes are available. The total market is estimated to be US$0.26 billion, growing at 12-14%. Mixer/ grinders are the most important group, with a market value of Rs 4 billion, followed by ovens, including microwave ovens. It is estimated that nearly 5 million mixer/grinder/juicers and 75, 000 food processors are sold every year in India.

Toaster/grills, electric irons, rice cookers and water heaters have substantial volume sales, but are a low value group, accounting for US$ 0.02 billion sales together. The Italian manufacturer Merloni has a joint venture in the electrical heater segment, with an Indian brand Racold, a well-known name in storage heaters. The gift market is fairly strong as a cultural phenomenon in these low-value brown goods, as they make excellent festival or house-warming gifts.

The most interesting development in recent times has been the emergence of the microwave as a convenient and versatile home appliance, given its combination properties of cooking, heating and warming. The microwave market is estimated to be touching a level of 100,000 units, with a market value of US$ 0.028 billion. LG, Bosch, Sanyo, Panasonic and Samsung are serious players in the segment.

The size of kitchenware market, including pressure cookers, pans, electric cookers, and non-stick wares, is estimated at over Rs. 1.3 billion. The largest segments are pressure cookers with 5 million units, non stick cookware with 5 million pieces, and thermoware casseroles, with 3 million pieces.

The market is ruled by Indian brands in all the three categories. The European company Groupe SEB, the global leader in the non-stick kitchenware, entered the market in 1996 and was active in the domestic market for three years, promoting its Tefal brand non-stick cookware products, but has withdrawn from India, due to the competitive pricing of domestic competitors.

Major Players

Inalsa Appliances and Sumeet, both Indian brands, are major players in mixies, although they have added new products including pressure steam irons, toasters and pressure cookers.

Bajaj Electricals, a joint venture with Black & Decker, is another major player in electric irons, heaters and ovens.

Philips is the market leader in the electrical iron segment with 65% share.

LG Electronics is the market leader in microwave ovens, with a 23% market share, followed by Samsung with 12% market share.

Laminox, and DeLonghie, two leading Italian brands, are present in the heat radiators segment; DeLonghie has a joint venture in India for home goods.

Faker Heathcraft, a joint venture of Italian manufacturer **Faker Raber Flamiria**, has plans to launch a set of cooking ranges, electric chimneys and gas bobs shortly, aiming to sell about 30000 pieces.

The major players in non-stick cookware are Nirlep (30%), TTK Prestige (20%), Milton Plastics, Classic Cookware. TTK, Hawkins and Elite are major players in the hard-anodised cookware category.

In the pressure cooker segment, Hawkins and TTK, two Indian brands, are leaders, with market shares of 30-35% each. Both brands are successful in the international market, especially in the US, where they are sold through the large retail chains like Sears Roebuck and WalMart.

Furniture

Furniture making has been a traditional wood working craft in India, and continues to be so under a government policy that reserves the production of wooden furniture exclusively for small-scale enterprises. Given the low costs of labour, custom-made furniture remains the most important segment of the sector, and is aided by the low penetration of standardisation in specifications for furniture elements. Consequently, the use of mass-produced furniture from reconstituted wood materials, including modular ready-made furniture is a relatively recent phenomenon, though it is changing the landscape of the furniture industry in India.

While there are no official data on the volume production of furniture, industry estimates indicate a market of US$. 3.26 billion in 1999-2000, of which only 5% is accounted for by the organised sector. The market is dominated by wood-based furniture (66%) followed by steel furniture (18%). The leading ten cities account for more than 65% of the national demand, arising from institutional as well as home demand. Growth, primarily riding on the construction and home purchase markets, is expected to be in the range of 7-8% overall, though the import-led growth in RTA furniture is expected to be enormous in the short-term.

Reservation of the industry has led to the sector being almost completely in the hands of the small-scale sector; however some panel producers have integrated forward into branded modular furniture products. Typical production units usually consist of several craftsmen and usually do not have special purpose production machines for standardizing and mass-producing components. In the absence of mass production and standardization, Ready-to-Assemble (RTA) furniture concepts have not taken off in India, with the exception of some units set up for export purposes, which are allowed to sell a part of their production in the domestic market.

India’s top nine cities account for more than 65% of national consumption. Household furniture accounts for two-thirds of the total demand, followed by institutional and offices markets, while commercial complexes and retail centres are beginning to emerge as new applications.
Furniture sales in these cities are reportedly growing by 10% per annum, driven by home purchases by young urban families, and financed by several tax-saving housing loan schemes.

The national players in the integrated branded furniture sector are: Gautier India (a subsidiary of Group Seribo, France) which has a large RTA furniture unit based on a 50% export-obligation of its production; Bhutan Board Ltd, which is a Bhutan-based producer using India’s preferential trade agreement with Bhutan for sale of various protocol items (including furniture); and Usha Lexus, a north Indian chain of furniture goods, sourcing from small scale enterprises.

Two Italian companies, **Saporiti and Camel**, have set up collaborative ventures for the manufacture of furniture goods in India. Camel, which is based in Ahmedabad, in Gujarat, already has several exclusive outlets and is planning to use its Indian facilities for export to Asian markets.

Until 1998, furniture imports were restricted as non-essential consumer goods. Imports were generally allowed only to hotels and tourism bodies, which were required to pay for imports against their foreign exchange earnings. However, after the lifting of quantitative restrictions in 1998, furniture imports are now open for all categories of importers, and imports are reported from Europe (principally Italy and

France) and the Far East (Taiwan and Korea). Imports in 1998-99 have touched US$. 0.021 billion, and there is an increasing base of importers now in India, mainly located in New Delhi, representing European furniture companies for the regional market. However, there presence is not widely advertised as of now.

But, India continues to be a highly price conscious market, and imported home furniture, after payment of import tariffs of nearly 70%, is at best a niche product affordable only by the rich upper class – less than 0.2 million homes -in the metro cities. However, in future, some components like office partition panels, filing cabinet kits and workstations may find markets in India, given their advantage of superior styling, functional robustness and price advantages arising from mass production.

The development of a effective retail network, credit tie ups and easy-finance payment plans, besides a wide range of products, will be important to push sales in the price-conscious Indian market, and need to be considered by Italian companies interested in the Indian market opportunity.

Lighting

India's lighting products sector is in the midst of a restructuring, as government controls over the sector have been substantially removed in the past five years. The sector is consolidating with the increasing investments by leading multinational companies, including acquisitions of Indian companies in various product groups.

The market size is estimated to be close to 700 million pieces of general service products, including special institutional and commercial lighting projects. GLS lamps, account for 500 million units and fluorescent lamps, 200 million units, 10 million units of mercury and sodium vapour lamps, and 0.5 million units of energy-saving compact fluorescent lamps. In value terms, the sector is estimated to have a market value of US$0.40 billion.

CFLs, Vapour lamps and reflective lighting products are the fastest-growing segment, with more than 40% growth rate in the past few years, although from a negligible base. Growth in fluorescent tubes is over 10%, while GLS is sluggish, with a 6% growth rate in the past three years. Growth is higher in the public utilities (streets and roads lighting), industrial (offices) and commercial segments (retail markets).

The manufacture of ballasts, luminaires and fixtures is still reserved for the small-scale sector, while fluorescent, vapour lamps, and general service incandescent lamps are open for large-scale investments as well. The leading international players in the sector are Philips India, General Electric, Osram, while there are more a few leading Indian companies Wipro, Bajaj, Crompton Greaves, Surya Roshini, who have a significant regional or national presence as well. However, the new generation products are led by GE and Philips, even though the other players have secured distribution tie-ups with other global players like National and Toshiba.

Import of energy saving lighting products has been allowed since 1997, though the customs tariff levels at 68%, are excessive. In recent years, leading players have imported higher end lighting for supplies to the corporate, institutional and industrial lighting segments, based on special project specifications, besides retail products like compact fluorescent lamps and dichroic lighting used in retail displays have also been imported.

India does not have any significant manufacture of energy saving lamps. There are two small players, who have introduced products based on technology support from South Korea and Taiwan, both not being technology leaders o even market volume leaders in the world market. The retail prices of CFLs, which are 20 times higher than equivalent products, are quite unaffordable by Indian middle classes. Though the energy savings claimed by manufacturers are substantial, market acceptance of such products is further impaired by the absence of foolproof warranty given India’s power and voltage fluctuations: suppliers offer a service life of 8-10,000 hours, but warranty terms exclude voltage fluctuations, which are difficult to disprove.

Italy has a competitive lighting products industry, and has been active in project supplies in India, through import agents.

Ceramic Tiles and Sanitary ware

Increased activity in the home construction market in the 1990s, fuelled by fiscal incentives as well as home financing schemes, resulted in a spurt in sales of all building products, but more importantly, in the ceramic products sector. The market is evolving as consumers place a premium on hygiene, durability and aesthetics in their selection of home interiors. This has spelt out new opportunities for products such as paints, floor and wall tiles, sanitary ware and building hardware, in general.

India’s ceramic industry made its beginning in the British rule, with demand for commodes originating from the army. Since then the industry has grown to its present size, processing close to 800,000 tonnes of ceramic tiles and 75,000 tonnes of sanitary ware. The unorganized sector has a significant share-55% in the sanitaryware segment, and 20% in the ceramic tiles segment, though its influence is declining in the wake of excise duty reductions on ceramics, which have reduced price differentials considerably.

The market break-up of the organised sector is roughly 250,000 tonnes of floor tiles, 400,000 tonnes of wall tiles, and 68000 tonnes of sanitaryware- commodes, flushing cisterns and washbasins, valued at Rs. 14 billion. The present growth rate of 8% is considered sluggish, but is expected to pick up in the coming years. Capacity utilisation is below 65% in the sector, due to rapid anticipatory expansion of capacities, which were perhaps not justified by market growth.
North and West India account for the bulk of ceramic sales (35% each) in India, though the south is fast catching up. Though the institutional market is still the largest segment, retail markets, accounting for 45% of volumes, are becoming instrumental to profit growth in the sector. Consumption is primarily an urban phenomenon, with rural areas generating only 20% of present demand.

In all there are more than 25 organised players in the sector, of which the top five account for more than 65% of market share in both products. Some players are present in both segments, due to complementarities and the possibility to offer total solutions rather than simply products. Consequently, there have been alliances and acquisitions between tile companies and sanitaryware companies in the past few years. Transportation costs being high in ceramics, regional plants have become strategic to meeting regional demands, and have furthered the presence in all regions through alliances or acquisitions.

Important Indian players are:
H& R Johnson, SPL, Kajaria Ceramics, Sun Ceramics, Hindustan Sanitaryware and EID Parry, all figuring in the top five brands in their product lines. The major players all have international tie-ups with leading European companies like Johnson Tiles, UK, Pilkington plc, UK, Todagres, Spain**, Sacmi Impianti, and Leonardo Ceramica,** both from Italy. Most plants are based on the rapid single firing process and use Italian machinery **(Sacmi Imola).**

However, several plants have capacities that are below international scale (recommended 120,000 tonnes minimum per kiln), and use older and expensive fuels, which make prices internationally uncompetitive. However, two players (Johnson Tiles and Kajaria- the licensee of Todagres) have resized their plants to international scale capacities and also upgraded to more efficient and versatile fuels, such as LNG and LPG, which offer substantial cost advantages. Such players now compete with European ceramic companies at the low end of the international market.

Import of tiles was opened up in 1999, but import tariffs of 68% render imports prohibitively expensive for the Indian market. Imports have been negligible except in the large sizes and in vitrified granito tiles, which are not yet produced in India. As a result, Indian manufacturers are fairly insulated from import competition, given that India’s binding tariffs are higher than current levels, and can support an increase in tariffs to arrest imports to safeguard domestic industry.

With the low capacity utilisation already dogging Indian industry, excessive imports are prone to be countered by safeguard duties. Therefore, given the high import duties, import opportunities appear to be linked with evaluating complementary strengths of suitable Indian players and offering products at prices that can be interesting in the Indian market.
Italy is the world's largest player in the ceramics industry and is an aggressive competitor. Therefore, if competitive opportunities should ever emerge in the Indian market, either from attractive duties or a domestic shortage of products due to any reason, Italian companies stand to gain the most from them.

Bathroom fittings, a related product segment to the ceramics industry, have their fortunes linked with the overall growth of the latter. The present capacity in hardware fittings is estimated to be 50 million pieces, mainly chrome-plated articles like mixers, concealed diverters, long-body cocks/faucets and showers. The organised sector has a small share (15%) of volumes, but operates at the premium segment. There are five established players, including an Italian joint venture, **Rubinetterie Rapetti, SpA** that came into operation in 1997 as an export-oriented unit with a capacity of 1 million pieces.

Personal Products

Sector Market Value	**US$ 16.2 Bn**
Apparel including intimate apparel	US$ 3.5 bn
Leather and other articles	US$ 2.2bn
Footwear	US$ 1.4 bn
Gems and Jewellery	US$ 8.7 bn
Cosmetics	US$ 435mn

	1997-98	*1998-99*	*1999-00 6 m*
Imports from Italy	US$ 10.3 mn	US$ 19.07 mn	US$ 23.0 mn
Investment from Italy	US$ 27 bn		
Products offering prospects	Leather articles, apparel and footwear (at moderate prices)		

India's personal product categories together represent a market value of more than US$. 15.2 billion, grouped in apparel, accessories including jewellery and personal care goods. In value terms, jewellery is the most important segment, followed by apparel and leather goods, which may be rather surprising given the state of economic development in India.

Apparel including Intimate Apparel

The textile and apparel sector occupies a pre-eminent position in the Indian industry. The total value of India's textile sector is estimated to be US$23.17bn, with exports of textiles and apparel accounting for US$10.5 bn. In volume terms, ready-made apparel production is estimated at 5.3 bn articles, of which knit articles comprise only 22%.

Textiles bring the highest export revenues (close to US$ 10 billion) for India. Even though India's textile exports constitute a mere 2% of the total world textile trade, India is considered to be an important player, and stands to gain most from the global Agreement on Textiles and Clothing in 2005, when import quotas will have been phased out completely.

The textile industry is dichotomous in structure: large mills account for less than 6% of total cloth; power looms 55%, while handlooms and hosiery bring up the lower 39% of the fabric production base.

The ready-made apparel as well as knitwear-manufacturing sector is highly dispersed, due to a policy of reservation, which earlier capped investments in garment production and knitting/ hosiery units to less than Rs 10 million. As a result, India has more than 60000 production units, with a cumulative investment of US$ 1.56bn to meet the domestic and export demand of garments.

As part of a new textiles policy adopted in 2000, the government has de-reserved the sector from the small-scale compulsion, and it is possible for large players, including foreign companies, to set up apparel production units without any investment restrictions. This would enable world-class manufacturing facilities to be set up in India, to compete in a quota-free world market. Also, as part of market access commitments, India has substantially removed import restrictions on a wide range of textile goods, which were being restricted on Balance of Payments grounds. By April 2001, all textile articles will be freely importable, subject only to customs tariffs as applicable.

Clothing is the second largest head of private consumption after food: nearly 5% of disposable income in Indian households is spent on clothing, and 1% on footwear. Therefore, these important developments are of significance in a large home market as well, with the market readying up for a slew of international fashion brands, and the establishment of new price categories in the market.

The domestic Ready -to-Wear apparel market is estimated at US$3.47bn, most of which comes from the small-scale, unorganized sector. Casual wear accounts for less than US$ 0.52bn (15%) of this market. The market is led by articles for women, followed by men's wear and trailed by children's clothing. Demand growth has been steady across all apparel categories, especially in blended fabrics, even though cotton garments have the largest market share at present.

India's Apparel Market Breakup

Category	*Market size (*US$ *Bn)*	*Volume share (%)*	*Population share (%)*
Men's wear	1.25	36	33
Women's wear	1.51	43.5	31
Children's wear	0.50	14.4	24
Babies wear	0.21	2.7	13
Total	3.47	100	100

The enormous diversity of India's culture has its effects on dress habits in various parts of the country. However, apparel articles are well segmented into Western and Ethnic categories, both being important groups and highly influenced by socio-economic and demographic factors. Formal dressing and office wear are all legacies of British rule, but have become standard Indian trends in urban areas, over the decades. Influence of western dressing has also been significant among working women.

Category –wise breakup of domestic apparel market (US$ billion)

Products	Market	Women	Men	Non-Adults
Lingerie	0.43	0.26	0.13	0.04
Western dresses	0.74	0.30	0.43	
Children				0.23
Socks	0.05	0.01	0.03	0.01
Subtotal	1.22	0.57	0.59	0.28
Indian dresses	2.24	0.93	0.62	0.42
Total	**3.46**	**1.50**	**1.21**	**0.70**
Per capita (US$)	3.65	5.12	4.00	2.03
Unbranded goods	2.17	3.02	1.69	1.19

Branded Apparel

A large part of the retail market is non-branded, and derives its reputation from the fabric suppliers. Consumer incomes as well as attitudes are responsible for the formidable presence of non-branded products, despite the lower stitching quality and product finish of manual tailoring.

The branded apparel, valued at US$ 87mn, constitutes a small crust of the US$ 3.48 billion apparel market, even as it continues to grow at more than 25%. The real growth in branded apparel has come from the lower price segments, where the price differential custom- tailored clothing narrows down considerably, while adding brand image and styling to the product.

Government restrictions had prevented large textile companies from integrating forward into apparel. However, since 1995, integration into branded apparel has definitely begun, with larger fabric manufacturers contracting garment production with the small scale sector, while investing in marketing, distribution, retail networks and licensing of foreign apparel brands. With the removal of restrictions on investment, integration into the retail apparel is slated to increase.

Leading Indian companies have been entering into alliances with global brands, producing for them as well as retailing their brands in the Indian home market. Such alliances have included licensing as well as joint ventures in production, marketing and retail distribution. A few successful examples are: Levi's and Lee in denim, Lacoste, Crocodile and Playboy in casual wear, Osh Kosh B'Gosh and **Benetton** in casual and children's wear, Givo, Arrow and Louis Philippe in formal men's wear, Jockey, Vanity Fair, Calida and **La Perla** in lingerie and inner wear, Reid & Taylor, Hampstead and Scabal in premium suiting materials, and Pringle of Scotland in woollen wear.

The woollen segment has opened up avenues for international tie-ups as well: India has substantial imports of textile grade wool, as its domestic product, does not meet high-grade apparel specifications. Meanwhile, consumption of apparel grade wool is increasing steeply, and present demand is estimated at around 30 mn kg, about 40% of which is used for export production. Some leading Indian brands have entered into tie-ups for the distribution of premium international brands, especially fine-count, lightweight suiting materials, to match Indian climatic conditions. Dormeiul, Scabal, Trussadi and Scot Weave are prominent such examples.

Some Indian brands have even acquired international brands outright, increasing their reach in the world market through such acquisitions. The most visible example has been the acquisition (in 2000) of Coates Viyella, U.K's apparel brands worldwide by a leading Indian group having a presence in cotton, woollen as well as blended fabrics.

Intimate Apparel

The market for intimates- undergarments, socks, stockings and such accessories is almost totally unorganized, crowded with over 40000 small sector units all over the country. While occupying a large volume share of retail purchases, the segment is highly price driven, and overcrowded with more than 200 local brands.

The market for **lingerie** is estimated to be US$435mn, of which women's wear accounts for US$ 260mn. The market is expected to grow at a rate of 10%. The organized sector accounts for less than US$ 108.6mn, but produces more products for men than for women. As a result, there are very few large brands in women's intimate wear segments.

The leading international players are:
Ladies: Vanity Fair, Lovable, Jockey, Calida, Schiesser, Triumph, Mey, Stei and **La Perla**; and
Gents: Jockey, Calida, and Calvin Klein
The Italian brand La Perla already has a manufacturing arrangement with an export-oriented unit; for supplies of lace and lycra garments to Europe.

Italian companies would stand to gain from their premium status in the fashion world, and by introducing new skills and design trends in the domestic market.   However, market opportunities based on imports rather than local franchising will need to be investigated for specific products. Yet, imports are the only feasible option in small segments like tights and stockings, where there is no Indian player at all. The building of retail market arrangements holds the key to succeeding in the ready-made apparel market in India, in the future.

A possibility in the apparel segment that is not exploited yet, is the branded custom-tailoring segment. Given India's reality, custom tailoring is expected to remain a huge market for some years. Training franchise shops to international standards, having a uniform retail format with the best equipment, and a stock of imported fabrics, can add considerable value to the custom tailoring market in India, under the sponsorship of premium international brands. This concept is already highly successful in Hong Kong, which offers a 24 hour delivery anywhere in the world, and is popular with tourist visitors to the island.

Leather and Leather Goods

Endowed with the largest cattle population in any country of the world and cheap and abundant manpower, India has comparative advantage in the production of leather and leather goods, and is among the top four producers of finished leather in the world.

The leather goods sector presently has a value of US$ 3.69 billion, of which domestic market accounts for over US$ 2.17billion. The industry has grown at 6% annually during the 1990's. There are more than 1000 tanneries, mostly in form of small scale units, processing close to 1.7 billion sq.ft of skins. India's product range covers: finished leather, footwear and footwear components, garments for ladies and gents, handbags for ladies and gents, wallets diaries and cardholders, gloves and fashion accessories, tableware, upholstery for houses and offices. Footwear and footwear components are the largest product group.

Production clusters have been distributed all over India and tend to be product specific. Tanned leather production is concentrated in a few pockets: more than 80% originates in the state of Tamil Nadu, and the rest comes from belts in Uttar Pradesh in north India. The south is the major producer and exporter of leather goods overall. However, leather accessories are dominated by eastern parts of India, while foot wear exporters are spread over west and south India and leather garment producers are concentrated in the north and south India.

While footwear production is undertaken both in large and small scale sectors, leather garments and other products are mainly concentrated in the small-scale sector. Total production of finished leather skins during 1999-00 was 44954 thousand pieces as against 51392 thousand pieces in 1998-99. The total leather footwear production was estimated at 202.4 mn pairs in 1998-99 and 152.1 mn pairs in 1999-00.

Exports of leather and products touched US$1.39 billion during 1999-00. However, exports realize low values per unit, due to low investment and substandard technology being used in India in general. As a consequence, India's share in the global market remains at a low of 2.5%, and in fact is showing declining trends. India is making serious attempts at changing from a raw material exporter to an exporter of more sophisticated and value added products. The results are visible: export of finished leather has remained stagnant at around US$43.4mn. The export of leather goods and garments also remained constant at around US$ 16.69mn. *However, s*addlery, footwear and components have, shown a massive rise in exports*, and accounted for 80% of India's* US$ 1.39 *bn export revenues*. Saddlery exports jumped from US$ 13.04 mn in 1994-95 to US$ 31.0mn in 1998-99, and leather footwear and components from US$ 25.6mn to US$ 0.08 mn.

Government intervention in the sector is altering the industry's structure substantially. Export of raw hides and semi-finished leather is banned, in order to export higher value-added products, which has seen market shares going to competitors like Pakistan, China and Bangladesh in the global markets. On the other hand, import of hides and semi-finished leather has been opened up in 1999, in order to assist processors and manufacturers to source internationally. Further, foreign investment has been liberalised in the sector in several product groups. As a strict environmental policy, polluting tanning units have been closed down in several areas and relocated or asked to set up effluent treatment facilities.

Given the freer entry on one hand, by the large and expanding domestic demand and, on the other, by the opportunity of locating low cost production for the international market with easy access of raw material, foreign companies are getting increasingly interested in the Indian leather industry, especially in the footwear and garments segment. Over 100 joint ventures have been registered during the post liberalization era.

The domestic market for leather goods consists mainly of footwear, leather accessories, but not for leather garments or upholstery given the climatic conditions. While the footwear segment has the presence of several established brands, there are no large brands in the other products. In fact, retail outlets tend to source wares from export production surpluses, seconds or rejections, which detracts from the premium image of branded products. Production data is not collected at the product level, given the enormous dispersion of the industry, and there are no reliable estimates other than the leather consumption trends in each category.

Further, there is rampancy of brand piracy in the sector, and it is usual to find Indian products stamped with the logos and trademarks of famous international brands like Cartier, Gucci, YSL, Louis Vuitton, etc. The lack of suitable enforcement machinery to check such practices, as well as the limited Indian awareness of these brands and their origins in India, has even created impressions that these are Indian brands! Important brands are now taking precautions to advertise their products through media to create awareness, to register their marks as well as to take steps to enforce legal action under the amended Indian trademarks and copyright legislations, which are closer to international legislations.

The future prospects of premium, imported brands would depend on availability in the target market, and determined purely by fashion appeal, excusive/ premium status and aspiration or celebrity endorsement value attached with the brands. Italy has a high brand image in leather fashion goods, and could be expected to be a serious contender in the upmarket leather goods industry, even though in volume terms, such markets are unlikely to be large. Visibility in upmarket retail boutiques and exclusive stores is considered an important aspect of purchase experience in statement and higher-value products.

Footwear

India's total footwear market is estimated at 550 million pairs, of which 450 million pairs are in the form of casual footwear, such as ethnic footwear, rubber and leather slippers, sandals etc, but not boots and shoes. Leather footwear has a sizeable share, and production is estimated to be at 200 million pairs, including for exports. The footwear market is expected to grow at 8-10%, based on recent trends. In value terms, the sector represents a market of US$ 2.17 billion, of which exports account for approximately 35%.

Until recently, a major part of the demand was met by the unorganized, informal, small sector. Branded shoes, produced by large Indian producers, multinationals producing in India and imports, account for only less than 20% of the entire market. The branded footwear market is estimated to be 100 million pairs, made up of 5 million pairs of sports and athletic shoes and nearly 95 million pairs of shoes and boots. The segment is dominated by men's footwear, and there are not more than three women's brands known nationally.

Women's footwear purchases are mostly in the casual footwear market, ruled by unbranded goods. Formal footwear expenditure (in 1997) by the upper segment of urban women (2.8 million households in the SECA/B class) was estimated to be less than US$ 8.69mn, which is less than 1% of the total market size. However, ladies brands in footwear are now on the rise, with several new players focusing on the formal dress needs of the workingwomen

The largest players in footwear are Liberty Shoes, an Indian brand that has performed exceedingly well in shoes with leather as well as non-leather soles, and Bata, the international brand present in India for close to 100 years, which has a 24% market share. Liberty, with a production of 10.5 million pairs, claims to enjoy a market share of 36% in the leather footwear segment and 22 % in the non-leather sole segment. Exports constitute 30% of Liberty's sales. Both Bata and Liberty have launched international brands in India through tie-ups: Bata with Hush Puppies, Liberty with Burberry's.

An interesting feature of the market is the presence of several international players in the informal and sport shoes segment, which has a total market of only 5 million pairs. The major MNC players are

Reebok, Adidas and Nike. Italian brands **Lotto** and **Fila** have franchise tie-ups in India, although the brand is not aggressively promoted.

Reebok, with a premium positioning, sells 0.2 million pairs in the domestic market in 1999, posted breakeven revenues of US$ 15.21million, and is adding a chain of sport goods and fitness stores to complement its premium Rockport brand.

Adidas is aiming to become the leader in the sports footwear and sports wear market, which is estimated to be at US$ 217.3million. The company uses the manufacturing set up of an Indian company, Lakhani, to manufacture the Adidas range in India. Nike Shoes purchases its products from a contract supplier, and sells through select Bata showrooms and a few departmental stores. Other international brands like Woodland, Lumberjack and even Bally have set up shop in India with production or assembly facilities.

Sport shoes have a high import content of more than 80%. With the open policy on export-linked imports, footwear companies are able to source components internationally and manufacture shoes with competitive Indian labour.

Italy's premium image comes from high-priced leather footwear, which is less than 2% of the branded footwear market. With imports freely allowed in the sector, Italy's prospects will depend on the competitive sourcing of products from international markets, and developing a dedicated retail network for its premium brands, like the Bally Shoes example is demonstrating.

Gems and Jewellery

Gems and jewellery are a deep-rooted social passion in India, and hold importance among Indians for investment as well as adornment purposes. India is the largest consumer of gold in the world for gold, and is also the biggest exporter of cut and polished gemstones, accounting for 26 million carats, which is 90% of volume and 50% of value of the international diamond market.

The total industrial production of gems and jewellery is estimated to be US$ 15.21billion, of which the domestic market is worth US$ 8.69 billion, mainly in form of plain gold jewellery products. Exports of gems and jewellery stood at US$ 6.52 billion ($7.0bn) in 1999-00, of which stones accounted for close to $5.8 bn, and jewellery studded with diamonds and precious stones (like rubies, pearls and emeralds), $ 1.2 billion.

However, India does not have domestic production of gold, and imports all its gold requirements. As a result, the net value addition in the sector is lower than in other gold producing markets. Indian prices have always been higher than international gold prices by about 15-20%, due to import restrictions and resultant smuggling. However, demand for gold in India has increased rapidly from 400 tonnes in 1993 to 815 tonnes in 1998, after the government liberalised gold import as personal baggage of non-resident Indians, and brought duties to a low 5.5%. A unique characteristic of the Indian market is that demand is primarily for 22carat gold, unlike the 9,14 and 18-carat alloy used in other countries. Two important reasons exist for such preference: Indian jewellery designs tend to be intricate and use more malleable alloy compositions; and recycling of old ornaments is very usual in India, both for consumption as well as for personal borrowings, where pure metal content determines the value.

The dominant consumers of jewellery are women 25-45 years old. Men buy smaller value items, such as rings, chains, tiepins, frequently as gifts, while women are the big and frequent buyers. Gold is a major expenditure at Indian weddings, as it connotes a woman's personal wealth. Interestingly, the rural areas account for 65% of gold purchases, reflecting the deep-rooted tradition associated with the metal.

Jewellery being a reflection of traditional family wealth, relationship with jewellers is based on personal and family trust and runs through generations. As a result, India has about 200,000 jewellers and at least 500,000 jewellery craftsmen. Family jewellers are also important when pawning or selling possessions in hard times. This unique personalised relationship has been a very strong barrier to the arrival of the impersonal, branded jewellery segment in India.

However, changes in mind set, falling returns from gold as an investment, and availability of other secure investment avenues, and changes in personal tastes, have been subtly directing the Indian market towards branded jewellery as pure luxury possessions and less as investments. There is a visible transition from investment to adornment jewellery in the urban markets.

There is an increasing propensity to wear less of gold jewellery among the educated middle-income women, particularly the workingwomen. This has led to a trend increase in recycling – with heavy jewellery (bought as investments) traded in for modern, lightweight and more articles. Guarantee of metal purity and return/exchange programmes are more important than before to the emerging customer for adornment jewellery. India has now introduced hallmarking of gold jewellery as well as independent analytical laboratories to test gold purity, which address some of these concerns and create a commercial base for exchange of gold.

Yet, after seven years of introduction, the branded jewellery market currently stands at US$ 217.3 million, less than 3% in a US$ 8.7 billion large market. The market leaders are reputed Indian companies (Titan Industries, Su-Raj Jewellery, MMTC, Parekh Platinum, Tribhovandas Bhimji Zaveri, and a few others) who are still in the stages of building customer loyalty and a nation-wide brand image. Entry of branded jewellery has also brought in a gradual acceptance of 18-carat and lower purity alloys, which are required for studded jewellery. Meanwhile, the market is getting aggressively targeted for promotion by international diamond companies especially de Beers, to promote the precious diamond jewellery among the masses. Of late, platinum too is being promoted as an alternative to gold, and in a bid to establish its base in the country, London based Platinum Guild International, has commissioned two leading Indian gem and jewellery exporters, to manufacture and distribute platinum jewellery in India. Platinum jewellery is targeted to the premium consumer segment and is bound to appeal the established jewellery buyers who have accumulated their own collection of gold and silver jewellery and are now looking at something different.

Italy is famous for its jewellery designs and craftsmanship. With the low import duties on gold, opportunities exist for launching a range of branded jewellery products in India. However, care must be taken that the Indian consumer shall not pay high making charges, being accustomed to the customised services from the Indian jeweller. Therefore, products with some Indian labour content have more potential to be competitive, even if they are marketed by international brands. That is the lesson deBeers and PGI seem to be learning as they open niches for their expensive products in the Indian market.

Sunglasses & spectacles

India has had a steadily growing market for eyeglasses, but met essentially from low-end domestic products. The total market is estimated at around 7mn pairs, with no clear pointers to market value, and is growing at 10%. Vision-correcting or prescription glasses account for 15%, while sunglasses hold the remaining 85% of the market. Besides frames, there is a similar market for glass and plastic lenses, including contact lenses. However, dusty climatic conditions make contact lenses a very small segment of the Indian market.

The frames market is largely unorganized, with only 5% share of the organized segment. Spectacle frames were reserved for manufacture in small-scale units, which could only turn out basic, low-end products, devoid of modern production methods and technology. Also, India has always been import dependent in the eyeglasses sector, for hinges, ophthalmic lenses as well as for acetate frames, as these products could not be economically made in India based on internal demand alone. However, multinational brands, especially Corning, Ciba Vision, Bausch & Lomb, and Johnson & Johnson dominate the ophthalmic lenses and cleaner products segment.

The credit for enlivening the Indian market must go to the global player, Bausch & Lomb, the producer of the global brand, Ray Ban, though at great cost to the company. For several years, Bausch & Lomb was the only large player in the industry, and had to contend with spurious as well as parallel imports in the grey market for its world-famous Ray Ban sunglasses. The company made substantial losses for several years before breaking even in 2000. However, the company has recently been taken over by the Italian **Luxottica** group, which has a major product line up of its own besides the Ray Ban range. Import of spectacle frames was liberalised in 1998, as part of India's market access commitments, which turned the tables for the spectacles market. Leading brands from all over the world are now available in the major cities, and occupy the premium end of the price spectrum. Besides plastic frames, platinum and gold frames, in a wide range of styles are now available in India. Leading brands are Ray Ban, Play Boy, Hugo Boss, Vienna Line, Christian Dior, YSL, Mona Lisa, Killer Loop, Lacoste, **Police** and Mont Blanc, besides other umbrella brands from leading jewellers and personal product brands such as Cartier, Nina Ricci, etc. Retail prices for imported goods are in the range of US$ 65.2to 174, and upto Rs US$ 652.2 for the very high end products.

Import prospects are already interesting for the large international brands, even though their target- the premium market- is small in volume. However, the overall market growth augurs well for all players in what is an essential product. Medium sized Italian brands for eyeglasses will also find the Indian market opportunity attractive in the second-tier markets outside the large metro cities, although they will be volume markets.

Cosmetics

During the past ten years, the Indian cosmetics sector has been dominated by global brands, through captive production, branding and contact production, or even imports. The sector has a **market value of US$ 435million,** of which US$ 0.27 billion is in the hands of the organised sector. Assisted by a reduction in excise duties from 100% to now 24%, the sector has been growing at an average 15% annually.

Consumption tends to be largely urban, and more among adult women, thought the teenager is becoming a sought-after age group to expand the category. Rural markets are becoming interesting markets for talcum powder, fairness and hair care products, besides products made from non-synthetic active ingredients.

The product range available in India includes: hair care- shampoos, conditioners and colorants; skin care- fairness creams, moisturisers, general-purpose lotions and astringents; other products including eye-make-up, lip care, and nail enamel. There are traditional Indian products especially hair oils and pastes, which account for a sizeable market as well. The introduction of herbal segment is relatively new segment. It is estimated to have logged a turnover over US$ 87mn.

Talcum powder, fairness creams, shampoo and hair oil are the largest product groups in India, together making up more than 85%of the sector's value. Talcum powder is the leading segment by volume with a demand of 20,000 tonnes, led by rural markets. Pond's, a division of Lever, is the dominant producer with a 50% market share.

Fairness creams (complexion being a major social concern in India) represent a sizeable market, estimated at US$ 97.8mn; with general purpose beauty creams bringing an additional US$ 32.6mn. Fair & Lovely, a Lever brand, alone has a share of 50%, the other major players being Lakme, Pond's (both Lever brands again), Nivea, Oriflame and Coty.

The total hair care market is estimated to be US$ 543.4million, comprised by shampoos and hair oil, of which the branded hair care market is worth US$ 260million (as the hair oil market has a large unbranded segment). The market for shampoos is placed at US$ 87million, aggressively contested by Lever, Colgate Palmolive and P&G, besides several Indian brands.

The colour cosmetics market is estimated to be US$ 26mn of which 5% constitutes premium segment with the price tags of above US$ 1.63per piece. Revlon has a market share of 80% in the premium market. Lakme is the overall market leader in the colour cosmetic segment (lip care and nail enamel) with a wide range of products and prices, both.

Other international brands in the sector include L'Oreal, Revlon, Maybelline, Benckiser and Avon with a major part of the rest, some of them engaged in the multi-level-marketing model for their products.

The most important global players are already in India (except perhaps Estee Lauder, Mary Ann Kay , Kao and Body Shop) and are in an advanced stage of market development. They are already exploiting prospects based on imports of active ingredients, packaging and completely built products. In that regard, new entrants have to contend with serious competition in India from local as well as global players.

Brand image and high degree of consumer acceptability need to be established in the personal products sector, and call for heavy promotional investments in awareness building, besides tie-ups with good FMCG companies to leverage their distribution strengths. The growth of direct marketing as an alternative channel without incurring high promotional and developmental costs needs to be evaluated by new entrants in the sector, in order to formulate the most appropriate market development strategy for their products.

Section III Analysis of Trade Barriers beyond April 2001

In numerical terms, India will have removed quantitative restrictions retained on Balance of Payments grounds on all its tariff lines with effect from April 2001, as committed to the WTO. However, the absence of **quantitative restrictions is not an automatic guarantee** of the free flow of goods across borders.

The following factors influence the actual state of border protection in the consumer goods sector:

Tariff barriers

India has the potential to impose high import tariffs, both in form of normal tariffs as well as import safeguard measures, while still remaining within its overall commitment made at the Uruguay Round.

Tariff Bindings: At the Uruguay Round, India committed to ceiling tariffs on more than 6600 of its 11000 tariff line items, offering five different levels of bound rates: 0%, 25%, 40%, 150% and 300%. **The remaining 3400-odd items, which included all the 2700 items on which India retained QRs on BoP grounds, were left unbound.** These items include a large number of consumer goods that are the subject of interest to this study. For instance, several food products, alcoholic beverages and spirits, textile fabrics, automobiles including two-wheelers, personal products, jewellery and accessories, etc. are still unbound, and India can technically impose any level of import tariffs on these items without violating its Uruguay Round commitments.

There is also popular misconception that bound tariffs are 40% for all items. While it is true that the majority of items have a bound rate of 40%, several items have higher bound rates (100%, 150%, and 300%). For instance, edible oils (India's third largest import item) are bound at 300%, rice, wheat and other coarse cereals are bound at 100%, etc.

Therefore, while quantitative restrictions will undoubtedly be removed completely by April 2001, the import potential will be subtly manoeuvred by judicious use of the wide leeway available under the commitments, resulting in unattractively high tariffs on unbound items as well as on items bound at higher rates.

Import Safeguards: Import safeguards are allowed to be used in the form of countervailing duties to protect import surges in any products after allowing market access opportunities as per the WTO agreements. Safeguard duties may be imposed when the levels of import in any tariff class exceed 125% in a period of three years from the removal of quantitative restrictions. Given that the absolute levels of imports in several categories were negligible (technically they should have been 'nil'), it is easy to impose safeguard duties based on the three-year percentage increase even if the absolute levels of import are still insignificant to affect the domestic market. Safeguard duties are allowed upto 33% of the basic tariff, and can therefore represent a 10% tariff increase even if applied at the popular bound rate of 35%.

Similarly, anti-dumping duties may be imposed in cases where dumping of imported goods takes place and causes injury to domestic industry. Antidumping investigations can be launched when dumping volumes from any country exceed 3% of the domestic market and when the dumping margins exceed 2% of the equivalent domestic market price.

Available experience in India **indicates that several cases of dumping are not instances of actual dumping**, **but actually resulting from under-invoicing** by exporters at the behest of importers (to save on import duties). When invoice prices are below the actual receipts, exporters become an unwitting target for antidumping investigations by the domestic industry, while importers gain market shares from lower landed prices.

Technical barriers

Import restrictions on certain goods/ origins are justifiable on grounds of technical standards, health, hygiene and safety, national security, public morals, and several specific grounds as stated in Article XXII of the GATT 1994.

The recent experience in food product imports reveals the existence of several important trade barriers which are beyond the quantitative restrictions dimension itself, and that imports are still far from their potential in the absence of adequate solutions to these 'technical barriers'.

From Italy's point of view, several important products (olive oil, wines and spirits, and several categories of pre-packaged food products), still face import barriers in the form of food safety regulations that presently prohibit ingredients popularly used in Europe, local regulations on distribution that tend to be discriminatory to some products, and discriminatory tariffs in relation to equivalent products made from other materials, and used in similar applications.

A few specific examples are mentioned below.

Alcoholic beverages: India's constitution allocates the subject of alcohol to both national and local state policy legislations, which has created a complex industrial and trade structure in the domestic market. While some states (Haryana and Andhra Pradesh) periodically imposed prohibition (bottling or trade or consumption of alcohol is banned in the state), states like Delhi reserve the distribution of alcohol exclusively to the Delhi State Industrial Supplies Corporation (DSIDC), a state government agency.

Likewise, the canteen stores of Indian defence services (CSD), supplies to which are exempt from excise and sales tax duties, have their own independent purchase systems, not governed by local government regulations.

Recent experience with other foreign alcohol brands (whisky especially) has revealed new barriers in India: the exclusive agencies like DSIDC and the CSD have their own criteria for the inclusion of brands for distribution in India. Because the overt advertisement of liquor is banned in India in all media, the popularity of international brands is indeterminate except from the estimation of global sales of various brands. As a result, selection criteria of labels have been based on the number of bottles sold in the world market. This poses special restrictions to exclusive and premium products, which may have low volumes but are well known in India. In a category like wine, the selection based on volumes is perhaps, illogical, given the large number of labels from even the same producer region. Allocations based on volume sales of each label would lead to poor availability of several brands in India and take away the advantage of retail completely. As of now, there are no clear pointers to the policies of such states where alcohol distribution is in government hands.

As a further blow to imports, India has recently announced a system of variable additional duties (150%, 100% and 75% slabs based on the CIF value) on imported liquor, in addition to the already staggering import tariff of 224%. As a result, the final import tariffs shall be: 710% for goods with a CIF value upto US$ 20 per case (basis 9 litres), 549% for goods with a CIF value above US$ 20 upto US$ 40 per case, and 467% for goods with a CIF value above US$ 40 per case. A 750 ml bottle of Johnnie Walker Black Label (duty free value US$ 22) is expected to retail in India at US$ 125, crippling market potential for all premium brands.

Food safety regulations: The prescriptive nature of food safety laws in India and the absence of harmonisation with the standard international regulations (Codex Alimentaris) pose technical barriers on the use of several ingredients and food additives that are widely in use internationally, and have been adopted after extensive product research and trials.

The heart of the imbroglio is that while food production is under the realm of the Ministry of Food Processing, food safety is under the purview of the Ministry of Health, of which food regulations are only a small part. The two departments have tended to function independent of each other in the past, with the result that several processed food products based on internationally accepted ingredients are considered 'non-conforming' to India's food regulations, without any reference to the principle of equivalence with international standards. Moreover, India's food regulations, meant for domestic processing units, could not be applied to imported food products when the latter were allowed market access progressively since 1997.

As a result, there is ambiguity over the applicability of health regulations in respect of food products. For the present, domestic manufacturers are at a disadvantage, as they are unable to use internationally accepted ingredients in their Indian products, whereas packed imported foods encounter only tariff barriers for entering the Indian home market.

A few examples of India's anachronism in food regulations are listed below.
Food colours: Indian regulations prohibit the use of several artificial food colours in products like wafers and potato chips, which prevents even global leaders like Frito Lay in introducing their standard international flavours in India. On the other hand, there are no natural colours for some of these products to make an Indian equivalent even possible.

Artificial sweeteners: There are no clear specifications as to the use of sugar substitutes as sweetening agents in chocolate, sweets, confectionery, and even aerated beverages. As a result, even the Diet Coke and Diet Pepsi have more than 50 calories (due to a minimum sugar percentage) in India. Special formulations for diabetic persons are therefore not presently possible in India.

Milk fats: The Indian definition of ice cream necessitates the presence of at least 9% milk fats in the product, which prevented several internationally popular flavours based on vegetable fats, which are non-melting and enable better keeping quality under Indian climatic conditions. While the definition of milk ice cream still remains as earlier, the vegetable fat based products are allowed to be classified as 'frozen desserts', after lobbying by important multinational brands like Walls.

Several of these anomalies are now being addressed by India's Food Standards Committee and are the subject of consultations at the Codex Alimentaris Commission at FAO, Rome. It is expected that several discrepancies in product specifications and prescriptions will be resolved through the principles of equivalence of technical standards of other WTO member countries.

Labelling regulations: A new type of barrier is emerging in the form of labelling regulations on all imported packed consumer products entering India. According to initial reports, the packaging on imported foods must include certain mandatory information such as the import agent's details, expiry and 'best before' dates, besides the Indian retail price of the product, all printed integrally on the package. At present, the mandatory price information is labelled separately and stuck on the package after arrival in India, which can also create spurious information to be disseminated by traders. The regulations for integral printing necessitate India-specific packaging in the manufacturing process, which is unviable for small volume imports. This protects domestic manufacturers to an extent as imported brands still struggle to build up meaningful market shares in India.

The flexibility to increase border tariffs to deterrent levels, as well as the imposition of packing and labelling regulations continue to be major bottlenecks in the Indian consumer goods industry for the time being, and are expected to continue until there is sufficient industrial growth in the economy and a healthy balance of trade at large. However, the Indian consumers will have the opportunity to exercise their preferences over an increasing range of imported products, which will set new levels of expectations in the domestic market.

Labelling regulations in their present form are a strong trade barrier, given that an overseas manufacturer will have to print Indian retail prices on packaged goods to be sold in India. In most products, given the manufacturing processes, such integral printing can be done only at the place of manufacture and not at any trading or warehousing location. This restricts brands from serving the Indian market from stocks that are common to the region as a whole, and calls for India specific manufacturing programmes at the plants, which may or may not even be in Asia. In other words, the labelling regulations deter supplies from trading markets like Singapore or Dubai, which may be efficient distribution centres for Asia as a whole.

Further, given the rather frequent changes in customs tariff and regulations (which will only increase with the activation of import safeguards in the future), the Indian retail prices on packaged goods may not reflect the latest prices and the incidence of any changes in customs duties, unless a huge cushion is built in the MRP values. Building an artificially high MRP to take into account any upward revisions in import duties is impractical, as excise duties in several consumption goods are based on MRP and not ex-factory values.

Labelling regulations in their present form are expected to create market confusions and uncertainty, and need to be made more reasonable and practical. To that extent they will remain trade barriers, unless amended to address practical issues involved in cross border transactions.

Investment Barriers:
On another front, the present foreign investment regulations restrict the entry of foreign companies in retail trading activities, and also prohibit investment in commercial real estate not linked to any manufacturing activities in India.

While India’s investment regulations allow foreign investment in several sectors, upto certain sector-specific ceilings (24%, 49%, 51%, 74% etc), prior approval is required in some activities, including retail and third party trading activities in the Indian market. The stated policy of the Indian government with regard to trading activities for the domestic market in India is as follows:

- Foreign investment upto 100% is permissible in trading companies for exports, bulk imports with export/expanded warehouse sales, cash and carry wholesale trading, or imports where at least 75% is for procurement and sale among companies of the same group and not for third part se or onward transfer/distribution/sales;
- Foreign investment is also permissible subject to the provisions of the export-import policy, in companies providing after sales service (not trading per se), domestic wholesale trading of products manufactured by their joint ventures in India, trading of high tech, medical and diagnostic items, items requiring specialised after-sales service, trading of items sourced from small scale units, based on technology transfer and marketing under the trading company's own brand name, and test marketing of products for which a manufacturing approval is in place, provided investment in manufacturing commences simultaneously.

From the above, it is clear that the regulations do not generally allow integrated trading consisting of imports from group affiliates, placing them on captive retail outlets, supermarkets and other retail forms, selling direct to consumers. This compels foreign brands to sell and distribute imported goods through an independent import network, but not directly engage in retail or third party trading, which poses specific restrictions on foreign players in bringing directly into India, even those products which are allowed market access under the import export policy.

While such regulations may seek to protect Indian traders and distributors' interests in building relationships with foreign brands, there are several practical difficulties in such an environment, as already being experienced by several international players:

- Direct imports by parallel channels create problems in pricing, display standards and retail service practices
- After sales service standards are difficult to be implemented uniformly, given an unofficial import channel without the involvement of the brands themselves
- Spurious imports take place in certain categories and potentially erode brand image in India

These investment regulations are prima facie discriminatory under the 'national treatment' clause Article 3 of GATT, as they restrict even subsidiaries – which are Indian entities legally- from importing goods that are allowed into India without any non tariff barriers to other Indian entities.

Therefore, the dismantling of QRs is at best a partial step by India towards market access liberalisation in consumer goods of interest to the study. Actual market opportunities in the shirt term will continue to be weighed down by high import tariffs as well as restrictions to the establishment of retail trading initiatives by foreign business enterprises to promote their own foreign brands in India.

Section IV   The way ahead: overview of strategic imperatives before Italy

While Indian lobbyists would like to refer to liberalisation as 'opening the floodgates', rational analysis of the market access opportunities beyond April 2001 indicates that Italy merely stares at a 'window of opportunity', as far as the consumer goods sector is concerned.

State of external trade

The current state of market access is insignificant indeed:

- The Indian market is estimated to be **close to US$ 27 billion,** for goods of interest to this study
- Import trade in products of interest, from five selected countries (Italy, USA, UK, France, and Germany) was less than US$ 3 billion in 1999, though in relative terms, there has been a 100% rise in three years;
- In 1999, imports had a 33% share of the market value (including imports for exports);
- However, excluding gold and jewellery, imports are negligible, accounting for less than 3% of the Indian market potential value, (see ANNEXE A);
- In all the groups of interest, India has a positive trade balance with Italy as well as other comparable trade destinations, the US, France and Germany; UK is the sole exception
- Foreign direct investment in the categories of interest, at US$ 410 mn (approval values from 1991until Sept 2000), pales in comparison with the global stature of investing countries in these sectors.

Market Characteristics

Despite the large head count, penetration of several lifestyle goods remains rather low in India, in comparison with developed markets.

- The consuming base is less than 50 million homes, or close to 250 million persons
- In absolute terms, disposable incomes in India are considerably lower than developed markets, and at best present demand for basic lifestyle products only;
- Only million Indian homes, representing the uppermost crust of affluent Indians have buying power comparable to affluent consumers in other markets, which is narrow base for world-renowned, upmarket lifestyle goods
- Socio-cultural aspects significantly limit mass consumption of European food and drink products, even though food habits in large cities are becoming more cosmopolitan and eclectic
- Affordability, more than any other factor, will drive the consumption of imported goods even as market access conditions are liberalised

Positioning 'Made in Italy' products

Italy has a premium image and is well perceived for its innovative design, aesthetic appeal and quality of workmanship in a wide range of products- textiles and apparel, leather goods, jewellery, personal accessories and even food products, that are of interest to this study. Perforce, Italian imported goods will have an upmarket positioning in the Indian market. However, the premium image itself need not translate into large-scale business, and it is in Italy's interest to be present in a wide range of products that are seen to be affordable and not merely aspirational and out-of-reach. Indeed, this has been the lesson even for brands that have invested in manufacturing facilities in areas like furniture, textiles and leather.

Therefore, major brands must also consider their initial presence in India through products that may be highly relevant to the Indian market, but considered downmarket in their home markets. In other words, building a relationship with the brand through affordable products, then upgrading to higher-end products appears to be a successful business approach in India. The success of this formula has been established in several consumer durables including cars, personal care products, and home goods including furniture. At the same time, outright premium positions in basic goods like apparel have been challenged seriously (Osh Kosh B'Gosh, Little Kingdom etc), while **mass-premium** positions have been amply successful (Ikea, Benetton and Givo).

Therefore, while Italian brands would attempt to highlight and showcase their best products in India, in the initial stages, they must take care to reinforce Italy's superior quality through basic, entry-level products that are affordable by the mainstream Indian market. Such an approach must also necessitate possibilities for franchising some part of the value addition in India itself, in order to achieve the right price-positions for the Indian market.

Indian buying habits in branded furniture and high fashion accessories reveal interesting examples of this kind of reinforcement. For instance, several furniture showrooms that stock a range of imported Italian and other origin furniture, find that majority of buyers pick up individual items- escritoire, armchairs, special peg tables, etc., rather than a full living room set. This example emphasises the discerning homebuyer's aspiration to associate with premium best brands, although the value of the association may not be very high.

At the same time, the major demand for upmarket products is emerging from the business/commercial and corporate market, where spending power tends to be higher and where statement value is undeniably more important. This market is also increasingly driven by the multinational and foreign owned businesses that are establishing commercial presence in India.

From another perspective, intermediate goods in all the sectors- textile fabrics, accessories, culinary ingredients and even semi prepared food products- offer considerable potential for the development of mass franchise businesses that add local value, labour and enterprise in last-mile operations, while retaining the core of the products in the form of intermediates imported from Italy. This will support trade opportunities for not only fully integrated players, but also to the business-to-business supply trade in Italy, which is the backbone in several of these sectors.

Distribution and Retail Challenges

While the trade policy provides for the import of goods by all entities in India, the present investment policies generally restrict foreign investment in trading activities, and do not provide scope for the creation of captive retail environments for foreign brands. This poses the following challenges:

- Foreign brands that do not have any manufacturing activities must depend on Indian agencies to import and distribute imported goods on their behalf;
- Trade channels are often unable to invest adequately in creating high quality retail premises and interior ambience that are characteristic of several lifestyle goods; and
- Brands are sometimes compelled to operate under open credit/ consignment terms, which are laden with payment risks

While such regulations generally prevent foreign investment in trading activities, they allow foreign investment in after sales service, trading of high-tech items and items requiring specialised after-sales service. Several consumer products companies have accordingly, set up authorised service outlets and provide after-sales support to their brands imported by official importers.

In this regard, until investment regulations change substantially, Italian companies must ensure that their distribution arrangements in India are foolproof and do not jeopardise their business interests in India adversely. It is important to note that the tardy legal process does not provide much succour for restitution in case of trade disputes between agents and principals, and hence, adequate safeguards must be incorporated into any marketing arrangements with third parties.

Special problems often require special solutions. The imbroglio in trading activities can be attempted to be resolved through a few innovative business structures, which are permissible under the present policy. Some such structures are outlined below.

1. **Bonded/ Expanded warehouse sales:** The investment policy allows even upto 100% foreign investment in bonded warehouse/ expanded warehouse activities, which display and stock imported goods against execution of a customs bond (involving part payment of duties), and can sell the goods ex-warehouse to buyers on payment of the listed prices and applicable duties.

This concept may well be used in high value goods such as furniture, special food products and home appliances, and can provide for display/ sow casing as well as for receiving trade enquiries. Given that the major markets are the few large cities, locating such single-outlet projects in four or five cities would assure sufficient coverage of the target markets. Such projects need not be captive, and can be collaborative in nature, with several enterprises joining in the effort to create an umbrella network of Italian goods identified to have interesting market potential in India.

2. **Franchise outlets:** Where direct trading is not allowed, there are no restrictions in the establishment of franchise models, based on a centralised logistics and supply chain created by the brand, and the frontline selling carried out by authorised franchise outlets. Such a concept is likely to succeed in products that also involve customisation or installation-related services at the retail outlets. A few important examples of such a concept are: building products- tiles, ceramic ware, hardware fittings, etc; specialised custom tailoring, outfitting services for draperies, blinds, and upholstery; and fresh bakery/ pasta products, all of which have considerable potential for Italian companies to work with the franchise model in India. The supply end of all imported products for such enterprises can be even dovetailed with the warehouse-sales model described above.

Most promising areas

From among all the sectors covered in this study, the best prospects for establishing the 'Made in Italy' brand appear to be in the following segments:

- High quality textile and apparel materials and accessories, besides made-up apparel articles;
- Premium/ designer furniture including modular RTA furniture for office and corporate market;
- Furniture elements and building materials for urban homes, emphasising affordable luxury;
- Bakery and pasta products, specialised food preparations, ingredients and culinary products;
- High-fashion goods including leather goods, branded mass-market jewellery, other branded personal articles, with a mix of downmarket and upmarket brands (by Italian standards); and
- Wine and alcoholic products/ spirits (in comparison to other countries of origin)

The success of Italian brands in these segments will necessitate a delicate balance between the aspiration appeal of the Italian quality/image and the tempting near-affordability of some of these products by the Indian urban middle class consumers. In other words, the predominant image must be that of products that offer superior value for money than available Indian products, but are just a little –out- of- reach, and hence become a compulsion to upgrade, at the earliest…

Negotiation Initiatives

To enable a higher level of market access opportunities for Italian goods, perhaps the most important step required is preparations for the next round of trade negotiations, and taking up specific issues at India's biennial Trade Policy Review (due in 2002).

Analysis of India's offers at Uruguay indicates that no serious market access opportunity has been created till date. The acid test of market policies is the resultant effect on trade flows. The current position in consumer goods- with imports accounting for less than 1% of domestic market potential- reflect the continuance of market access barriers, beyond the QR phase out schedules themselves. India's commitments under the Uruguay Round will be over in 2004, and the next round of commitments should be evaluated critically to check whether market access opportunities actually exist and whether there is still sufficient leeway to check and deter imports of products arbitrarily under a multitude of investment and trade regulations that discriminate between trading entities on lines of nationality.

Important lessons can be learnt from the Uruguay Round, as to negotiating with India. In future negotiations at the WTO, the following points must be strongly emphasised, in order that trade policies become more than 'intent' buried under the conundrum of agreement texts, and actually result in concrete business:

- New binding rates must be determined for all tariff lines, and bindings must refer to the total incidence of duties and not just basic duties;
- India's actual state of market access regulations must be benchmarked with other developing Asian markets: Indian tariffs are thrice the average East Asian levels and must be brought in line with average levels prevailing in the region;
- National treatment under GATT Article 3 must be made available for enterprises from all WTO member countries to carry trading activities **at least for their proprietary branded goods**;
- For all items that were earlier prohibited or restricted and therefore not having any import history prior to 2001, there must be an exemption/ moratorium of three-five years from actionability under import safeguard duties, especially upto a minimum threshold value (say US$5 million) of imports; and
- While considering dumping and other safeguard measures, the representation of consumer and public interests must also be given due weightage besides domestic industry's interest (European dumping regulations take a comprehensive view including public interest); at present, injury investigations are based only on the representations by domestic producers and not their end users/ consumer segments, which may have an opposite view on the same issues.

About Ace Global

A young consulting firm set up by professionals with outstanding academic record and rich business/professional experience, Ace Global is staunchly committed to protecting the business interests of foreign investors and expatriates in India.

Ace Global serves foreign investors, besides Govt. agencies and industry/ trade associations, through its following practice areas:

- Market Entry Programmes
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- Trouble shooting assistance

Among others, several well-known Italian companies have used the firm's services covering one or more of the above areas.

We wish businesspersons and investors from Italy success in their business endeavours, including their dealings with India.

S.V.Divvaakar
Managing Director

For further details on our service capabilities, please contact: the appropriate member of our team:

S.V.Divvaakar	Business Development Strategy
Parveen Mehta	Corporate/Legal Services
Pankaj Agrawal	Market Information Services
S.P.Joshi	Marketing Solutions
Sandeep Gupta	Taxation and Statutory Compliance

Ace Global Private Limited

C-159, East of Kailash, New Delhi 110 065 India
Tel: + 91 11 631 4806, 631 6459, 631 6579
Fax: + 91 11 631 4988, 683 6838
e-mail: aceglobal@vsnl.com website: www.aceglobalonline.com