India's food service industry: Growth recipe

Consumer Markets

November 2016

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Forewords

FICCI

Dear readers,

The Indian Food and Beverage (F&B) service Industry is one of the most vibrant industries that has seen unprecedented growth in the recent past and continues to expand rapidly. This can be attributed to the changing demographics, increase in disposable incomes, urbanisation and growth of organised retail.

The Gross Value Added (GVA) by hotels and restaurants has witnessed an annual increase in both absolute and relative terms. It grew from INR1,084.2 billion in FY14 to INR1,211.7 billion in FY15, growing its contribution in country's overall GVA from 1 per cent in FY14 to 1.1 per cent in FY15. The restaurant industry is expected to contribute about 2.1 per cent to the total GDP of India by 2021. The F&B sector has evolved over the past decade, giving rise to exciting new concepts in food and beverage offerings and new and innovative service elements.

This report titled ''India's food service industry: Growth recipe'' highlights the overall potential of the industry and captures the changing scenario in the sector. While the report would enlighten the readers on the latest trends and growth strategies of the food service retail industry, in order to achieve the desired growth, it is very important to address the regulatory bottlenecks. The ease of doing business scenario for the food service industry needs to be refurbished; the current laws mandate new businesses to obtain about thirty permits to become operational. Hence the report deep dives into the policy reforms required to create an 'ease of doing business' ecosystem for the Food service retail space. This report would also analyse various aspects that need policy streamlining to stimulate the growth of this sector.

I am confident that the deliberations of the conference and the recommendations of the report would provide a roadmap for the Industry to grow and achieve its true potential. I am hopeful that the study would give us some critical insights along with pertinent answers and would establish itself as a work pioneered for the sector.

Enjoy reading and we look forward to receiving your suggestions!

Dr. A. Didar Singh

Secretary General
FICCI

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Chairman's note

Dear readers,

Welcome to FOODZANIA 2016!!

India has always been known for its rich diversity and food is embodied to be one of the core part of this diverse landscape. The changing demographics, increase in income, urbanisation and growth in organised retail is driving India's F&B sector the nation has emerged as one of the most attractive investment destinations worldwide.

The combined F&B service market is worth INR 204,438 crore, growing at compound annual growth rate (CAGR) of 23-24% and is expected to touch INR 380,000 crore by 2017. Brands/ chains of both Indian and MNC brands are still less penetrated and there exists a large opportunity in this space to create bigger restaurant chains. The F&B service market is dominated by unorganised segment and although it will decline significantly over the next 4-5 years, it is likely to remain more than 60% of the market. The sector is a flourishing one and is needed to be nurtured with right set of policies and advocacies.

Some of the key issues maiming the industry include:

- Lack of quality infrastructure
- Shortage of skilled manpower
- Increasing real estate cost
- Multiple licencing system

In this report, we have attempted to highlight the key issues and suggested certain measures to counter these based on industry feedback. The government has been of late focused on developing the food processing infrastructure and integrated food parks by subsidising the capital cost.

These initiatives will go a long way in promoting the 'Make in India' initiative.

The FICCI Food Service Retail Task Force is certain that the collaborative efforts of all the concerned stakeholders would help in bringing further clarities for the sector and lead to auxiliary growth of the national economy.

Mr. Piyush Patodia

Chairman
FICCI Food Service Retail Task Force

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KPMG in India

A rapidly growing Indian economy and a stable governance at the centre have provided fresh impetus to the retail and consumer sectors. Liberal and investor-friendly economic reforms, including relaxation on Foreign Direct Investment (FDI) limits and passage of Goods and Services Tax (GST) Act, have helped uplift and strengthen the investor and consumer sentiments alike. Owing to these reasons, coupled with favourable Indian demographics, increasing disposable incomes and growing urbanisation, the country is poised for a strong growth across the consumer sector in the near future.

A rising young population, along with a fast-paced trend of eating out and experimenting various cuisines on a frequent basis, has provided a plethora of growth opportunities for food service business operators in the country. Simultaneously, technology has played a pivotal enabler role across various facets of the food service value chain, starting from the tracking of raw and unprocessed food inventory to ordering and delivering at consumers' doorsteps.

A new range of web tools and mobile applications has pushed the boundaries of convenience farther, where freshly prepared ready-to-eat food is delivered at a consumer's preferred location with a single touch.

The Indian diaspora presents a significant array of opportunities in the food service domain. An ever-increasing consumer base — expected to surpass China's by 2022* — offers eye-catching prospects for foreign and Indian investors alike. To realise the potential of growth in the food service industry downright, there is a need to amend the existing norms governing the industry. It is pertinent that the government authorities at various levels and the industry stakeholders work hand-in-hand to address and remove the bottlenecks faced by the industry. Since food is one of the basic requirements of any living being, it is imperative for all stakeholders to collaboratively ensure its availability in good quality, safe for human consumption.

KPMG in India is the Knowledge Partner for FICCI's – FoodZania, Food Service Retail Conclave, that aims to provide a common platform to all relevant stakeholders from diverse strata of the society — including governments, industry, academia and consumers. At the event, food experts from various sectors shall come together to deliberate on the areas related to food policy, food approvals and guidelines, ease of doing business, bridging the skill gap, menu trends and consumer behaviour, customer service, etc. This report 'India's food service industry: Growth recipe' delves deeper into the policy and regulatory challenges of the food service industry and aims to present its all-encompassing overview and potential opportunities. The report tries to articulate the major challenges and recommends steps to counter them that could make the country's food service industry globally competitive. We acknowledge and appreciate everyone who has contributed to this report.

Rajat Wahi

Partner and Head
Consumer Markets
KPMG in India

* India 'to overtake China's population by 2022' – UN, The BBC, 30 July 2015- Drop the hyperlink from here and at all places in the paper.

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Executive summary

In the progressive Indian society, food expenditures hold a lot of prominence- constituting the largest retail consumption category. In fact, the Indian food retail industry is positioned globally as the sixth-largest and has been increasing at a steady pace of over 15 per cent annually. Hence, the food services industry in the country has witnessed unprecedented growth over the past few years, contributing a significant proportion to India's economic performance.

The favourable Indian demographics coupled with increasing disposable incomes have exceedingly contributed to the growth of the industry, dominated by restaurants and fast food outlets. The Indian government has also taken major steps towards prioritising the industry as part of its liberal economic reforms, which attracted substantial investments from foreign countries. Further, the government's flagship initiative, 'Make in India', has provided an impetus to the overall industry by driving the food manufacturing and processing, and providing attractive business opportunities to the investors.

According to the Ease of Doing Business (EoDB) 2017 country ranking[1], released by the World Bank in October 2016, India has shown an improvement of one point to 130 as compared with the 2016 ranking. Although the rankings are believed to improve next year on the back of some major reforms such as expected implementation of the Goods and Service Act (GST) and the Insolvency and Bankruptcy Code, the country still seeks an improvement in the process of making businesses operational swiftly. One of the major components in the EoDB rankings — 'Starting a business' — slipped by four points to 155 and remains a challenging issue, indicating an ailing condition for new businesses.

The EoDB scenario for the food service industry is no different; the current laws mandate new businesses to obtain about 30 permits to become operational. With the growth projections better than global, India's food service industry is set to keep investors interested in future. However, there is an instant need to introduce a single-window clearance system to ease obtaining the permits and simultaneously reduce the number of approvals required to set up a restaurant/other related food outlet anywhere in the country. This step is expected to bring more transparency and remove duplicity that exist in the system of starting a food service business. The single-window clearance would not only help expedite the process, but would also remove any irregularity adding up to the total investment. As the next step, the state governments could play an instrumental role to implement the changes and follow a structured approach, trimming down non-essential licences. Also, with the increased focus on 'Digital India' initiative by the government, the shift from manual to online approvals is expected to ease the over-regulated terms and could equip new ventures with better knowledge of process.

The Food Safety and Standards Authority of India (FSSAI) is the apex food regulatory authority in India, responsible for framing guidelines and monitoring the functions across the country's entire food value chain. It mandates food service operators to follow the standard regulatory practices regarding sanitary and hygiene needs, and helps ensure the availability of safe food through means of inspections and non-compliance penalties. However, in comparison with developed economies of the world, India lags in terms of food quality and safety standards. The country faces challenges of having unambiguous and non-overlapping responsibilities among different food authorities at various levels. This is in contrast to developed countries where authorities work in a collaborative manner with well-defined and discernible roles. There is also an urgent need for infrastructural development to bridge the significant food laboratory demand–supply gap in the country, and ensure the uniform implementation of internationally acknowledged standards of food safety through stringent compliance. The 'Digital India' initiative can help adopt faster and more efficient technological means for the betterment of the industry. Greater collaboration among the governments (national and states), industry and other stakeholders is required to advise the central regulatory authority towards formulating

1. 2017 Doing Business rankings, The World Bank; October 2016; GST may help improve India's ranking in 'Doing Business', Free Press Journal, 27/10/2016

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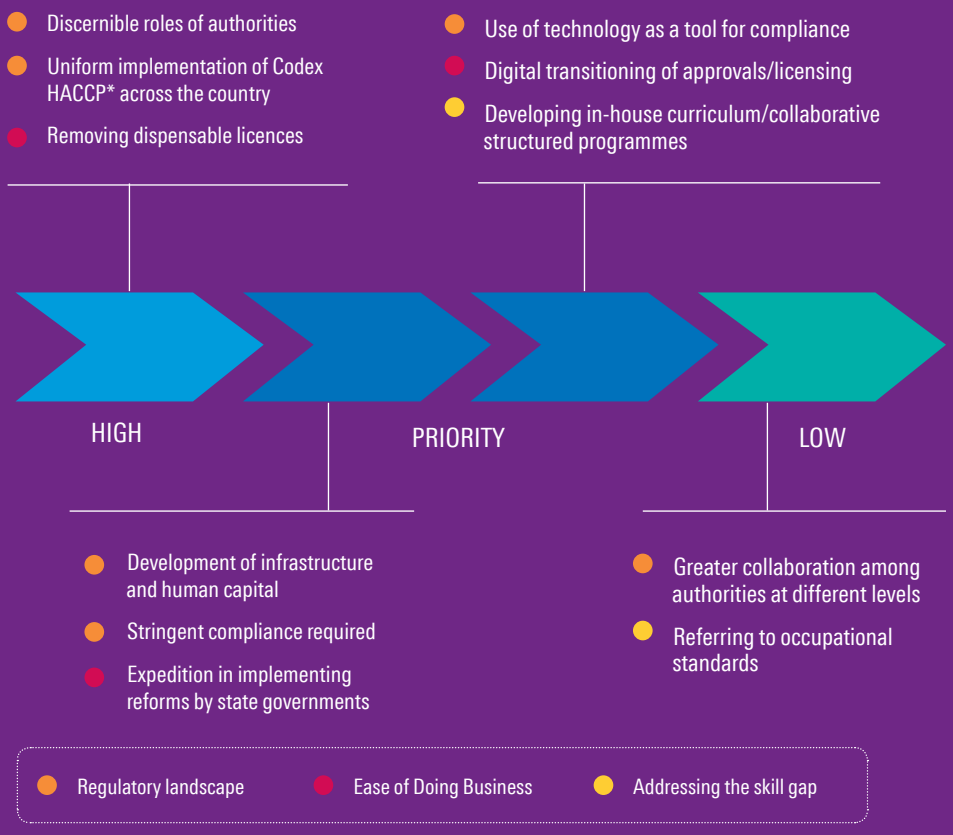
adequate, practical and updated norms with discernible procedural steps for implementation across the country.

The employment opportunities in the food service industry are growing and projected to require almost double the existing workforce by 2022. More than the numbers, it is the quality of workforce and skill that are required have not been met from several years required, which remains unaddressed since several years. From kitchen to service, the industry lacks skilled employees, and the skill gap could further increase in the future due to developing tastes for global cuisines, rising foreign and culinary tourism, and high costs of skilled staff due to significant attrition rate. Although the 'Skill India' initiative by the government has been actively devising strategies to improve the condition, there is a need for businesses to refer to various occupational standards to ascertain the preparedness for different functions. Also, the in-house/structured training programmes can focus more on improving the communication and language skills of the employees that remain one of the biggest challenges in the industry.

An immediate and time-bound strategy to address the challenges could determine the progressive track of the food services industry in India, making it globally competitive.

Key recommendations to the food service industry for reforms



*Hazard Analysis Critical Control Point (HACCP)

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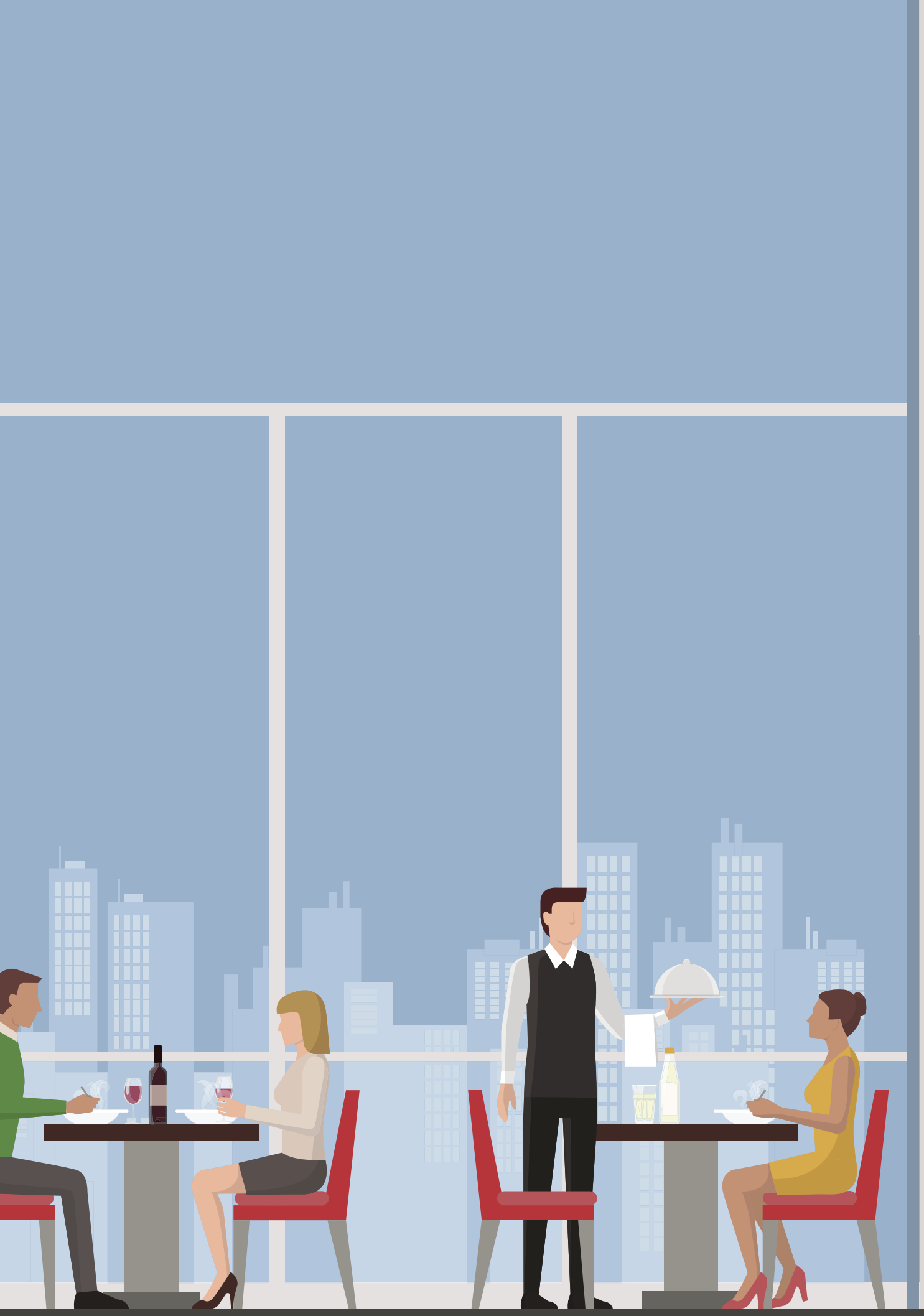

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Food service industry: Poised for growth

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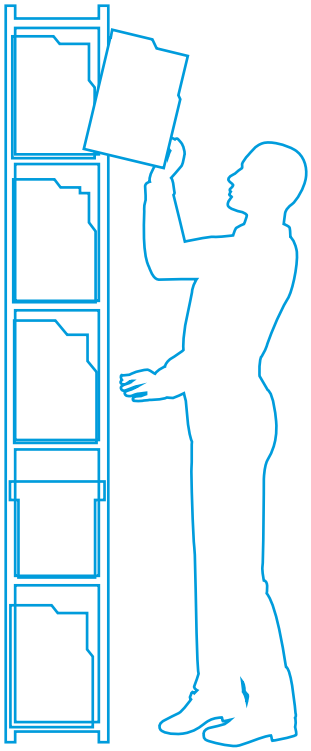
India's food service industry

India is one of the fastest growing economies in the world. Driven by the changing demographics, stable government, favourable economic policies and a positive sentiment, the country's Gross Domestic Product (GDP) is projected to grow at 7.4 per cent, as estimated by the International Monetary Fund (IMF), over the Fiscal Year 2017 (FY17) and FY18. Relatively, the world economy is expected to grow at 3.1 per cent over 2016, assuming unaffected trade ties between the European Union (EU) and the United Kingdom (U.K.). These projections make India the fastest growing large economy globally[2]. Similarly, India's growth ratings by the 'Big three' credit rating agencies depict a positive outlook[3,4] :

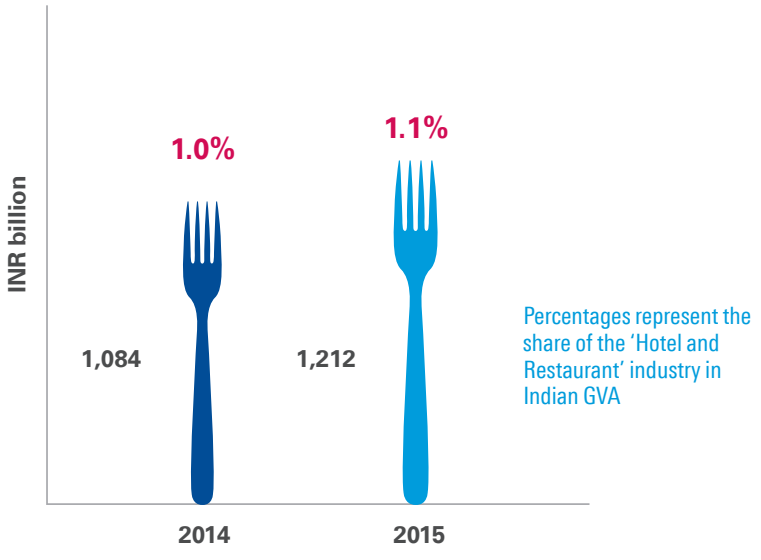


Agency/organisation	Growth forecasts for India	
	FY17	FY18
Fitch Ratings	7.7%	7.9%
Moody's Investors Service	7.5%	7.5%
Standard & Poor's	8.0%	8.0%
IMF	7.4%	7.4%
ADB (Asian Development Bank)	7.4%	7.8%

The Indian Food and Beverage (F&B) services industry is one of the most vibrant industries to witness rapid and unprecedented growth over the recent past. The industry contributes significantly to the nation's economy and has been the frontrunner in terms of attracting investments.

The Gross Value Added (GVA) by hotels and restaurants has witnessed an annual increase in both absolute and relative terms. It grew from INR1,084.2 billion in FY14 to INR1,211.7 billion in FY15*[5]. According to the National Restaurant Association of India (NRAI), the restaurant industry is expected to contribute about 2.1 per cent to the total GDP of India by 2021[6]. Food expenditures constitute a majority of population's consumption basket and the share is expected to grow further in the coming years as organised food service retail penetrates

'Hotels and Restaurants' GVA*



2. International Monetary Fund Trims India's Growth Forecast, WSJ, 20/07/2016
3. Moody's retains India GDP forecast, ups China's estimates, The ToI, 18/08/2016
4. India's GDP growth to expand about 8% in next two years: S&P, The Economic Times, 22/07/2016
5. Press Note on First Revised Estimates of National Income, Consumption Expenditure, Saving and Capital Formation 2014-15, CSO-MoSPI, January 2016
6. NRAI India Food Services Report (IFSR) 2016 launched by Shri Amitabh Kant in New Delhi, NRAI website, 21/07/2016

*Note: GVA figures at base prices taken; 2014 figures are second revised estimates, while 2015 figures are first revised estimates as reported by Central Statistical Office (CSO)

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Current market-size and future potential

Retailing has gained significant popularity in India and has evolved rapidly over the past few years. The country is embracing modern retail formats, including omnichannel, as the internet penetration increases both in urban and rural regions. The emergence of lower-tier markets as demand centres and the growth of internet retailing — coupled with the country's favourable demographics — has opened a plethora of opportunities for retailing in India. Currently, the retail industry in India is primarily constituted by the unorganised retail, accounting for more than 85 per cent of the total retail value[7].

India has a substantial food-loving consumer base leading to a significant market size for F&B sales. Food and grocery retail constitute 60–65 per cent of the total retail market in India — 15–20 per cent of organised retail and about 70 per cent of unorganised retail industry[8].

A steady increase in the consumer spend on food, drinks and groceries, driven by an overall improving business and consumer sentiments and easing inflation, would maintain the segment's dominance in the coming years. According to the India Food Report 2016, released in January 2016 by Ministry of Statistics and Programme Implementation (MoSPI), the Indian food retail market — sixth-largest globally — is expected to grow from a value of INR25.1 trillion in 2014 to INR35.6 trillion by 2017, and INR61 trillion by 2020, at a Compound Annual Growth Rate (CAGR) of more than 15 per cent over the six-year period, 2014–20[9]. Similarly, food constitutes the largest retail consumption category in India. The contribution share of total household expenditure toward food stood at 43 per cent in FY15. Growing at an average annual rate of 12–13 per cent, in value terms, the food consumption and demand is expected to be more than twice its current value by 2025[10].

Retail

*Others includes apparels, accessories and footwear; jewellery, time-pieces and time-wear; home and furnishings; Consumer Durables and Information Technology (CDIT); health, beauty and fitness; and other small categories.

Source(s): Euromonitor research, January 2016; IMAGES Retail Report – 2015; KPMG in India's analysis

7. Euromonitor research, accessed January 2016
8. IMAGES Retail Report – 2015; KPMG in India's analysis
9. Indian food retail market to cross Rs 35 lakh crore by 2017, says report, Food and Beverage News, 21/01/2016
10. 25 pc growth potential in organized F&G market: India Food Report 2016, India Retailing website, 7/06/2016

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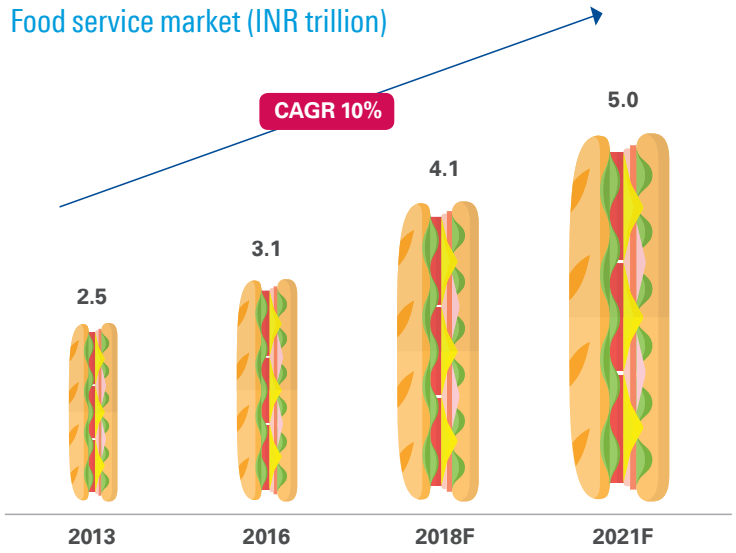
Indian food service market

Factors such as growth in consumption of food in terms of frequency of eating out, increasing trend of experimenting new cuisines, and greater brand and value consciousness, are expected to create a direct employment opportunity for 5.8 million people in 2016 and contribute INR224 billion by way of taxes to the Indian economy.[11]

In terms of mode of retail, the Indian food services industry is dominated by offline or physical sales, accounting for almost 98 per cent of the total retail sales value of the industry. Online sales mode constitutes the remaining 2 per cent of the total retail sales. However, the online sales value is increasing constantly as the industry progresses toward organised retail with increasing penetration of internet in the country.[12]

Similarly, consumers prefer to eat their food when it is still hot and fresh. Approximately 81 per cent of diners prefer to eat-in, as compared with 19 per cent who either tend to get it delivered or prefer takeaway.[13]

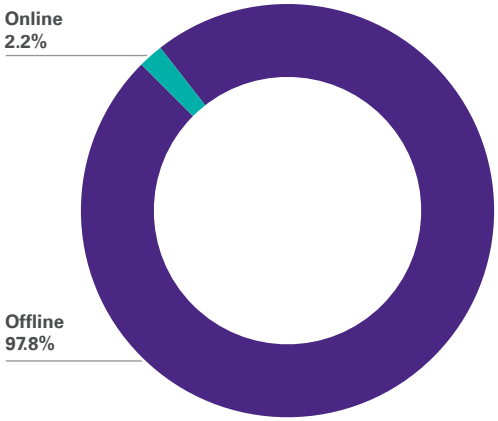
Food service market (INR trillion)



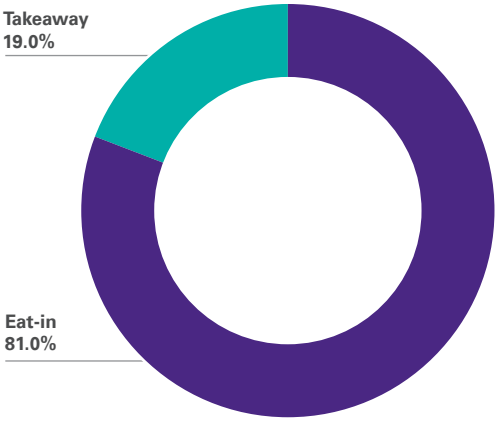
Source(s): NRAI India Food Services Report (IFSR) 2016 launched by Shri Amitabh Kant in New Delhi, NRAI website, 21/07/2016; Mumbai-based Bar Stock Exchange expands outlets to other cities, will foray into London and Singapore too, The Economic Times, 18/05/2016

- Growing at a CAGR of 7.7 per cent from 2013, the NRAI estimates the Indian food services market to stand at INR3,091.1 billion in 2016.
- The market is expected to expand at a CAGR of 10 per cent during 2016 to 21, to reach a value of INR4,981.3 billion.

Retail mode: Online vs offline



Retail type: Eat-in vs takeaway



Source(s): Euromonitor research, accessed September 2016

11. Only 33% of food services industry is organised, The Times of India, 20/07/2016
12. Euromonitor research, accessed September 2016
13. Euromonitor research, accessed September 2016

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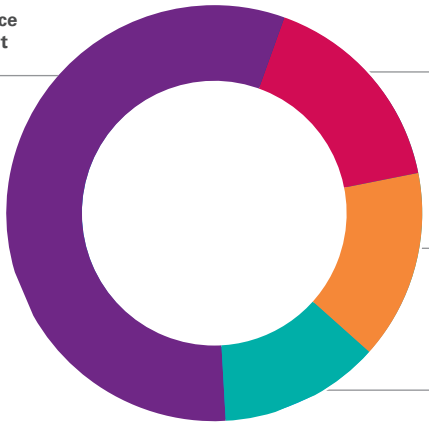
The food services industry in India can broadly be classified into four major segments:

Sales split, by segments



*Fast-food restaurants are also referred as Quick Service Restaurants (QSR)

Full-service restaurants and Quick Service Restaurants (QSRs) together account for a majority of 73 per cent of India's food service industry.

Source(s): Euromonitor research, accessed January 2016

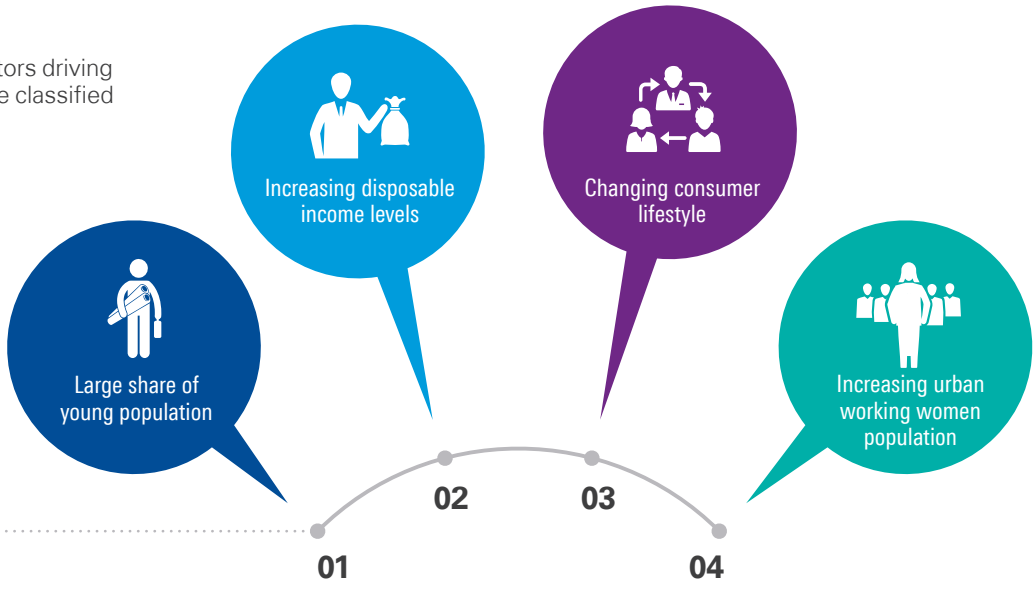
Although the organised share of food services in India is growing, it currently constitutes one-third (33 per cent) of the total food services market, as unorganised segment dominates the food service industry. There is a significant opportunity for branded and chain outlets to increase their penetration in the Indian markets.[14]

Key drivers of growth

As one of the fastest growing economies of the world, India offers a variety of advantages for the food service industry.

Demand factors

The major demand-side factors driving the industry's growth can be classified under four major buckets:



14. NRAI India Food Services Report (IFSR) 2016 launched by Shri Amitabh Kant in New Delhi, NRAI website, 21/07/2016

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1. Large share of young population

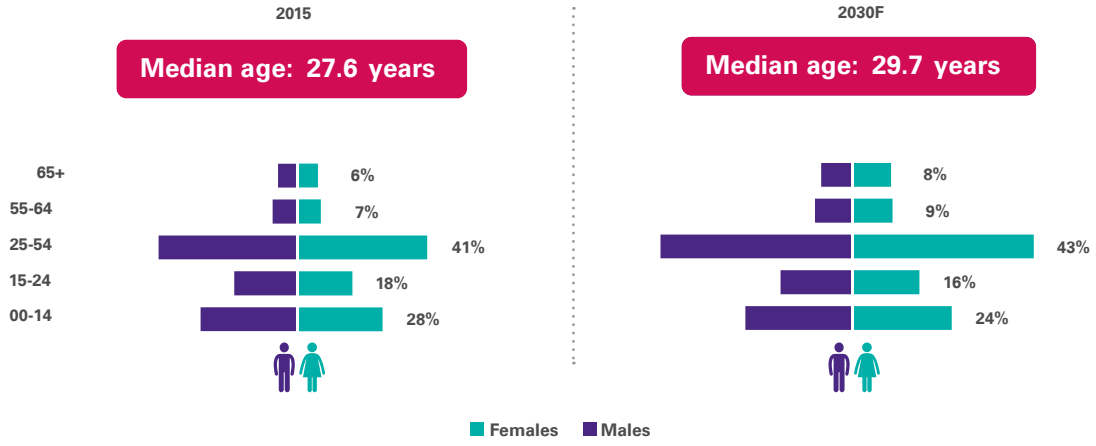
With a population of 1.3 billion, India is one of the largest consumer markets globally. Demographically, it is also one of the youngest markets with more than 45 per cent of population below the age of 25 years.[15]

The country has the youngest median age (27.6 years) currently, among the BRICS nations and major global economies. With an estimated median age of 29.7 years in 2030, it would continue to be the leader in that domain.[16]

According to the United Nations Population Fund (UNFPA), with over 350 million population in the age group of 10–24 years, India has the world's largest youth population globally. It accounts for 28 per cent of the country's total population.[17]

- The psychographic profiling of youth reveals that a significant share of youth population in India has a liberal mindset, encouraging experimentation and greater consumption.[18]
- Eating out is often seen as a habit among youngsters, rather than being as an occasion-driven activity.[19]
- The youth population of India is expected to reach about 465 million by 2021.[20]

Age distribution of population in India (Percentages depict population in that age group)



15. The World Factbook, CIA, 8/10/2016
16. Data Query, UNDESA, accessed 20/10/2016
17. India's Secret Weapon: India Has Largest Youth Population, The Universal News Network, 27/10/2015
18. Psychographic Profiling of Indian Young Adult Consumers of Smartphone - VALS Approach, MSAES website, 16/11/2015
19. QSRs In India: How Fast Food Chains Are Changing Eating Habits of Indians!, Trak website, 22/01/2015
20. Food Service Industry, CMR India, 05/2016

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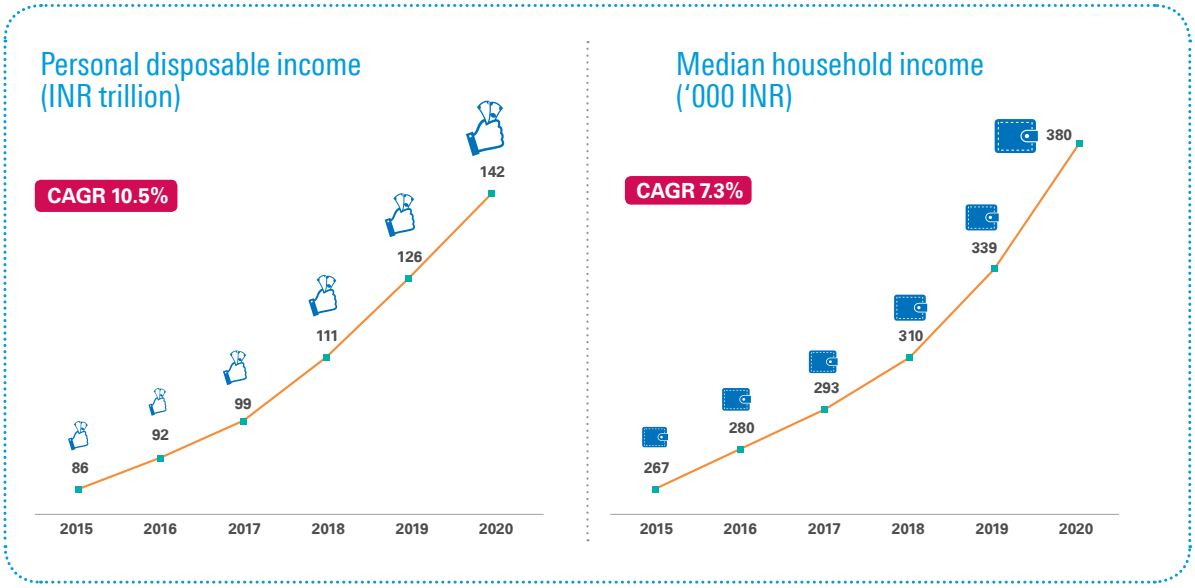
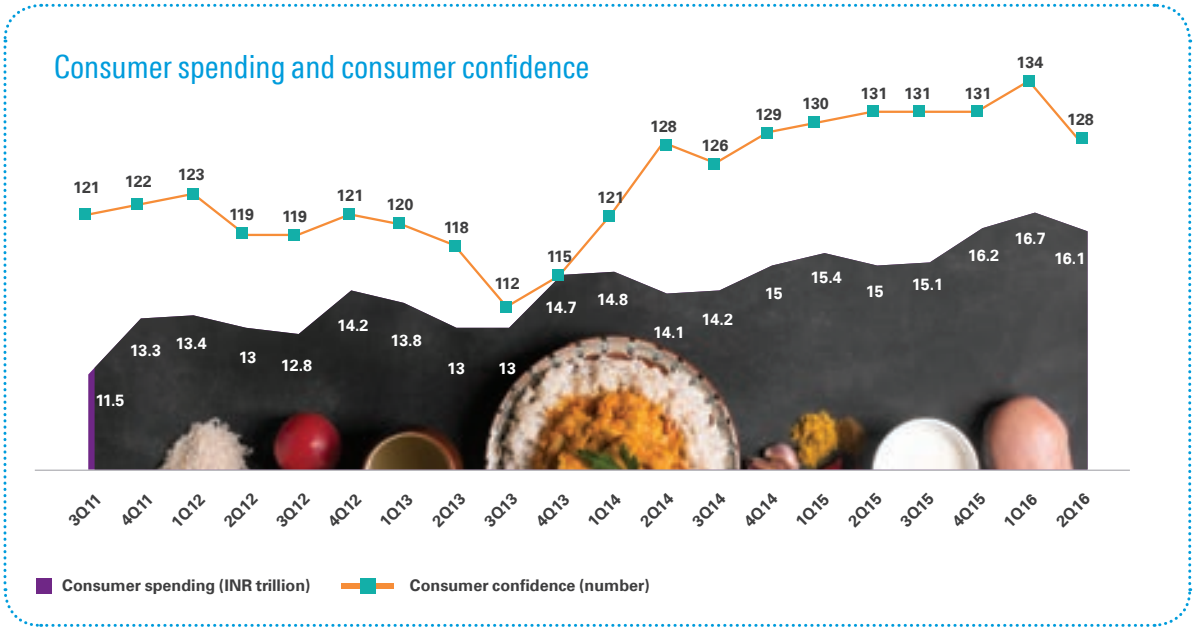
2. Increasing disposable income levels

The growing Indian economy has resulted in rising income levels, thus leading to an increase in disposable income. The country's household income and consumer spending are also expected to increase over the next five years, driving the food service industry and presenting a lucrative opportunity to the companies operating in the segment.

According to the Economist Intelligence Unit (EIU) data[21]:

- India's personal disposable income is expected to increase from INR86.5 trillion in 2015 to INR142.1 trillion by 2020, growing at a CAGR of approximately 10.5 per cent during 2015–20.
- The country's median household income is expected to increase from INR267,100 in 2015 to INR380,300 by 2020, growing at a CAGR of 7.3 per cent over the five-year period during 2015–20.





Source(s): India Consumer Confidence, Trading economies website, accessed 9/09/2016; India Consumer Spending, Trading economies website, accessed 9/09/2016

21. Economy: Market opportunities, EIU research, 24/08/2016

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3. Changing consumer lifestyle

A rapidly growing young population, rising income levels, increasing use of technology in consumer space, urbanisation, brand and style awareness, health consciousness, increased social media activity, hectic life routines, etc., have led to a shift in consumers' food buying habits. The following trends are pushing the food service industry towards a high growth trajectory:

- Increasing preference for convenience to eat out
- Exploring culinary experiences — including both global and authentic Indian regional cuisines
- Busier lifestyles, leading to an increase in on-the-go consumers — opting for ready-to-eat food
- Innovations in traditional menu options — attracting even the experimental consumers
- The availability of hygienic and healthier food options, primarily driving the organised food services retail market
- The growing internet penetration and technological disruptions in food delivery is leading to easier and faster availability of food-on-order
- The use of social media for sharing culinary experiences — urging consumers to try new food options and outlets, based on reviews shared.

4. Although India's urban female Workforce

Although India's urban female Workforce Participation Rate (WPR) of 15 per cent is lower, in comparison to global/other countries, the trend is steadily changing as the rate is increasing 5.6 per cent annually since 1991. It is growing at a faster pace as compared with 2 per cent for rural females and 3 per cent for urban males.[22]

- According to 2011 Census carried out by the Indian government, the number of women working and seeking work grew 14.4 per cent between 1991 and 2011, compared with the urban women population growth of 4.5 per cent during the same period.[24]
- Among all urban workers, women constitution increased from 13.4 per cent in 1972–73 to 14.7 per cent in 2011–12.[25]
- The total number of women in the workforce increased more than three-fold, from nine million in 1991 to 28 million in 2011. 26
- The share of women in wage employment in the non-agricultural sector, as a per cent of total non-agricultural employment, has increased from 13 per cent in 1990 to 18 per cent in 2005.[27]

With more women spending substantial time at work, time availability for cooking and meal preparation is relatively restricted. Thus, ready-to-eat food or eating out has become a preferred alternative/ option.

% of women in total workforce in India[23]

22. Urban India and its Female Demographic Dividend, India Spend website, 30/07/2015
23. Thomson Research, accessed October 2016
24. Women In The Workforce: India, Catalyst, 17/11/2015
25. Women In The Workforce: India, Catalyst, 17/11/2015
26. Urban India and its Female Demographic Dividend, India Spend website, 30/06/2015
27. Share of women in wage employment in the nonagricultural sector (% of total nonagricultural employment), Worldbank, accessed 21/10/2016

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Supply factors

a. Liberal reforms

The country's economic liberalisation has opened the gates for many major global food business operators, by minimising the barriers to doing business in the country. The onset of foreign majors, in turn, led to the modernisation of the industry with global best practices and pushed the industry toward organised market. Such reforms, also attracted private equities and venture capitalists to invest in the food service sector.

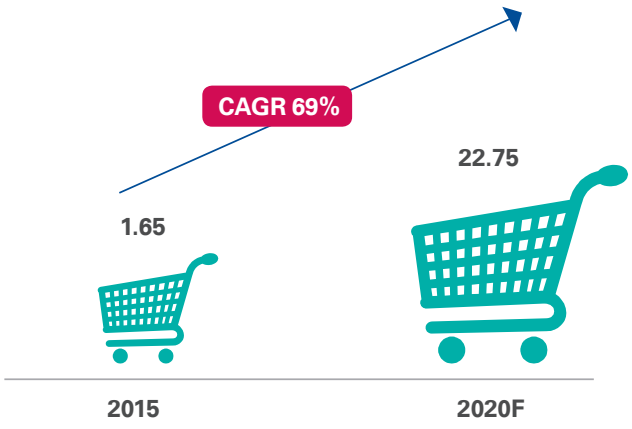
- Hundred per cent FDI permit on trade of food, produced and marketed in India
- Hundred per cent FDI permit on Single Brand Retail Trading (SBRT)
- Hundred per cent FDI permit on Business to Business (B2B) e-commerce and marketplace model.
- Implementation of simpler subsuming tax structure — Goods and Services Tax (GST)

b. Technology and emerging retail formats

Emanating from rapidly evolving technologies, new and disruptive retail formats are emerging at a fast pace. Application-based online aggregators and development of third-party logistics service providers have introduced a whole new dimension to food service business in the country. Dedicated food courts and food malls, and new retail avenues (such as airports, railway and metro stations, highways, amusement parks, hospitals, etc.) are driving consumers towards food services.

- The Indian hyperlocal market grew at 41 per cent year-on-year (Y-o-Y) in terms of revenues to reach a value of INR1.65 billion in 2015.[28]
- Food delivery is one of the major segments driving the hyperlocal market in India. It constitutes about 60 per cent of the total hyperlocal market in India, valued at approximately INR1 billion.[29]

Hyperlocal market (INR bilion)



Source(s): Thomson Research, accessed June 2016

28. Hyperlocal market in India, Thomson Research, June 2016
29. Hyperlocal market in India, Thomson Research, June 2016

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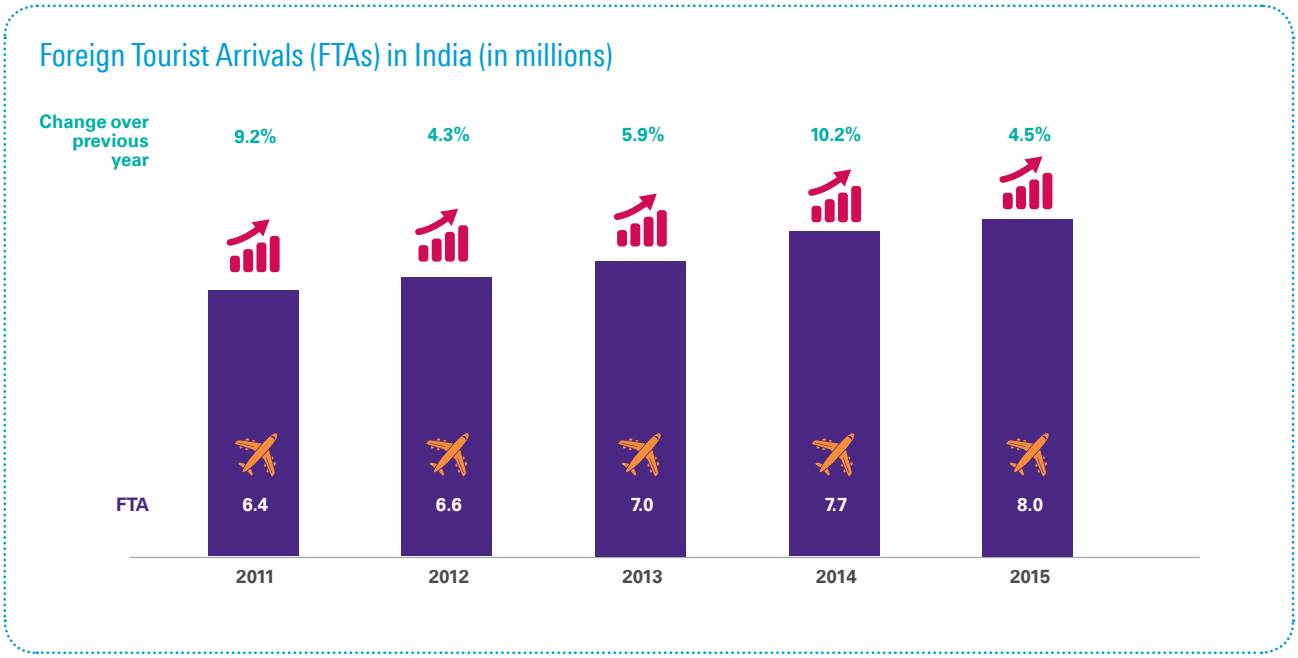
c. Increasing travel and variety of cuisines

There has been a consistent increase in Foreign Tourist Arrivals (FTAs) in the country, obviating the growth of food service industry, specifically in the form of global cuisines. At the same time, domestic tourism is also increasing, leading to the popularity of authentic regional cuisines and driving overall food service demand in the nation.

- The number of FTAs: 8.03 million[30]
- The number of domestic tourist visits to all states and union territories: 1,432 million[31]



Source(s): India Tourism Statistics at a glance 2015, Ministry of Tourism, GoI, 30/08/2016

d. Procurement by direct farm-firm linkage (contract farming)

To obtain the desired product grades and quality at reasonable prices, companies indulge in contract farming—where the desired produce is procured directly from the farmer at an already agreed price. The government also promotes the practice, and targets contract farming to contribute 4 per cent to the planned agricultural growth targets, by 2017. Various domestic and foreign majors procure raw inputs directly from farmers.[32,33,34]

30. India Tourism Statistics at a glance 2015, Ministry of Tourism, GoI, 30/08/2016
31. India Tourism Statistics at a glance 2015, Ministry of Tourism, GoI, 30/08/2016
32. Agriculture Information Website, 29/03/2016
33. NABARD website, accessed on 5/09/2016
34. Government Policies for Improving Agricultural Productivity, The Organic Life, 9/07/2016

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Upcoming trends and the changing scenario

The Indian food service industry has evolved significantly over the last two decades — new formats have emerged, service levels have improved and supply chain practices have become more efficient. A number of foreign as well as domestic players have set-up their base in the country, owing to the prevalence of a number of opportunities in various areas of the food service industry. Key trends that are changing the face of the industry have been listed below.

Technology as an enabler

Technology has impacted all aspects of the food service industry — from sourcing to reservations to on-demand delivery. It has led to the emergence of new business models, such as restaurant aggregators, cloud-based kitchens that support home cooks and online food delivery.[35]

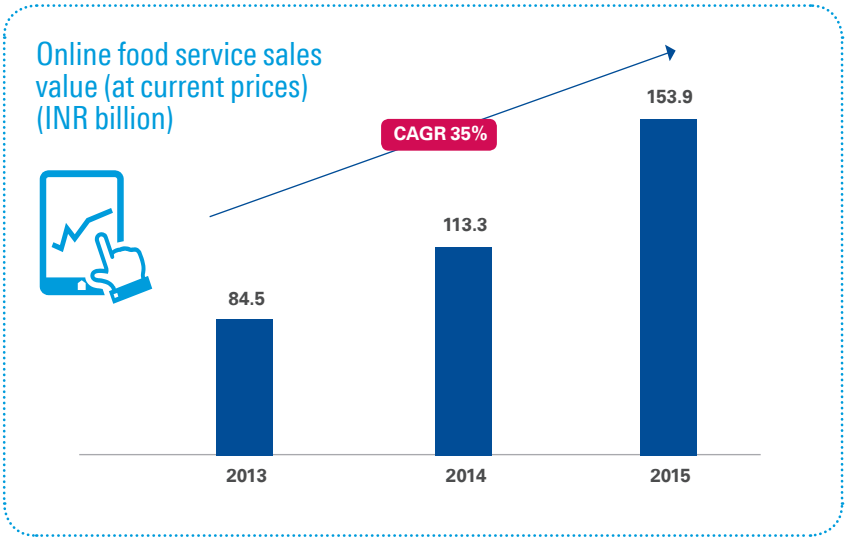
In the past decade, several new food tech start-ups have emerged that have helped organise the unorganised food retail industry by enhancing access to small restaurants and home chefs.

Online sales form a small fraction of the total food services sales pie; however, its prominence is increasing at a rapid pace. The online food services sales witnessed 1.8x increment during 2013 to 15.[36]

Big data analytics and cloud computing assist restaurant owners to derive value out of data. The use of big data and cloud technologies helps improve the management and customer experience via facilitating inventory management, customer management and order management, among others.[37]

Various restaurants and cafes have started to use digital devices such as digital kiosks and tablets, for displaying menu items, place orders and provide feedback, to enhance consumer experience and increase operational efficiency.[38]

Consumers have also started to rely on technology to compare restaurant ratings, menu items and user reviews, for making decisions about their eating preferences.[39]



Source(s): Euromonitor research, accessed January 2016

35. The Indian Food Service Industry, CMR India, 12/05/2016
36. Euromonitor research, accessed September 2016
37. How technology will change the restaurant industry, India Retailing, 12/04/2016
38. How technology will change the restaurant industry, India Retailing, 12/04/2016
39. The Changing Face of the Indian Food Service Industry, Food Safety Helpline, 14/04/2015

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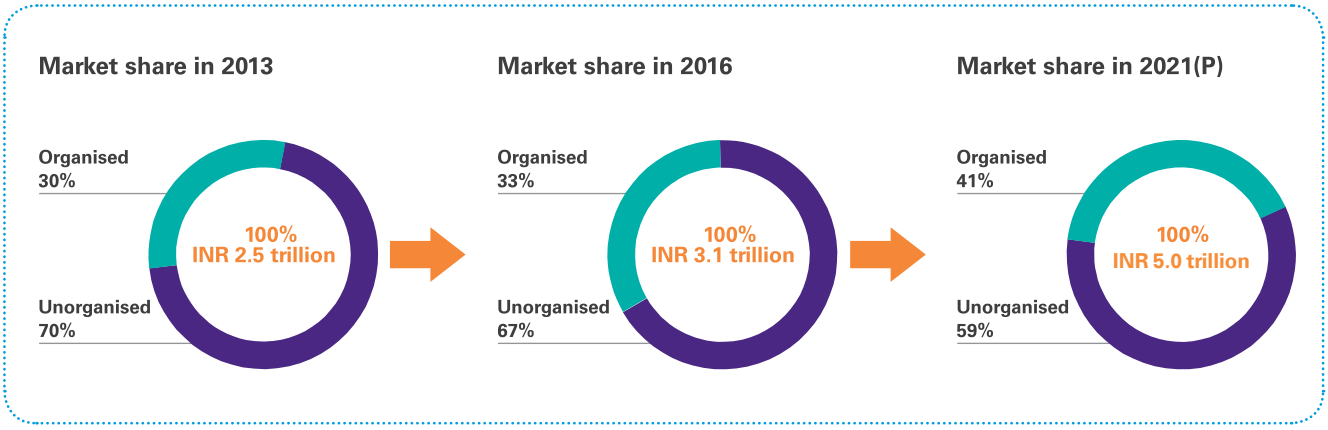
Expansion in the market share of the organised food service sector

The Indian food service industry landscape, which is dominated by the unorganised sector, is experiencing a gradual shift with the expansion in the market share of organised players. The organised sector has grown at a CAGR of 10.8 per cent from approximately INR750 billion in 2013[40] to approximately INR1,020 billion in 2016. It is expected to capture over 41 per cent of the Indian food service market by 2021.[41]

Owing to the large consumer base and significant growth potential, the food service market in India, has attracted a large number of foreign players to launch their operations in India. As on August 2015, the number of foreign restaurant brands in India stood at 57, which operates over 3,460 outlets in the country.[42] These players are fostering the development of organised food service retail market in India.

Following the footsteps of foreign players, a number of domestic players have also set-up organised food service retail outlets and are competing to gain a large share in the organised food service sector.[43]

Various international as well as domestic organised food service players are looking to expand their operations in India by opening new outlets, engaging in partnerships, employing more manpower, etc., which would help fast track the growth of organised food service sector in India.[44]



Source(s): India Food Services Report 2013, Hospitality Biz India, 05/07/2013; How India eats out, Live Mint, 22/06/2016

40. India Food Services Report 2013, Hospitality Biz India, 05/07/2013
41. How India eats out, Live Mint, 22/06/2016
42. Taking a bite out of the Indian pie, Nishith Desai, 21/08/2015
43. Indian QSR industry to touch $2 billion by 2016-17, FnB News, 11/02/2015
44. International fast food joints expand in India, Technova Global, accessed on 27/10/2016

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The use of social media to stimulate customer connect

Social media has become an integral part of the young population's lifestyle. It has become an avenue for them to express their views and opinions, compare and evaluate choices, and share feedback. Since the youth, with increased disposable incomes, constitute a large part of the customer base for the food service brands, social media has become one of the most important medium to connect with them.[45]

Social media is a cost-effective approach and provides the advantage of instant reach for food services brands to effectively market themselves. Various Indian food service operators are making use of the social media to communicate offers, incentives, product information and promotions. Several food service brands have introduced innovative campaigns on social media to lure customers to their outlets and increase their footfall.

Food services players are increasingly trying to leverage these platforms to increase their interaction with consumers, as these platforms also act as effective ways to receive consumer feedback, helping the brand to change strategies or take corrective actions, if and when required.

Case example[46]

For instance, one of the leading QSR brands in India, invited food bloggers and tweeples to create their own burgers in its outlets. The winning burger was made available in the brand's outlets for a week, and was promoted through a Hashtag, which trended in few cities for several weeks.

Another leading brand launched a photo contest where customers were asked to take a photo in an auto rickshaw placed in its restaurants and upload it on social platforms. The winners of the contest got a free meal, and the brand was able to increase footfall by nearly 8 to 10 per cent.

Evolution of the Indian food menu

Changing lifestyles, expansion in tourism (both inward and outward) and increased focus on health have compelled Indian and foreign players to introduce innovations in their food menus, necessary to outperform the competition.

a. Localisation in offerings

About 29 per cent of the total Indian population over the age of 15 years are vegetarians.[47] Multinational food service players are focussing on local taste and are increasingly engaging in 'Indianising' their menu options, launching breakfast menus, positioning outlets as destinations of family outings, etc., to gain acceptance of Indian customers.

While the foreign players are trying to adapt to local tastes, various Indian restaurants are incorporating international cuisines in their menu, owing to the increasing taste for Western cuisines, primarily due to increased exposure to international food via travel and international food chains[49]. Many Indian food retails have included Italian, French, Chinese and Thai cuisines, among others, in their offerings.

Case example[48]

For instance, one of the leading QSR MNC chains has tweaked about 70 per cent of its offerings to suit the Indian taste, which are not served anywhere outside the country. They have also opened several 100 per cent vegetarian restaurants to attract the vegetarian customer base.

45. Indian Food Services Trends, Technopak, 04/11/2014
46. Social Media: The double-edged sword, India Retailing, 14/02/2016
47. Survey finds 7 of 10 Indians non-vegetarians but numbers are declining, The Hindustan Times, 08/06/2016
48. India's fast-food industry is becoming a major market, CNBC, 02/04/2015
49. A growing taste for US fast food in India, CNBC, 08/01/2014

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b. Fusion food

Another new trend witnessed in India is the emergence of fusion food. In a bid to offer customers unique offerings, food service retailers are engaging in experiments, such as extensive use of international gourmet ingredients such as truffle oil, foie gras, and blue cheese, in traditional Indian dishes, amplifying the taste of Indian food.[50] Fusion food is also becoming popular with international tourists visiting India as they can better relate to the taste of foreign ingredients. In addition, hotels and restaurants experiment with food by serving traditional dishes in creative, modern and contemporary manner to please their customers.[51]

c. Healthy food

The increasing awareness about health and its connection with food is driving customers to move towards healthy eating options. Customers are shifting toward Lacto vegetarian diet, low carb diet, vegan diet, and gluten-free diets. The health conscious segment caters to about 5 million people in top-six Indian cities — Delhi, Mumbai, Bengaluru, Pune, Hyderabad and Chennai. This segment is growing at a rate of 10–15 per cent annually, and has reached a market size of INR125 billion in 2016.[52]

Moving in sync with the changing customer preferences, food services operators are incorporating a number of health food options in their menus as direct offerings or as ingredients. Health foods, such as breakfast cereals, porridge, salads, organic soups, multigrain breads, green tea and caffeine-free tea/coffee, are gaining popularity in premium restaurants. Various standalone restaurants are also emerging that serve health foods as their core offerings.[53]

50. Demystifying fusion Indian food, Indian Accent, accessed June 2014
51. Increasing Craze of Fusion Food in the City of Pink Hue, City of Jaipur, accessed October 2016
52. What's pushing the growth of 'Healthy' food segment, Franchise India, 25/05/2016
53. Indian Food Services Trends, Technopak, 04/11/2014

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Opportunities galore

The growing Indian economy coupled with a rapidly evolving consumer demand offers a plethora of opportunities in the food service industry.

Liberal economic policies

- One of the fastest growing major economies globally
- About 100 per cent FDI permit on trade of food, produced and marketed in India
- About 100 per cent FDI permit on Single Brand Retail Trading (SBRT)
- About 100 per cent FDI permit on B2B e-commerce and marketplace model
- Implementation of simpler subsuming tax structure — GST

Infrastructure development

- Special focus on infrastructure development for rail, road, water and air transport; growth in third-party logistics services
- Identification of food processing as a priority sector for development - increased focus on cold storage, food parks, food processing, etc.

Indian consumer

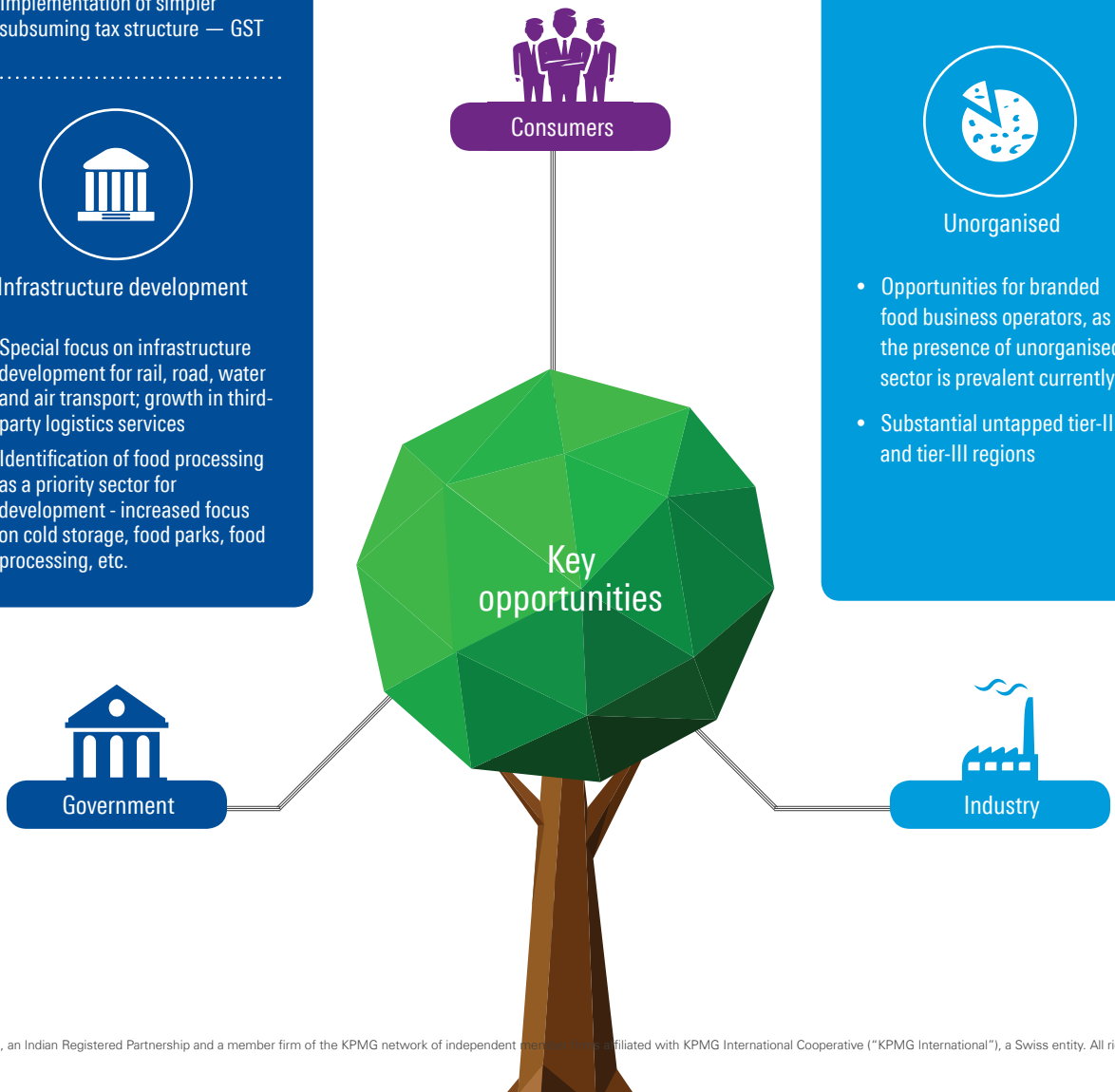
- Nation is among countries with the largest population of youth
- Increased spending power supported with favourable consumer lifestyle and preferences

Technology

- Evolving technology leading to innovations across the food service value chain.
- New retail formats and avenues are emerging at a fast pace - food-tech start-ups, food courts at airports, railway and metro stations, highways, etc.

Unorganised

- Opportunities for branded food business operators, as the presence of unorganised sector is prevalent currently
- Substantial untapped tier-II and tier-III regions



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Ease of Doing Business (EoDB): Inexorable need to remove red tape

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State of EoDB in the food service industry

According to 2017 Ease of Doing Business (EoDB) rankings released by the World Bank, the overall scenario of doing business in India is relatively less favourable as compared with other emerging economies in the world. However, it is unlikely to deter investor sentiments as there have been various significant decisions been taken, including the application of GST (Goods and Services Tax) and Insolvency and Bankruptcy Code, which are likely to improve the environment.

2017 Ease of Doing Business rankings of BRICS countries:[54]

Category	Brazil	Russia	India	China	South Africa
Starting a business	Relatively less favourable	Favourable	Relatively less favourable	Relatively less favourable	Relatively less favourable
Dealing with construction permits	Relatively less favourable	Moderate	Relatively less favourable	Relatively less favourable	Moderate
Getting electricity	Favourable	Favourable	Favourable	Moderate	Moderate
Registering property	Relatively less favourable	Favourable	Relatively less favourable	Favourable	Moderate
Getting credit	Moderate	Favourable	Favourable	Moderate	Moderate
Protecting minority investors	Favourable	Favourable	Favourable	Relatively less favourable	Favourable
Paying taxes	Relatively less favourable	Favourable	Relatively less favourable	Relatively less favourable	Favourable
Trading across borders	Relatively less favourable	Relatively less favourable	Relatively less favourable	Moderate	Relatively less favourable
Enforcing contracts	Favourable	Favourable	Relatively less favourable	Favourable	Moderate
Resolving insolvency	Moderate	Favourable	Relatively less favourable	Favourable	Relatively less favourable
Overall	Relatively less favourable	Favourable	Relatively less favourable	Moderate	Moderate

Favourable Moderate Relatively less favourable

With GST likely to get implemented in FY17, the restaurant owners are required to comply with a simplified tax code. Moreover, the cost of raw material, such as food items, could come down, as the implementation of GST is expected to streamline across the country the flow of goods and reduce logistics costs owing to the removal of varying state level taxes. Also, with the provision of availing benefit of input tax credit, the operating margins of restaurant owners are expected to improve.

However, setting up the restaurant business remains one of the biggest challenges for the industry. Hence, the operators are not pushing the government for tax cuts, however, need simplification in new avenues.[55]

54. 2017 Doing Business rankings, The World Bank, October 2016; GST may help improve India's ranking in 'Doing Business', Free Press Journal, 27/10/2016
55. Ease & Unease, Hospitality Biz India, 7/09/2015

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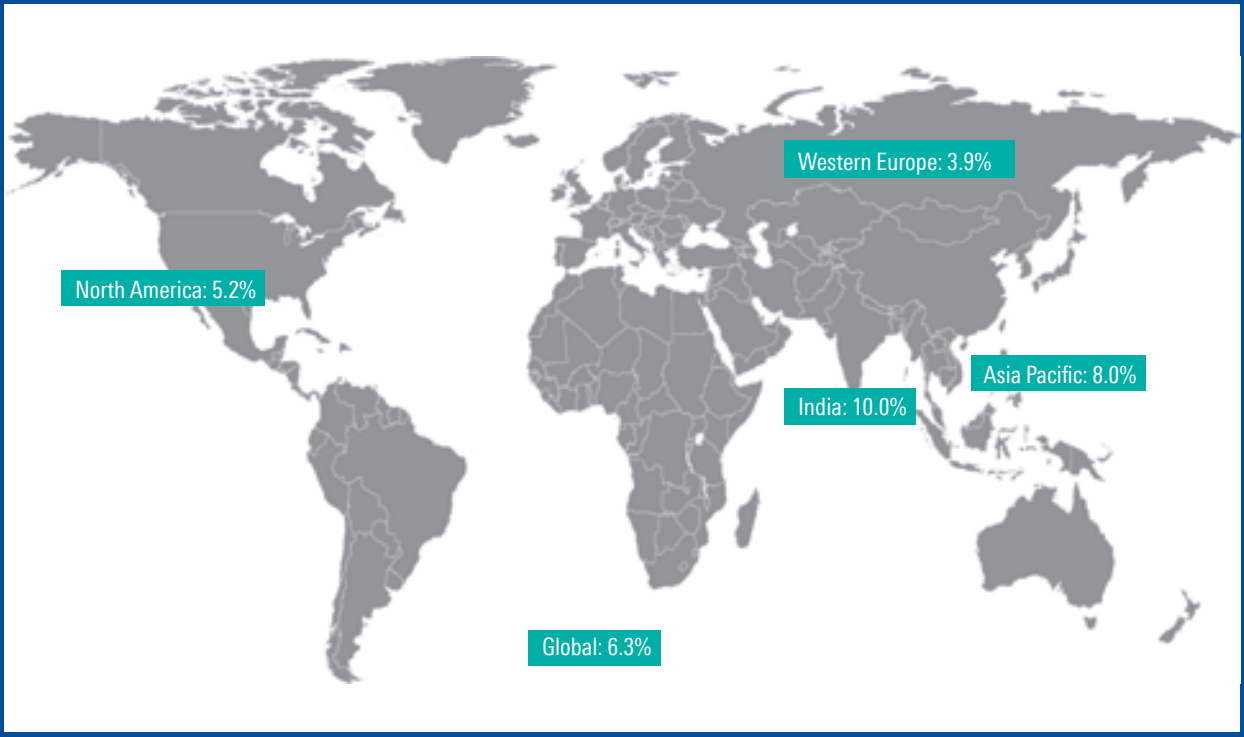
What is keeping investors interested?

The growth in the global restaurant industry is likely to be driven by the Asia-Pacific region, especially India and China, due to evolving consumer demographics and economic growth, with India likely to outpace the global average and other major regions.

Food services industry annualised growth rate projections (2016–20F)



Sources: China's massive foodservice industry drives global disposable growth, Food-navigator Asia, 16/02/2016; NRAI India Food Services Report (IFSR) 2016 launched by Shri Amitabh Kant in New Delhi, NRAI, 21/07/2016

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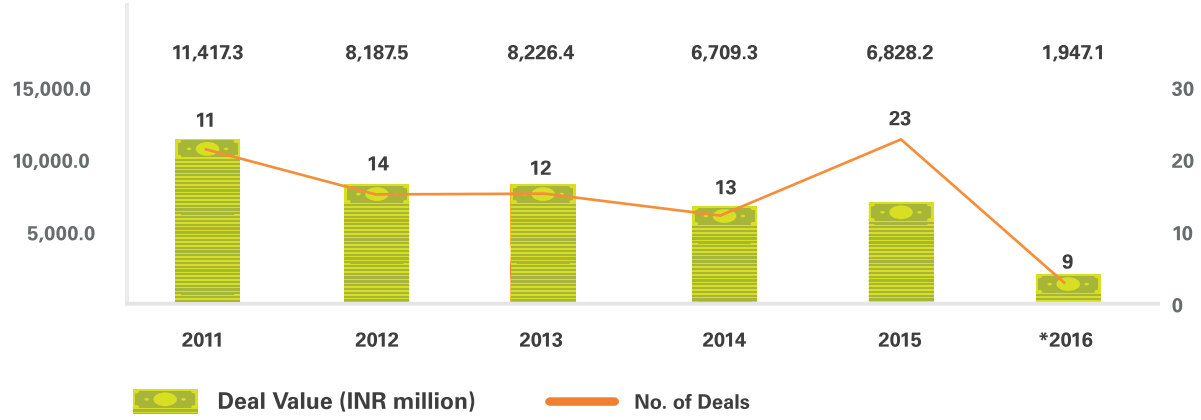
The Indian food and services industry has witnessed significant tractions in terms of deals taking place, especially in the restaurant space.

Since 2011, more than 80 deals have been realised as of August 2016, with reported deal volume exceeding INR43 billion. [56,57,58] PE investors could potentially realise 30 per cent returns on their investments in the Indian restaurant industry for the next few years.[59] The industry could undergo structural changes, as the organised market is expected to increase by a rate faster than industry's growth. Moreover, the Indian players are looking to expand their operations beyond a few locations. This shift toward organised market could spur higher deal activity in the space.[60]

Note: Deal volume pertains to those deals, for which figures were reported

*2016: as of August 2016

Deals in Indian Restaurant industry



Sources: Restaurant Industry Report, Avendus, accessed October 2016; Restaurant deals slide in January-August after peaking last year, VCCircle, 7/09/2016

56. Restaurant Industry Report, Avendus, accessed October 2016
57. Restaurant deals slide in January-August after peaking last year, VCCircle, 7/09/2016
58. Converted USD into INR taking average exchange rates: (2011-49.12, 2012- 55.91, 2013-60.93, 2014-63.46, 2015-66.76, 2016-67.14)
59. PEs find restaurant chains too hot to resist, The Economic Times, 18/08/2015
60. Restaurant Industry Report, Avendus, accessed on 28/10/2016

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How supportive is India's regulatory landscape for setting-up of food service business?

The number of permissions are usually dependent on service offerings of a restaurant and state-level requirements. While the number of licences/NOCs can go more than 30 to set-up a restaurant, some major licences/permissions that are required include:[61,62,63]

Sr.No	License/ certificate	Purpose	Issuing authority
1	Food license	Primary requirement to register the business	FSSAI (Food Safety and Standards Authority of India)
2	Health trade licence	Mandatory to be obtained in the state(s) of operation(s)	Municipal Corporation or Health Department of State
3	Eating house licence	Required to have a proper eating place	Police department (city/state)
4	Fire security certificate	No Objection Certificate (NOC) required for security in case of fire	Fire department (city)
5	Liquor/bar licence	Required if liquor served at the food outlet	Excise Commissioner (city)
6	Approval/re-approval	Mandatory to apply for Liquor licence	Department of Tourism (state)
7	Lift clearance	Required for food outlets in multi-storey buildings to ensure compliance with safety norms for lift (elevator) operations	Labour Commissioner (Electrical Inspector)
8	License for playing music/ video	Necessary for playing recorded music and/ or videos in the outlet to comply with the Copyright Act, 1957	Phonographic Performance Limited or Indian Performing Right Society
9	Environmental clearance	NOC required to ensure compliance with pollution norms	Pollution board (state)
10	Insurances	Mandatory insurances required for assets and products liability: • Public liability • Product liability • Fire policy • Building and asset	Recognised insurance company
11	Signage licence	Required for public display of signs	Regional/local civic bodies
12	Shop and establishment registration	Registration necessary to safeguard employee rights and working conditions	Concerned State authorities (as applicable)
13	Approvals for weighing and measuring instruments	Approvals required to comply with the Legal Metrology Act, 2009	Weights and Measures department
14	Registration under Factories Act*	Required if the number of employees exceeds 10	Department of Labour
15	State Tax and Value Added Tax (VAT)*	Required for registration under the applicable tax authorities	Department of Commercial Taxes

*Note: A few alterations are expected in the procedures and guidelines in the Factories (Amendment) Bill, as it was introduced in the Lok Sabha in 2014, and Goods and Services Tax (GST) became an Act on 8 September 2016 after getting the President's approval.

Sources: Thinking of Opening a Restaurant? Here's What You Should Know About Various Licences, NDTV website, 30/12/2015; Government revives talks to revamp Factories Act, The Hindu, 20/04/2016; President gives his nod, GST Bill becomes Act, The Hindustan Times, 9/09/2016

61. Thinking of Opening a Restaurant? Here's What You Should Know About Various Licences, NDTV website, 30/12/2015
62. Government revives talks to revamp Factories Act, The Hindu, 20/04/2016
63. President gives his nod, GST Bill becomes Act, The Hindustan Times, 9/09/2016

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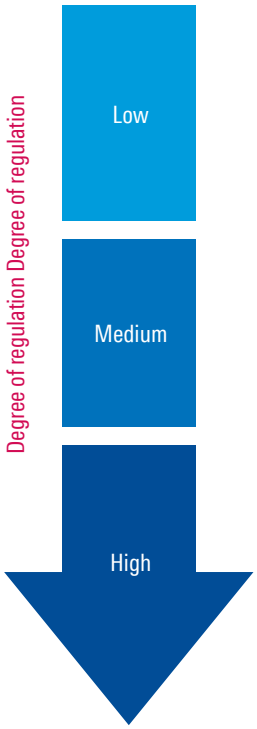
Single window clearance: Reducing the number of permissions required

The current bureaucratic process hinders restaurants to start their business without troubles. Hence, there is a need to bring transparency by reducing the number of approvals under the single-window clearance system by removing the duplication of licensing at central and regional levels.[64]

The suggested approach for the government is to build a three-tier structure by classifying the licences into sub-sets based on the requirement to fulfil a particular governing need. This would abridge the process of eradicating redundancy keeping the regulatory aspects and customer protection at utmost priority.[65]

These can help the governments identify the gaps and constantly keep a check on the policies to eliminate any unnecessary approvals and equipping new restaurants with better knowledge for swift operations.



Removing the outdated licences that are no longer required. For instance, various state governments are contemplating about scrapping non-essential approvals needed from the Police department, as it leads to a lot of duplication as well as loss of time.

The identification of licences that could be combined into a single licence — for instance, approvals from regional civic bodies can be combined to save time.

Including only major licences and facilitation in the process of applying through single point/ministry.

64. Ease to start hotel, Maharashtra state reduces 5 permissions, The Times of India, 30/01/2016
65. Case Study: Chicago Licensing and Permitting Reform, Data Smart, 19/03/2015

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Accelerating the growth of industry through single window clearance

The outset of single-window clearance is expected to enhance effectiveness and productivity of resources. This can make it more comprehensive, efficient and computerised approach, helping improve transparency in business by reducing corruption and unlawful business activities.[66,67]

Moving fast-track

With no single ministry responsible for issuing licences/approvals to restaurants, the documentations have to travel to several departments for getting all the mandatory licences and NOCs.

Hence, the process of obtaining licences takes about 120–150 days. With the introduction of single-window clearance, the process time is expected to reduce by two–three times, encouraging new minds to serve customers.

Monetary inducements

The establishment of single-window clearance system is likely to rationalise the existing methods and bring the cost down for restaurant owners.

It can help the industry remove any irregularity that adds up to the total investment required to set-up a new restaurant, thus making it cheaper for businesses to start and achieve better return on investments.

66. Ease of doing business: Food and beverages bitten by over regulation, The Economic Times, 10/11/2015
67. Authorities propose single window approval system for realty projects, The Times of India, 25/04/2014

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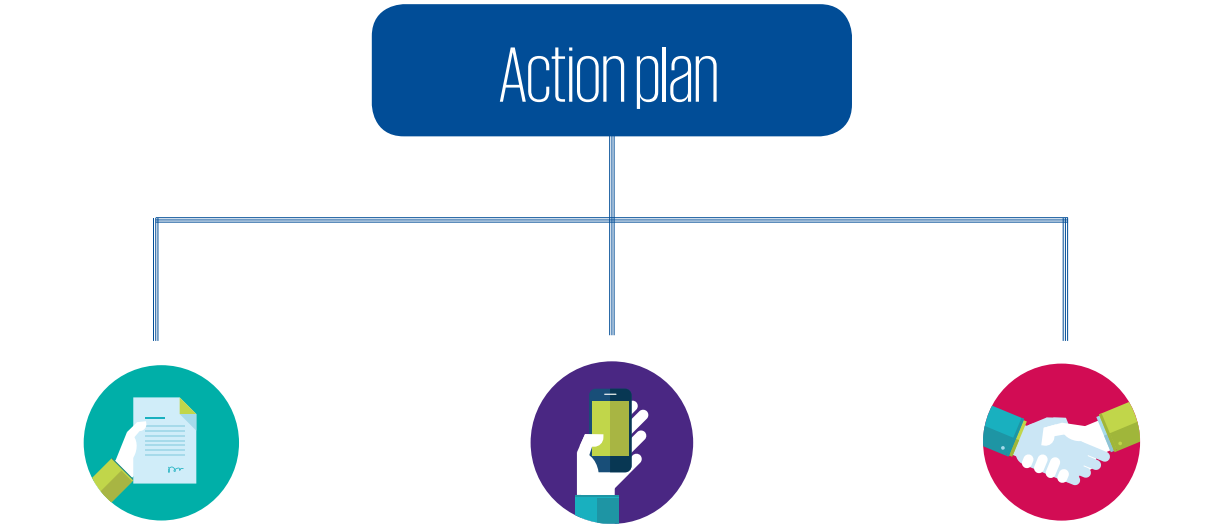
Bridging the gap — steps needed[68]

An immediate execution plan to create a single-window clearance system can transmute the progress in the country's food services sector. Since many of the regulations are state-based, each state should ensure a proper implementation plan to put things into action. One of the major challenges for the sector is the involvement of various ministries — tourism, agriculture, finance and commerce — that delays the progress. Therefore, all the concerned ministries are required to rationalise and simplify the process by formulating guidelines favourable to businesses with an improved implementation plan.



Reduction in licenses

The authorities need to apply a structured approach in trimming down the number of licences and approvals required to set-up a restaurant business. The legal requirements can better focus on targeting frauds, rather than fulfilling operational elements.

Digital transition

The system of acquiring licence and approvals is still manual in various departments and there is no real-time tracker of the application status. Since the procedure to apply for requisite approvals is lengthy and over-regulated, issuing licences online would make the process easier and less time consuming for businesses to get into a working mode. This could also help provide a rapid update to the applicants on requirement(s) for any additional documentation.

States to play an instrumental role

An immediate execution plan to create a single-window clearance system can transmute the progress in the country's food services sector. Since many of the regulations are state-based, each state should ensure a proper implementation plan to put things into action. One of the major challenges for the sector is the involvement of various ministries — tourism, agriculture, finance and commerce — that delays the progress. Therefore, all the concerned ministries are required to rationalise and simplify the process by formulating guidelines favourable to businesses with an improved implementation plan.

68. Maharashtra government to create single window clearance for hospitality industry, Mid-Day website, 20/09/2016

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Regulatory landscape: Preparing to be competent globally

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Current regulatory scenario in India

A country's food policy affects the entire food value chain, including production, processing, distribution and purchase. The current National Food Security Act (2013), India, is the world's largest welfare scheme to guarantee food grains to 67 per cent of the population at economical rates[69].

The Food Safety and Standards Authority of India (FSSAI) is the apex food regulatory authority in India. It regulates and monitors the manufacturing, processing, storage, distribution, sales and imports of food, and ensures availability of safe food for human consumption. Established under the Food Safety and Standards Act (FSSA), 2006, it consolidates and overrides all other major food-related laws prevalent earlier, across various ministries and government departments. The purpose of this act is to harmonise India's food regulations with the international standards. The administration and implementation of FSSAI comes under the purview of the Ministry of Health and Family Welfare, Government of India (GoI)[70]. The major regulatory provisions of FSSA entail guidelines for the following[71]:

- Packaging and labelling — for labelling of food products
- Signage and customer notices — concerning advertising by food business operators
- Licensing and registration, and health and sanitary permits — for registration and operational provisions

Operating a food service business[72,73]

Once all the mandatory registrations and clearances are obtained from the respective authorities, the food business operators are required to follow the standard regulatory practices of operating a food service business, including:

a. Maintaining sanitary and hygienic requirements

Food business operators are required to confirm to the sanitary and hygienic requirements as laid out by FSSAI. Inspection of the premises and facilities is carried to help ensure proper food safety measures, and other standards are followed and reviewed periodically, so as to ascertain the availability of safe food for human consumption. Guidelines are laid for setting up infrastructure and operations across the following areas:

- Location and surrounding of food establishment
- Layout and design of the establishment
- Equipment used (utensils, containers, etc.)
- Facilities used (water, steam, ice, waste disposal, ventilation, lighting, personnel facilities, etc.)
- Food operations and control
  - Procurement and storage of raw materials and food
  - Food preparation/processing — time and temperature control
  - Food packaging
  - Food distribution/service
- Food testing facilities
- Auditing, documentation and record keeping
- Personal hygiene and behaviour
- Visitors/customers.

Dairy and meat products are perishable in nature, and thus require special attention by the food business operators. FSSAI lays distinct guidelines in terms of maintaining ambient conditions (lighting, humidity, temperature, etc.), storage, packaging and more, for such products, so as to be deemed fit for human consumption.

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69. An Overview of Food Policy in India, World Wide Journals, 10/2015
70. Food Safety and Standards Authority of India (FSSAI), FSSAI, accessed October 2016
71. India: Laws Governing The Food Industry In India – Revisited, Mondaq website, 13/06/2013
72. Notification, FSSAI, 1/08/2011
73. The training manual for food safety regulators who are involved in implementing Food Safety and Standards Act 2006 across the country, FSSAI, June 2010

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b. Providing product information for consumer awareness

It is required to label all the packaged food products providing requisite information as per FSSA, for making adequate information available across the food chain.

c. Specific practices for food serving establishments

In addition to the above, food business operators engaged in catering/food services are required to follow additional practices, as listed by FSSAI. Such establishments include eating houses, restaurant and hotels, snack bars, canteens, food service at religious places and neighbourhood tiffin services. Supplementary guidelines for preparation of vegetarian and non-vegetarian products, cooking and chilling of food products, transportation and handling of food, stock rotation and storage, and special requirements for high-risk food items are listed.

Ingredient-level limits are specified for some special products, including milk and oil, to help ensure that the standardisation of contents in such products across the country is achieved.

Compliance to regulatory mechanism

Adherence to the regulatory mechanism is ensured through levy of penalties in case of non-compliance. In general, non-compliance with the provisions of FSSA could attract penalties to the tune of INR200,000. In case a food business operator is functioning without the requisite licences, the operator is punishable with penalties extending to INR500,000 and imprisonment for up to six months.[74]

The FSSAI officials, generally food safety regulators, are empowered to carry out inspections to warrant adherence to the food regulations, as applicable. Inspections are also carried in cases, if complaints of violations against a food business operator are received. Non-compliant matters are reported and punitive measures are taken in the absence of any corrective measures.[75]

74. India: Laws Governing The Food Industry In India – Revisited, Mondaq website, 13/06/2013
75. The training manual for food safety regulators who are involved in implementing Food Safety and Standards Act 2006 across the country, FSSAI, June 2010

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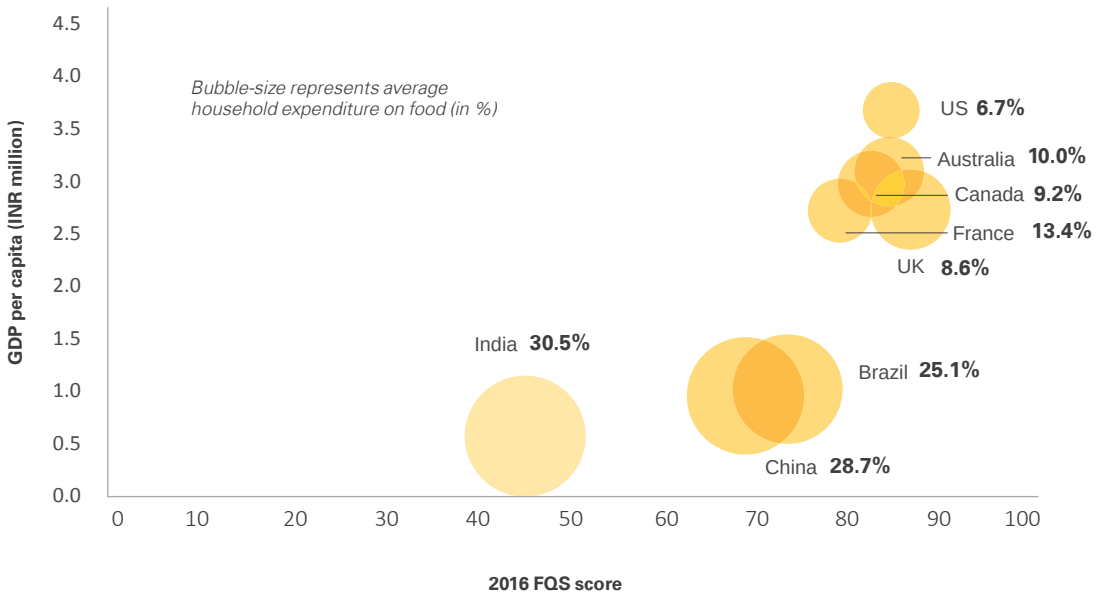
Regulatory landscape vis-à-vis developed countries

A majority of the developed countries have adopted the Hazard Analysis Critical Control Point (HACCP) approach to food safety, recommended by the Codex Alimentarius Commission — the United Nations (UN) international standards organisation for food safety. It is a systematic and preventive approach laying seven universally accepted principles to find, rectify and prevent hazards (physical, chemical and biological) throughout the food production process. The national agencies work in collaboration with regional and local authorities, with discernible responsibilities and stringent compliance measures to determine adherence to the regulatory norms.

Global food quality and safety (FQS) performance*



Source: Global Food Security Index (EIU), EIU website, accessed 27 October 2016

Note*: Food Quality and Safety (FQS) is one of the three major parameters of the Global Food Safety Index (GFSI) released annually by The Economist Intelligence Unit (EIU).The performance indexing is a dynamic quantitative and qualitative benchmarking model, to compare and analyse 113 countries globally. The scoring and ranking on food quality and safety is done based on a composite indicator measuring the enabling environment for food safety with the following sub-indicators:

i. Agency to ensure the safety and health of food
ii. Percentage of population with access to potable water
iii. Presence of a formal grocery sector

India ranks 80th position in the global food quality and safety index, with a score of 46.7 in 2016. Portugal top-ranked with a quality and safety score of 89.7.[76]

76. Global Food Security Index (EIU), EIU website, accessed October 2016

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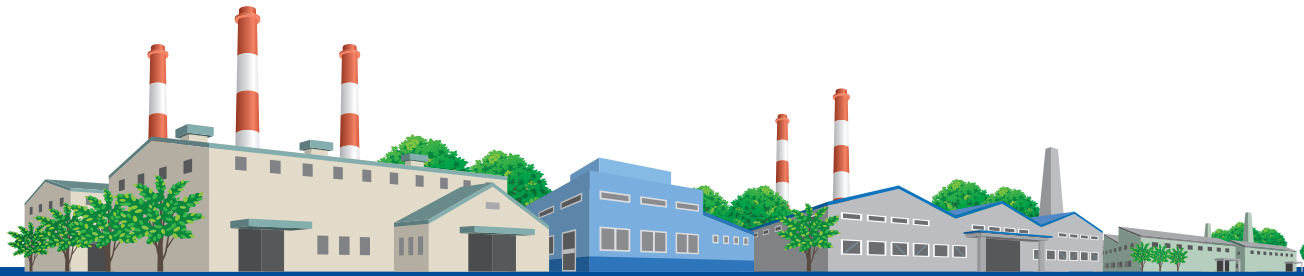
Table highlighting regulatory practices followed in major developed economies Table highlighting regulatory practices followed in major developed economies

Country	Major concerned authorities/agencies	Regulatory practice
USA	• Food and Drug Administration (FDA) • United States Department of Agriculture (USDA)	• Food safety regulations in the U.S. exist at the federal, state and local level • The FDA and USDA are the major federal agencies. The former frames guidelines for all food products, but meat, poultry and a few egg products, for which the latter is responsible • There is minimum overlap among agencies' work as the federal regulations govern international and interstate trade, while state and local regulations govern intra-state trade • Agencies across levels (federal, state and local) are interrelated and interdependent and thus, work hand-in-hand in a collaborative manner to help ensure adherence to the regulations • While the federal agencies are responsible for framing regulations for the country, state agencies assist through laboratory testing, inspections and training. Local agencies have the frontline responsibility of reporting, leading investigations and set ground-level safety standards for establishments • The U.S.-passed FDA Food Safety Modernization Act (FSMA) in January 2011 to adopt a proactive approach by shifting the focus from 'reaction after contamination' to 'prevention of contamination'. The four major themes on which the law is based on include: i. Prevention ii. Inspection, compliance and response iii. Import safety iv. Enhanced partnership
Canada	Canadian Food Inspection Agency (CFIA)	• The Food and Drugs Act of Canada 1985, necessitates the food business operator to help ensure sale of safe food for human consumption • The CFIA is a regulator-cum-agency, which formulates rules and policies for different segments related to food health — including agricultural produce, food inspection, packaging and labelling, feeds and fertilisers, food and drugs, health of animals, plant breeding, etc. • The CFIA Act empowers the CFIA to administrate and enforce regulations pertaining to food inspection • The agency collaborates with provincial governments, municipalities and regional health authorities for implementation, enforcement, inspection, reporting, etc., purposes • The regional/local food inspection agencies are responsible to ensure that food business operators upload their recent inspection reports, to be available for the health department and public to read — based on which, the establishments are either passed, closed or conditionally passed.



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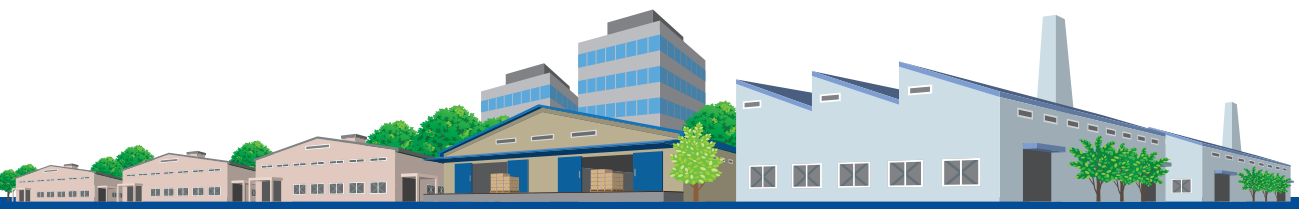
European Union (EU)-member countries	• European Commission (EC) • European Food Safety Authority (EFSA) • National food safety authority/agency (respective member country)	• Member countries of the EU follow the General Food Law Regulation, introduced in 2002 by the EC, setting up EFSA as an independent agency for technical advice and support • It lays down broad principles and procedures to be followed across all stages of food production and distribution • The member countries' national food safety authorities provide strategic advice to the EFSA for formulating harmonised policies and rules for food safety • While EFSA helps in advising and supporting member nations to follow the EC guidelines, the national food safety authorities provide for enforcements of the standards and look after compliance • The EC legislation requires food business operators to mandatorily run verification programs per the international standards • Compliance is also ensured by the EC, through on-the-spot inspections by the Food and Veterinary Office (FVO) based in Ireland
Australia/ New Zealand	• Food Standards Australia New Zealand (FSANZ) • Australia and New Zealand Food Regulation Ministerial Council	• Australia and New Zealand have a cooperative bi-national food regulation system involving the Australian government, states and territories and New Zealand • The system, established through Food Regulations Agreement and a treaty between both the countries, liberates the states and territories to have their respective laws to implement and enforce the food standards as laid by FSANZ — a joint food standards setting body • Local governments are responsible for monitoring and enforcing the food standards • Overall, the food regulation system is overlooked by the Legislative and Governance Forum on Food Regulation (Australia and New Zealand Food Regulation Ministerial Council). The Forum is in turn supported by the Food Regulation Standing Committee (FRSC) and the Implementation Sub-Committee (ISC), through advising and enforcements, respectively • Further, to ensure extensive coverage through policy and standards, and other improvements, stakeholders consultation is conducted periodically, as an integral part of the food regulation system • Proof of implementing food safety programme has to be submitted by the food business operator to the local authority

Sources: Food Safety Policy and Regulations in the United States, European Commission, accessed April 2015; How to Start a Food Business, US FDA, accessed October 2016; General Food Law, European Commission, accessed October 2016; Food safety controls in the European Union, EUFIC, accessed October 2016; DineSafe Durham, Government of Canada, accessed October 2016; Restaurant and Food Service Inspection in Canada, Government of Canada, accessed October 2016; The Food Regulation System, Department of Health – Australian Government, January 2016; Everything You Need to Know about Starting a Food Business, Australian Institute of Food Safety, 15/03/2016; The safe food system, FSANZ, accessed October 2016



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Human capital: Strategies to bridge the skill-gap

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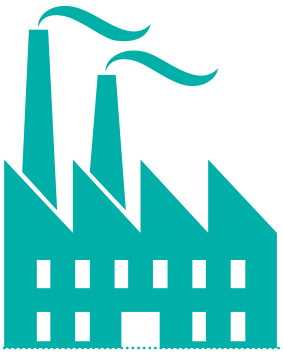
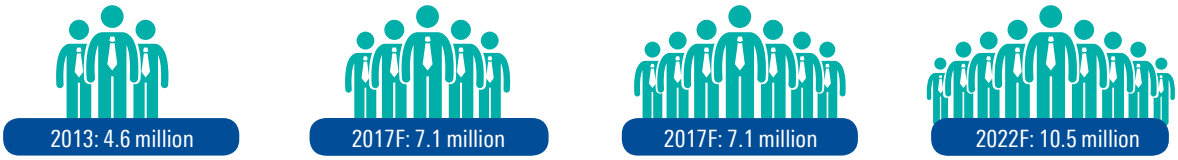
Current and future employment gap in the industry

The success of a food service venture is significantly dependent on the skill sets of its workforce. Owing to constantly changing lifestyles, the need for talent is evolving. Now, the need is not limited to having best chefs in-house, but also trained professionals who possess effective communication skills to deliver best-in-class services. With the growth of restaurant culture, the workforce requirement in the food service industry is expected to almost double by 2022, indicating a strong potential and new employment opportunities.



Projected workforce requirements in the food service industry[77,78]



2013–16 CAGR: 8.0%

2017–22F CAGR: 8.1%

Break down of workforce by functions in hotels and restaurants[79]:

Function	% of employees
Food service	20
Chefs	15–20
Housekeeping	15–20
Front office	8
Management	8
Others	20–25
Total	100

Major skill-based challenges faced by the industry :

- **Food service:** Ineffective communication skills of the staff and average understanding of service offerings
- **Chefs:** Unawareness of global cuisines, controlling costs to reduce wastage, inadequate arrangement of food items and scheduling, time management and maintaining cleanliness
- **Management:** Lack of skill in handling people, less impactful in marketing and communications, inefficient problem-solving/complaint-handling skills

77. Delhi-NCR is the No. 1 Market in India's Over-Taxed, Over-Regulated, Largely Unorganised Food Services Sector That Provides Jobs to 16 Million People, 20 July 2016, NRAI website
78. Human Resource and Skill requirements in the Retail sector (2013–17, 2017–22), Government of India and KPMG
79. An Explorative View on Human Resource Management with Focus on Tourism & Hospitality Industry of India, Krishisanskriti, November 2014
80. A study on role of tourism in Indian economy with reference to identification of skill gaps in tourism industry, IJMSS, January 2015

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What could broaden the employment gap?

1. Developing taste for global cuisines: Unlike in the past, people in the country are now exploring different cuisines such as Italian, Lebanese, Thai, Japanese, Mediterranean, etc. In the high-end food service market, customers are willing to pay a premium price for authentic global dishes, compelling the leading restaurants and five-star hotel chains to hire expat chefs to present the authentic taste of global cuisines, in the absence of required skills from within the existing local workforce.[81]

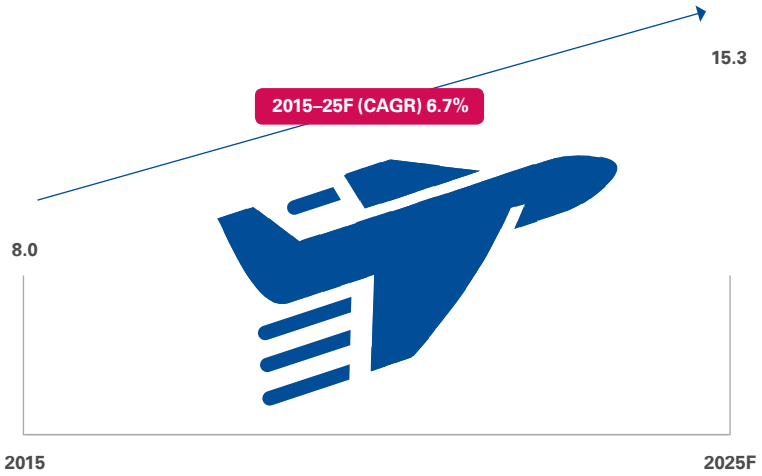
   Also, with the number of foreign tourists increasing every year, which is likely to reach 15.3 million in 2025 from 8 million in 2015, the demand for international cuisines could increase further.[82]

   The increase in foreign tourist arrivals in India is indirectly related to the culinary market growth. The food tourism market in India is estimated to be INR133.6 billion and is growing with the trend of food and drink festivals organised at various places in the country. According to the International Culinary Tourism Association, an international traveller spends about INR80,000 per trip, with more than one-third — 36 per cent or over INR28,000 — of the travel expenses constitute food-related spend. For gourmet travellers, the food-related spend can cross over 50 per cent i.e., INR40,000 of the overall expense they incur while touring India.[83]

   Note: Converted USD to INR at an exchange rate of 1USD=66.79INR

2. The rising costs of skilled staff due to high attrition: For the Quick Service Restaurants (QSR) and fast food segments, the attrition rate hovers between 90 per cent and 100 per cent for semi-skilled workers, while it is approximately 60 per cent for the relatively more skilled workforce. Such high rates inhibit businesses to hire or retain cheap staff. Hence, they have to constantly bear retention costs by paying competitive salaries to avoid any shortage of staff. [84]

Foreign Tourist Arrivals (FTA) in India (million)



81. Rise in demand for expat chefs as standalone restaurants look to raise the bar, The Economic Times, 12/10/2016
82. Tourism & Hospitality Industry in India, India Brand Equity Foundation, October 2016
83. Food Tourism: An effective marketing tool for Indian tourism industry, International Journal of Science Technology & Management, February 2015
84. How to Start a Restaurant Business In India, Muvsi website, 18/07/2016; Human resource and skill requirements in the Travel, Tourism, and Hospitality sector, NSDC, April 2015

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Government initiatives to reduce the skill gap in hospitality industry

1. **Development of occupational standards**: The National Skill Development Corporation (NSDC), funded by Tourism and Hospitality Skill Council (THSC), develops a skill plan for the tourism and hospitality industry in India. Within its ambit, it covers in-hotel restaurants, QSRs, take-aways, over-the-counter (OTC), café and bistros, fine dining and casual dining, catering and road-side eateries (generally unorganised). The council has laid down several occupational standards for below-mentioned departments and levels to determine that the industry has right talent for respective roles:[85]

Level	Material management	Food production/ kitchen	Quality control	Customer service	Roadside eatery	Stock taking
Level 8		Restaurant manager, executive chef				
Level 7		Sous chef	Food technologist		Owner-cum-cashier	F&B controller
Level 6	Procurement manager	Station chef	Quality control manager	Captain		Night auditor
Level 5	Inventory in-charge	Kitchen stewarding supervisor		Bar Tender, QSR Coordinator	Street food vendor	
Level 4	Storekeeper	Commis chef, pastry chef	Quality control executive	F&B steward, front desk officer, counter sale executive, order taker – home delivery	Multi-cuisine cook	
Level 3		Trainee chef, kitchen steward		Home delivery boy	Tandoor cook, food server	
Level 2					Kitchen helper	
Level 1		Dishwasher			Cleaner – roadside eatery	

Source: Subsector-wise Occupational Map, Tourism & Hospitality Skill Council, accessed October 2016

With the majority of food service businesses in India are unorganised, there is a need to determine that all competencies for different roles are duly met and ascertain the training needs at every level eliminating any skill gap in the system.

85. Subsector-wise Occupational Map, Tourism & Hospitality Skill Council, accessed October 2016

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2. Major recent announcements expected to address skill gap challenges in the industry:

b. In June 2016, the government of India also launched the Pradhan Mantri Kaushal Vikas Yojana 2.0 to skill over 10 million people over four years (2016–20), and announced an investment of INR120 billion to support the initiative. The scheme offers skill-based training for 577 job roles through 31 councils. For the hospitality industry, THSC is offering training for four job roles related to housekeeping, customer service, room attendant, and food and beverage service — steward.[86]

b. In the Union Budget 2016–17, the government allocated INR17 billion toward the establishment of 1,500 multi-skill training institutes in the country.[87]

86. Pradhan Mantri Kaushal Vikas Yojana (PMKVY) Courses List & Job Roles, Sarkariyojna website, accessed October 2016
87. Press Information Bureau, Ministry of Finance (Government of India), 29/02/2016

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Strategies and initiatives to bridge the skill gap

Need for in-house curriculum/collaborative structured programmes with a focus on communication

Since majority of the staff in the industry joins at an entry-level, the restaurants/government bodies are not only required to comprehend training needs of the employees, but also concoct a plan to determine their preparedness and adeptness for handling diverse functions. To enable this, devising a structured framework could help businesses close any gap and achieve better output.[88,89]

As majority of the workforce in the industry is required to perform entry-level tasks, the training institutes, in-house programmes and government driven schemes should focus more on improving soft skills of employees across functions.

Entry-level or semi-skilled

Most of the restaurants already have on-the-job training programmes in place, wherein new staff is introduced to the quality standards by observing crew trainers.

However, the curriculum could focus more on improving other capabilities around communication and management to deliver service value to customers, rather than just food experience.

For kitchens, training on modern menus i.e., including international cuisines, would help drive innovations.

Managers

The expectation is to equip managers to manage an entire restaurant shift.

The management development programmes could focus more on improving customer-handling skills and teaching skills to impart knowledge.

To accomplish this, the restaurants could strengthen their training centres' capability or collaborate with various universities or colleges to facilitate this.

Leaders

The core curriculum could focus more on learning leading practices and implementing real business models in the entire value chain.

To support this, opportunities related to secondment or research could be explored for leaders to integrate each division's tactics in achieving overall business goals by implementing the leading policies in place.

88. Pradhan Mantri Kaushal Vikas Yojana (PMKVY) Courses List & Job Roles, Sarkariyojna website, accessed October 2016
89. Press Information Bureau, Ministry of Finance (Government of India), 29/02/2016

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Bottlenecks inhibiting growth path

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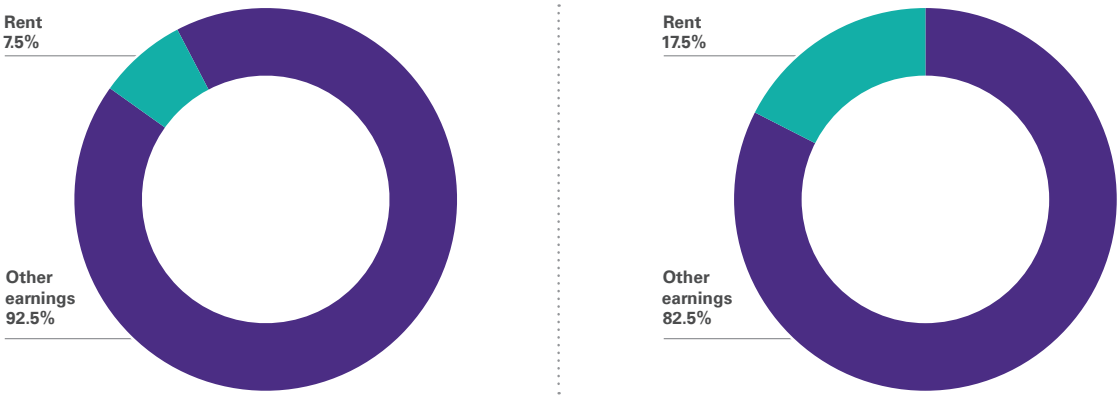
High real estate cost

The Indian food service industry has observed a high growth trajectory in the past few years; however, there is a shortage of quality real estate for the restaurateurs. Rentals eat away a substantial part of a restaurant owner's earnings, in comparison with the global peers.

The industry is plagued with increasing rentals, which result in margin contractions and subsequently lead to the closing of restaurants. For instance, seven of the top-10 restaurants opened in Mumbai since 2012 have shut down as they were no longer profitable.[90]

Restaurant owners are undertaking various measures, such as operating cloud kitchens, kitchen sharing and moving to smaller towns, in a bid to minimise their operational costs.[91,92,93]

Percentage share of rented restaurants' total earnings



Source(s): Restaurants are operating in an increasingly tough environment, The Economic Times, 21/08/2016; Pizza Industry Expert Big Dave Ostrander talk prime cost percentage, Pizza Today, 21/08/2013; The Foreign 'curry' challenge in India, Franchise India, 30/08/2014; KPMG in India's Analysis

Note: The pie charts represent indicative values

What restaurant operators can potentially consider?

- Negotiate a variable lease: Establishing a base rent with the landlord while adding a method of incremental increases in rent over a period of time, primarily based on the restaurants' revenues. This could determine rental payments to remain in-sync with the earning ability of the outlets.[94,95]
- Pro-rating rent agreement: Paying a low rent for the first year of the lease, and subsequently increasing it over a period of time. This could allow for a reduced impact on rent on outlet revenues at the outset.[96]

90. Why restaurant chains are shutting down outlets and shifting to 'cloud kitchen', The Economic Times, 18/08/2016
91. Why restaurant chains are shutting down outlets and shifting to 'cloud kitchen', The Economic Times, 18/10/2016
92. Kitchen sharing a great idea for chefs who want to minimise cost, The Economic Times, 12/03/2016
93. High Real Estate Cost Drive Food Chains To Smaller Towns, Silicon India, 06/08/2014
94. How Percentage Rent Works in a Commercial Real Estate Lease, Property metrics, 16/01/2014
95. The Percentage of Rent Vs. Revenue for Restaurants, Small Business, accessed November 2016
96. Negotiating a Restaurant Lease, The balance, 18/10/2016

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Legal metrology

In addition to indigenous items of respective cuisines, the restaurants in India also serve packaged food and beverages, generally supplied by third-parties. The food service industry lacks a mechanism to track the quality, authenticity of information and adherence to guidelines issued by the government authorities and bodies for these supplied materials. For instance, the use of harmful chemicals such as potassium bromate in bakery products can have adverse effects on health.[97] Also, for small restaurant owners, or those having limited presence, conducting a quality check on food items provided by vendors often becomes a cost-intensive exercise. Moreover, there is a dearth of internal audit mechanisms across the industry to keep a check on the quality of food being served in restaurants.

New regulations helping the situation

Recently, FSSAI introduced a slew of measures to protect end consumers' interests and health.

- It launched a portal in October 2016 to solicit customers' feedback for packaged food items, encapsulating factors, such as expiry date, batch number, FSSAI licence number and nutritional information provided.[98]
- It issued guidelines revolving around the labelling of food items, storage and packaging integrity, for restaurant operators to serve packaged food and beverages.[99]
- It also issued guidelines to conduct the audit of food establishments and in case of packaged foods, the guidelines laid stress on aspects, such as packaging materials (design, handling, storage, etc.), displaying packaged food items and handling of these items.[100]
- It also launched a mobile app through which the consumers can register complaints about the quality of packaged food served in restaurants across the country.[101]

Besides these measures undertaken by FSSAI, the Indian government is also contemplating to bring more transparency in packaged food business, as it could ask the manufacturers to increase the visibility and readability of details given on the items. Also, the Ministry of Consumer Affairs is planning to introduce a niche marking system, which could facilitate customers to ascertain whether the manufacturing location of any item is in India or abroad.[102]

What restaurant operators can potentially consider?

- The restaurant owners could transform their vendors and suppliers to partners, thereby establishing quality standards and performing periodic checks, helping ensure consistency in products is procured.
- In alliance with the government, they could also form industry-wide standards, protocols and guidelines for suppliers as well as manufacturers of packaged food items In order to determine the higher levels of consistency, they could directly connect with manufacturers of packaged food items, thus reducing one level of quality check required pertaining to vendors, and allowing minimal lapses in quality, as they could convey their needs directly to the manufacturers.[103]

97. Potentially cancer-causing chemicals found in bread variants: CSE study, Live Mint, 23/05/2016
98. FSSAI launches food concern portal for consumers to share feedback, FNB News, 7/10/2016
99. GUIDELINES FOR FOOD SAFETY, FSSAI, accessed November 2016
100. Criteria for audit of food establishments, FSSAI, July 2009
101. In a first, Centre brings regulators, industry on board to redress consumer grievances, Financial Express, 23/10/2016
102. Govt. wants to bring more transparency in packaged food business, Franchise India, 22/08/2016
103. KPMG in India analysis

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Cold storage facilities

The cold storage facilities are used by multiple sub-sets of Indian food industry, with restaurants also facing challenges in terms of cold-chain infrastructure in the country. Although the cold storage market has been growing rapidly at about 20 per cent annual rate since 2011 and is expected to reach INR625 billion by 2017, the current cold storage capacity meets less than 50 per cent of the country's needs.[104,105] The food service outlets are required to maintain necessary ambient conditions (temperature, humidity, etc.) in order to ensure the palatability of processed and un-processed food, especially perishable products such as meat, fish, dairy products, etc.

Major challenges[106]:

Unorganised and fragmented cold chain network:

- Organised players contribute only 8 to 10 per cent of the total cold chain market in India.
- The nature of fragmentation in the industry can be estimated from the fact that more than 3,500 companies are engaged in cold chain operations in India.

Uneven distribution: Uttar Pradesh and West Bengal contribute about 65 per cent of India's total cold chain storage capacity.

Lack of infrastructure and capacity

- More than 35 per cent of India's cold storage facilities have capacities less than 1,000 MT
- More than 75 per cent of the cold chain warehousing capacity is dedicated to potatoes, leaving just 25 per cent capacity for other products — fruits, vegetables, processed food, pharmaceuticals, etc.

Lack of refrigerated transportation:

- India transports approximately 104 million tonnes of perishable produce annually. Out of this, only four million tonnes are transported by reefers, while the rest 100 million tonnes move through non-reefer mode.
- Further, 80 per cent of the reefer transportation is used by dairy products, implying substantial lack of reefer transport for other perishable food products.
- About 80 per cent cold stores in India do not own any transportation facilities.

Lack of well-defined standards: There are no standard protocols for the construction and operation of cold chain facilities. The technical standards provided are unsuitable for the Indian weather conditions.

What could improve the situation?

The Indian government has taken steps to prioritise the cold storage infrastructure in the country. However, the industry requires infrastructural investments to the tune of INR6.5 trillion over the course of next five years for its development.[107] There is a need to establish end-to-end supply chain with modern structures including integrated cold chain solutions, last-mile connectivity, logistics parks, etc. Investments in the cold storage industry need to be encouraged through Public–Private Partnership (PPP) and Build–Operate–Transfer (BOT) models, with increased incentives and subsidies for the investors.[108]

104. Cold chain industry in India – Present status and future prospects, Agricultural and Processed Food Products Export Development Authority (APEDA), GoI, 10/03/2016
105. 2016 Top Markets Report Cold Chain Country Case Study: India, International Trade Administration (ITA), 18 May 2016
106. Cold chain industry in India – Present status and future prospects, Agricultural and Processed Food Products Export Development Authority (APEDA), GoI, 10/03/2016
107. 2016 Top Markets Report Cold Chain Country Case Study: India, International Trade Administration (ITA), 18/05/2016
108. KPMG in India analysis

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Way forward

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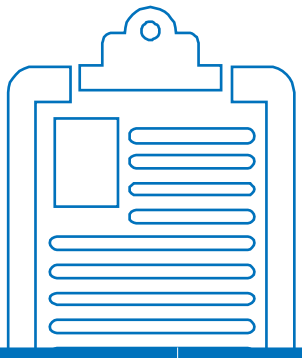
Our recommendations

There is a need to alter the regulatory approach from being reactive to becoming proactive, towards adherence to norms in the food service industry. More focus on the prevention of hazards/malpractices is required, along with stringent punitive measures for non-compliance. To be efficient and effective to this end, collaboration among central, state and local authorities/agencies is imperative, with minimum overlap among their responsibilities. The table below represents recommendations to different focus areas and their priority/urgency based on the Indian and global food service industry analysis:



Focus area	Our recommendation(s)	Priority
Regulatory landscape		
Uniform implementation of Codex HACCP across the country	• Uniform and extensive implementation of the HACCP principles across sub-segments of the industry throughout the country.[109] • Need to impart knowledge and awareness regarding the benefits of adopting the globally acknowledged principles. Further, skill development and trainings are essential to bridge the current knowledge gap. • The HACCP implementation requires a strong inter-relation among the governments, industry and other stakeholders. The industry requires adequate funding to set up the process and implement the HACCP principles uniformly	
Development of infrastructure and human capital	• Urgent need to upgrade the infrastructure in the current laboratories and set up adequate facilities (India has only 148 food testing laboratories, each serving around 8.8 million people, compared with 0.2 million per laboratory in China).[110,111] • Private sector participation must be encouraged in setting up and maintaining laboratories, and could also help impart adequate skills to bridge the gap in human capital.	
Discernible roles of authorities	• Clearly distinct roles and supervisory norms must be defined for effective enforcement of regulatory and safe practices. • There is a substantial overlap and ambiguity among responsibilities of the central, state and local food safety authorities currently. • Local authorities must share greater responsibility of ensuring strict adherence to the regulatory norms owing to their higher penetration.	
Stringent compliance required	• Stringent punitive measures would ensure compliance to the regulatory norms as stated by the respective authorities. • Food business operators could be encouraged to conduct frequent and periodic, self and third-party inspections of their operational practices.	
Use of technology as a tool for compliance	• Digitisation needs to be adopted throughout the authorities at all levels, at a faster pace for record keeping. • Food business operators should be mandated to upload their recent food inspection reports on the web, accessible to the relevant authorities and public. • Relevant actions can be taken by the authorities based on the inspection reports published by the companies.	
Greater collaboration among authorities at different levels	• Members from the government, state and local authorities, health departments, industry leaders, and other concerned stakeholders need to form an advisory committee/council to discuss and address the needs of the food service industry. • Recommendations, as emanated from such meetings, could be used in formulating regulations for the industry	

109. HACCP System and Difficulties in its Implementation in Food Sector, Indian Journal of Research, July 2015
110. 1 Laboratory For 8.8 Million, As India Faces Food-Safety Crisis, India Spend website, 7/04/2015
111. Food Safety in India – Regulatory framework and challenges, Swaniti website, June 2015

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Focus area	Our recommendation(s)	Priority
EoDB		
Expedition in implementing reforms by state governments	A comprehensive plan by states to implement single-window clearance system for restaurant industry would rationalise and simplify the process of licensing to create a favourable environment for the operators.	
Removing dispensable licences	A three-tier structured approach (high, moderate and low) could be followed to remove the non-essential and operational licences to abridge the process of eliminating redundancy and giving priority to customer protection.	
Digital transitioning of approvals/ licensing	Creating online platforms for all types of approvals, licensing and application tracking, making the procedure stress-free and prompt.	
Addressing skill gap		
Developing in-house curriculum/ collaborative structured programmes	Devising a suggested three-layer training plan for each level — entry-level or semi-skilled, managers and leaders — to determine their preparedness and adeptness for handling diverse functions.	
Referring to occupational standards	Need for restaurant operators to refer several occupational standards for each departments and levels laid down by The National Skill Development Corporation (NSDC) while hiring/preparing their staff for respective roles.	

The country presents significant opportunities in the food services industry and is poised for future growth. However, there are challenges which need stakeholders' immediate attention, to help ensure that the industry progresses at an ideal pace and emerges to be competitive globally.

Following the government's intention of improving the investment sentiment in the industry and country as a whole, it is imperative for all the stakeholders to work hand-in-hand towards redefining the norms for betterment of the industry.

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A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce.

FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

Our Vision: To be the thought leader for industry, its voice for policy change and its guardian for effective implementation.

Our Mission: To carry forward our initiatives in support of rapid, inclusive and sustainable growth that encompass health, education, livelihood, governance and skill development.

To enhance efficiency and global competitiveness of Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialised services and global linkages.

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