

German bakery market – winners and losers

GERMANY IS THE LAND OF BAKERY CHAIN STORES. 2,000 COMPANIES BELONG TO THIS GROUP OF BAKERY ENTERPRISES AND THEY DETERMINE THE PUBLIC PICTURE OF THE BAKERY TRADE IN GERMANY. HOWEVER, THERE ARE INEVITABLY WINNERS AND LOSERS IN THIS GROUP



With a two year delay, the German revenue authorities publish the purchase tax statistics for the individual industries. According to these figures, 2,060 bakeries generated 74.3% of German sales with the production of baked goods (except dry baked goods) in 2006. In 2007, it was 2,003 companies jointly achieving 75.89% of total sales. Concentration within the German bakery trade started in the 1970s with the emergence of the first chain store and the market is still not exhausted. The number of traditional mom-and-pop bakeries, with an annual maximum turnover of one million Euros, reached about 30,000 at that time and had decreased to 14,076 in 2007. Their share of sales is 24.1%. However, the bakeries belonging to the next sales category with sales of between one and 10 million Euros have also

had difficulties in withstanding the concentration process. In 2007, this group encompassed 1,913 bakeries which was 26 more than the year before although their share of sales in 2007 was only 29.8%. In 2006, it was 0.5% higher than the 2007 figure.

Obviously, the shares of sales migrated to the next larger category, the bakeries with an annual turnover of between 10 and 50 million Euros. Their number grew by 14 to 163 and their market share increased by one per cent to 19.3%. The number of companies with even higher turnovers is small but still seeing growing market shares.

17 companies, with sales of between 50 and 100 million Euros, accounted for 7% of the market in 2007 (6.9% in 2006); seven companies with sales in the range of 100 to 250 million ▶

Statistic on purchase tax – baked goods

Sales category	Sales category in million Euros				Number of companies				
	2000	2001	2002	2003	2004	2005	2006	2007	
up to 1	18,092	17,109	16,525	16,065	15,667	15,204	14,666	14,076	
1 – 10	2,077	2,122	2,051	1,945	1,896	1,878	1,887	1,913	
10 – 50	112	110	111	112	120	136	149	163	
50 – 100	10	13	12	13	14	14	15	17	
100 – 250	8	5	5	7	7	6	6	7	
above 250	3	4	3	3	3	3	3	3	

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Euros shared a market volume of 6.3% (5.6% in 2006) while the three key players of the German baking industry increased their market share by 0.3% to a total of 13.5% of the entire sales of the bakery trade in 2007.

In the past 35 years, the German bakery trade has not only experienced a decline in the number of companies and the emergence of chain stores with a hundred sales outlets or more but also a rather significant change in its field of activities as well.

The baker at the street corner who offered a small range of bread, rolls and cakes on 4.5 to 5.5 weekdays and who relied on the fact that his customers would buy his baked goods partly through habit and partly because of a lack of alternatives, has turned into a competition-oriented producer and service provider.

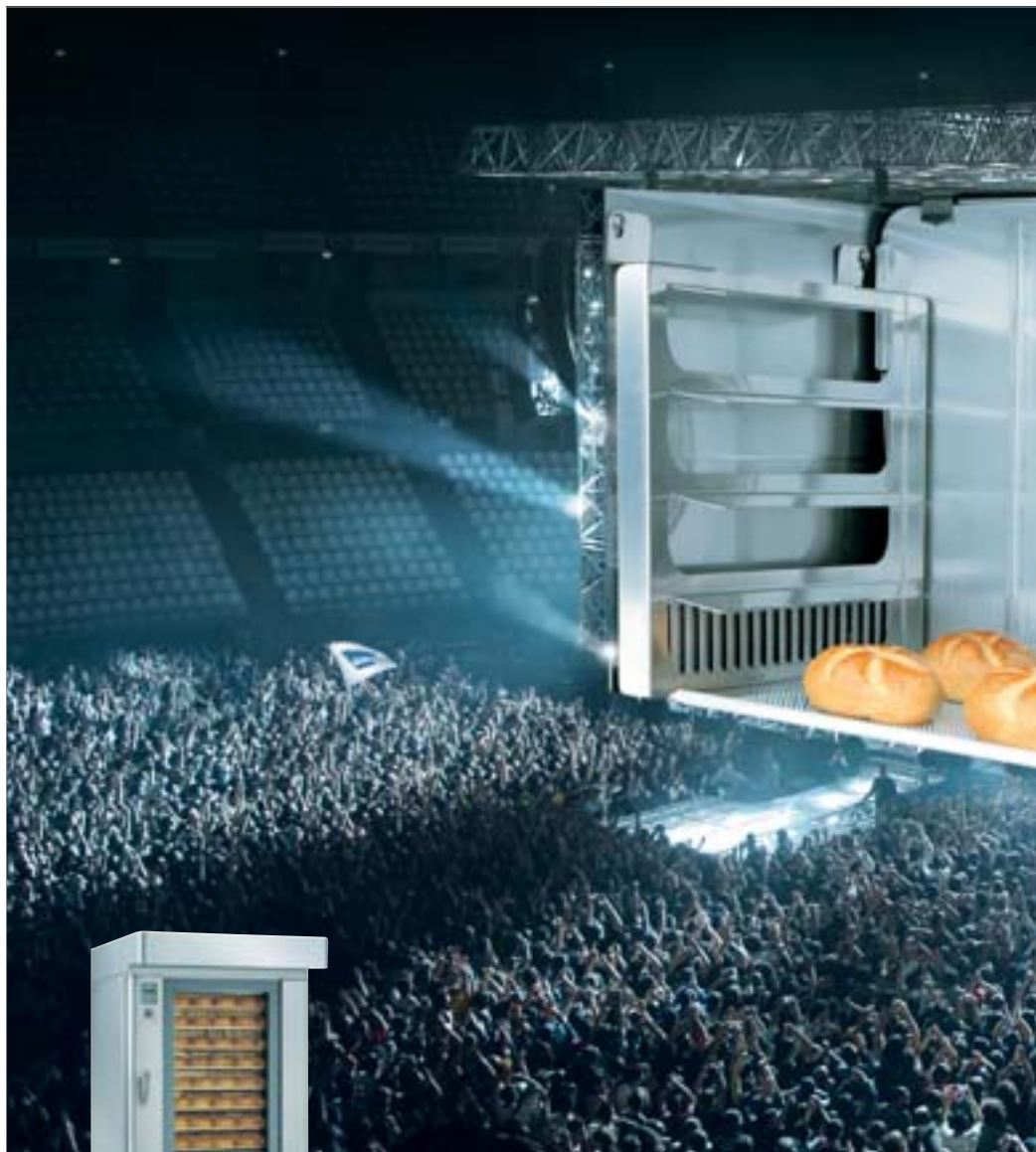
The change was not necessarily voluntary. The rising percentage of chain stores pushed the number of sales outlets up and ended the introspective times where there was no competition amongst the members of the trade guild. The changing consumption habits of the consumers also paved the way for the bakers and their sandwich rolls into a quick service market segment. Today, the bakery chain stores generate, on average, between 20 and 35% of their sales in the catering business, with some able to increase their shares of sales to above 50% with the right location. Both developments required an orientation towards the customer's needs and sharp thinking along commercial lines. If this lesson was not learned, they were out of the market. Up until the 1970s, bakers were considered to be well off or even rich but today 600 to 800 bakeries are going out of business each year.

The reason for the diminishing number of small bakeries is not just the increasing cost and competition pressure but often the fact that there is no successor. Added to this, small chain stores often lack professional process and management structures.

The winners are medium-

sized and large chain stores. Here again, the winners have to refine their own profile constantly and in every aspect. Top of the agenda is the systematic calculation of material usage, reduction of return quantities from their own sales outlets and from retailers as well as the streamlining of the organization. Within the past 18 months those able to optimize product range and quality, personnel management, market presentation, business processes and cost calculation at the highest levels could be pleased with increases in sales and profits even if the stores are located in the middle of the crisis-hit automotive industry locations. The same entrepreneur was also able to pass on the sky-rocketing raw materials costs in 2008 entirely to the consumer; this also contributed to a significant cash flow reserve. The decisive factor

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for enforcing price increases on the market is still the product quality. It is only with the right quality and the right service that consumers will accept the prices asked at specialist bakeries which are on average 30-40% and sometimes even 100% higher than at the discount stores. Bakeries trying to save costs on account of the raw material quality or by lowering wages which in turn de-motivates the employees will have to pay the price almost immediately.

When material usage is high it is predominantly convenience products that are scrutinized. Entrepreneurs who calculate with a minimum uplift only and who have comprehended the importance of authenticity for specialist bakeries will only purchase from third parties such products that cannot be produced cost effectively in their own companies.

Due to the increasing number of sales outlets and the baked goods quantities needed, this is less and less the case. Nevertheless, the companies are aware of not broadening their product range too much. This is one reason why cultivated traditional products are still the key business and why trends such as functional food are approached only hesitantly. Even the organic trend has not yet found its way into the bakeries. At the onset of this trend, there were a sufficient number of organic bakers who produced whatever the converted organic food buyers asked for. The food retail trade then stepped in, buying organic products from industrial production and therefore lowering the prices for the final consumers to such an extent that this market segment was no longer profitable for the chain stores. Nevertheless, many sales outlets today offer a small range of organic products without being pushed into the position of having to discuss with the customer whether the traditional range will be impaired or not and considered of inferior quality.

Mediterranean specialties such as ciabatta, foccacia and different types of baguettes are now found on the bakery shelves. They bear witness to a change in German consumption habits. The German people have learned to love baked goods produced with pre-ferments to yield a crumb with large pores, even though it is still not natural in Germany to serve bread with a meal in a good restaurant.

The catering sector has accelerated the growth of the bakery chain stores and provoked types of stores where the catering products dominate visually as in other countries. This might turn out to be problematical as in the meanwhile competing systems such as Subway, Vapiano and McCafé have arrived and most of them have parking spaces in the front of the store. The chain stores have to look for new concepts and profiles.

In food supermarkets and retail consumer markets, the chain stores are predominantly present with their

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Statistic on purchase tax – baked goods

* Accumulated sales in million Euros

Sales category	2000		2001		2002		2003	
	Sales *	% market	Sales	% market	Sales	% market	Sales	% market
up to 1	5,084.10	32.31	4,874.40	31.37	4,615.10	30.77	4,417.60	29.18
1 – 10	4,949.10	31.46	5,078.40	32.86	4,975.10	33.18	4,762.50	31.46
10 – 50	2,320.90	14.75	2,096.70	13.57	2,147.30	14.32	2,142.60	14.15
50 – 100	683.70	4.35	799.50	5.17	749.50	5.00	785.40	5.19
100 – 250	1,178.40	4.79	697.80	4.52	719.00	4.79	1,082.80	7.15
above 250	1,516.70	9.64	1,933.60	12.51	1,789.80	11.93	1,948.40	12.87

Sales category	2004		2005		2006		2007	
	Sales	% market	Sales	% market	Sales	% market	Sales	% market
up to 1	4,273.90	28.12	4,133.20	26.10	3,981.00	25.70	3,892.76	24.10
1 – 10	4,689.80	30.85	4,662.40	29.30	4,694.10	30.30	4,816.53	29.80
10 – 50	2,235.60	14.71	2,584.70	16.30	2,843.80	18.30	3,126.91	19.30
50 – 100	874.00	5.75	945.50	5.90	1,067.20	6.90	1,133.90	7.00
100 – 250	1,111.00	7.31	912.80	5.70	874.10	5.60	1,021.97	6.30
above 250	2,015.80	13.26	2,653.60	16.70	2,051.20	13.20	2,185.42	13.50

own sales outlets located in the entrance sections. This business is not always satisfactory. The retailers ask for high rents based on sales volume and they do not guarantee an exclusive position. Increasingly, the supermarkets themselves operate bake-off stations and increasingly trade chains offer the products from a different chain store under the motto “from the region for the region”.

The current economic crisis has hardly affected the baking industry although consumers are now more price-conscious. Nevertheless, the bakers fear the recession and its outcome.

It is easy to recall the disaster experienced during the introduction of the Euro in 2002. At that time, many bakers converted the prices rather generously in their own favor and consequently consumers turned to the food retailers and the discount stores. As a result the bakeries suffered big losses from which many recovered only slowly and with a lot of effort. It might be this fear of a sinking purchasing power that causes companies to plan larger investments carefully and to calculate them precisely. Medium-sized investments or technical improvements such as an energy saving crate washer

for example are still ordered, in particular, if they promise to yield a quick return with decreasing operating costs.

For some years now, larger companies have clearly invested more money in personnel development. This subject had previously been neglected over a long period of time with the result that qualified young people did not want to work in the bakery trade and multinational groups courted possible candidates while they were still at schools and universities. Now, as a result of comprehensive training and praxis-oriented educational offers and support in individual career planning, some companies have benefited and they now can choose from many qualified employees. +++



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