

Optimism is on the increase

AMONGST THE BAKERS IN AUSTRIA, PESSIMISM IS DECREASING; THE SHIFT FROM BAKERIES TO THE FOOD RETAIL TRADE SEEMS TO HAVE BEEN HALTED



Republic of Austria

- + GDP per capita (2005): 29,800 Euro
Change compared to the previous year: +1.3%
- + GDP per employed person (2005): 70,000 Euro
Change compared to the previous year: +0.8%
- + Available Income per capita 2005 (nom.): 25,000 Euro
- + Annual inflation rate January – November 2006: 1.6%
- + Public deficit (2005): 1.5%
- + Inhabitants: September 30, 2006: 8,292m
- + Estimated for 2015: 8,555m
- + Demographic structure:

0 – 15 years	15.7%
15 to 59 years	62.3%
over 60 years	21.9%
male	48.7%
females	51.3%
- + Life expectancy:

men: 76.65 years
women: 82.24 years +++

+ For the first quarter of 2006, only 16% of the Austrian baking companies expected a pessimistic development for the next quarter. By the end of the year, only 9% had this impression. This expectation was no doubt based on the improving economical situation that had developed over the year.

These statements and data however cannot hide the fact that there are some companies in the Austrian baking industry that are very successful whilst there are many others that can already see the abyss that they are about to slide into.

The latest industrial analysis by the Austrian Institute for SME Research, Vienna, conducted in 2005 on behalf of the Economic Chamber Austria, is no longer up-to-date concerning the depiction of new problems. Industrial sales are stagnating. About 70% of all bakers are small bakeries with less than 10 employees. In 2005, only 2.8% of all bakeries employed more than 50 people. Added to this is the fact that most of the businesses suffer from chronic lack of funds.

When the few successful companies are deducted from the statistics – the researchers at KMU presume their share to be 9% – the result would be even more catastrophic. No wonder that the number of baking companies – in 2004 there were 1,855 bakeries and 460 pastry shops listed – is constantly shrinking. Today it might even have fallen below the limit of 2000, even if this has not yet been confirmed from official sources. But what is a successful company? When most of the bakeries do not realize profits, then any company that does is considered the king of the castle. According to the findings of the KMU researchers, the operating margins for the companies in the sales category up to 1m Euro were negative

in 2002/2003, and that seems unlikely to have changed now. It is only the company that realizes more sales that will be prepared for the future even if there is a change of ownership. These companies are almost always the ones with sales outlets in larger cities or regions with lots of tourists. Therefore, the most successful Austrian baking companies can be seen in the cities. In Vienna, there are three local high fliers next to the flagging Ankerbrot AG: Ströck, Mann and Felber. Other large cities have only one or two large bakeries. In Innsbruck, Christian Ruetz and Therese Mölk; in Graz Sorgner, Albin and Auer. In Linz there are also two local large-sized companies, namely Fischer-Brot and Ring-Brot. While Fischer-Brot supplies its products to the retail trade and also sells them via two subsidiaries in Vienna and Salzburg, Ring-Brot is strongly trying to reduce its share of deliveries to the retail trade by supporting its net of sales outlets which at present total 81.

In rural areas, bakeries have been dying for a long time. The ones who still operate sales outlets have the best chance, particularly when they include local distribution offers instead of allowing the food retail trade to take away the last sales or profits. It seems that the worst enemy and at the same time an indispensable customer for many Austrian bakers is the food retail trade. Contrary to the situation in Germany, the food retail trade in Austria has always been an important sales channel for fresh bakery goods. The relationship between supplier and trade had always been a calm “let and let be” up until the 1990s. This all changed when Austria joined the EU, due to the slow economic situation ▶

and with the increasing competition arising from frozen products from the EU.

About half of the Austrian baked goods market is in the hands of the food retail trade with discounters such as Hofer (Aldi), Lidl, etc. occupying an estimated market share of 12-15% 2006 appears to show that this share is stagnating for the first time. However, the food retail trade has already agreed on a double strategy. Cheaper products for the less wealthy consumers can be found on the shelves, a baking oven operates behind the delicatessen counter from where fresh products are provided and then sold over the counter or there is a nearby fresh product shelf with products in the slightly higher price range. The baking discounters have not really set foot into Austria yet.

The baked goods market is different from neighboring countries since the product range in Austria is dominated by special rolls like Semmel rolls, Kornspitz, and other small baked goods. This also influences the price situation. Machine-produced Semmel rolls cost 28-29 cent/piece, with hand-made ones costing more than 40 cents. Semmel rolls from the Haute Couturier of the Austrian bakery trade Brandel in Linz cost 61 cents for one roll. The latter company also charges 12 Euros for one kilo of brioche.

Incidentally the largest baker in Austria is no longer Ankerbrot but master baker Ölz of Dornbirn (see bbi 01/2005, pages 16-17) whose sales territory comprises Austria, Switzerland and Germany (in cooperation with Harry-Brot, Schenefeld). Ölz's export share is currently almost 30%. Since Ölz took over the Viennese cake bakery Jomo last year, the company has been able to gain a solid competitive edge over their competitors from Vienna yielding more than 140m Euros with plaited loaves, cakes, frozen muffins and similar products. Contrary to Ankerbrot, which has a hope factor within the new baking emporium of Heiner Kamps, Ölz is a thoroughly sound and stable family business with high-tech equipment and machines and is set on further expansion. On the other hand, Jomo is a purely Austrian company with a predominantly low-price product range. Thus,

both companies supplement each other and benefit from the domestic market and its consumption patterns. After all, fine bakery wares are consumed in Austria at a rate which is four times more than for example in Germany.

Ankerbrot moves to Simmering

It has been reported that a decision will be made within the next months, but according to the grapevine in Vienna, the days of Ankerbrot in the Vienna quarter Favoriten are almost over. Reportedly the traditional Vienna bakery, possibly by then absorbed into the new Heiner Kamp's emporium will get a new production plant in Vienna Simmering. According to the editorial department for economics and finances of the daily newspaper "Der Standard", the Vienna Business Agency WWFF will take over a share of a joint company project. This company will erect the plant on a lot provided by the WWFF. Completion is scheduled for 2009, with costs estimated at 50m Euro. However, the intended sale of Ankerbrot to the International Food Retail Capital (IFRC) by Heiner Kamps has been cancelled. Both parties reported that no agreement could be reached on the details of the planned sale.

Ankerbrot AG was founded in 1891 by the brothers Heinrich and Fritz Mendel in Vienna under the name "Wiener Brot- und Gebäckfabrik" (Vienna bread and biscuit factory). In 2003 Klaus Ostenhof – former CEO of Wendeln-Brot, northern Germany, and later a member of the board of directors of Kamps AG – took over the majority share of Ankerbrot after its bankruptcy. In 2006, Michael Phillips, CEO of the APAX investment group, participated in 40% of Ankerbrot's capital.

Ankerbrot's decline makes 3 happy

The latest decline of Ankerbrot – they have reduced their sales outlets from more than 300 to 180 recently – has proven to be beneficial for the three other Viennese Semmel roll bakeries Ströck, Mann and Felber. All three are family-





owned companies, but of different sizes. Ströck with an annual sales volume of about 70m Euro is clearly ahead of Mann with 40m Euro sales. However, Mann also has a second company called AHB which exclusively buns and donuts for fast food chains and generates annual sales of about 20m Euro. Finally there is Felber, with a sales volume of about 21m Euro which is generated mainly through sales outlets in the central and western districts of Vienna. Despite their different sizes there is a sensitive equilibrium amongst the three companies. Sales areas are not clearly defined but there is no open battle field with most importantly, no price war. The prices for Semmel rolls in Vienna are 29-30 cents for machine-made rolls, with manually made rolls costing 40 cents or more. The fact that sales in the sales outlets in Vienna are in general twice as high as in rural areas might support this truce. In addition, each company is cultivating its specific offers and image as a solid craft baker.

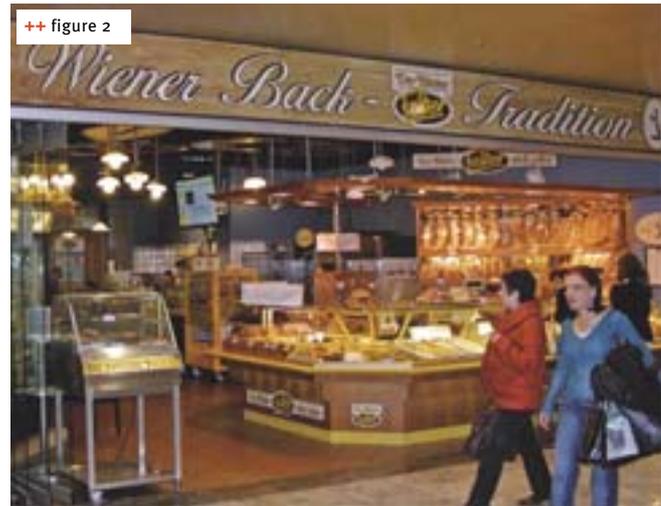
Busy Frau KommRat

Felber, for example serves excellent pastries in its 44 sales outlets in Vienna, Baden, Schwechat and Vösendorf. His passion for flour confections has made Franz Felber famous. However, the success of his bakery is not on his merit alone. His wife KommRat Doris Felber also has a significant share in it. (KommRat is the Austrian abbreviation of commercial counselor, an honorary title formerly conferred on distinguished industrialists, financiers, etc., in Austria). She is the one with her eyes and ears on the market, introducing new marketing ideas. With her latest idea, Felber TV, she has attracted attention all over Austria. In 10 of the 44 sales outlets, she is currently presenting her customers with selected news from politics, sports and society as well as health infor-

++ figure 1
Ankerbrot sales outlet in Vienna, south station

++ figure 2
Felber sales outlet with own TV-news show in Vienna

++ figure 3 (next page)
Senator Kurt G. Mann



mation on large flat screen televisions. Doris Felber: "We get the news ready for presentation from the press agency APA. We filter out news on violence, serious assaults, etc, because children and teenagers are also watching TV in our sales outlets." The program is also supplemented by advertising blocks which inform customers about its own products and the new range of organic products introduced last October. Foreign ads from the region contribute to financing this project. The TV program is fed through the company's own IT ▶

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equipment by which the cashiers and closing systems of the sales outlets are also connected. The next coup by KommRat Doris Felber will take place in Slovakia. The Felbers recently founded a subsidiary in Bratislava which will set up an outlet chain in Slovakia's capital. The first steps towards this were mobile sales shops set up at prominent locations in the city. Doris Felber: "Our Austrian prices are not the problem. Today, the consumers in Bratislava are ready to pay for premium quality. The quality level is decisive."

The Senator and his monument

"The Mann that pampers" is senator and KommRat Kurt G. Mann. His sales outlet "empire" comprises the metropolitan area of Vienna up to St. Pölten and currently 62 outlets. Two more are under construction. According to the senator, five new outlets are generally opened each year. The production started in September 2004 in the 23. District of Vienna and required an investment of 27m Euro. It can supply about 100 sales outlets alongside the sales business that Mann generates with the Austrian food retail trade, which sums up to about 10m Euro. The expansion of Mann's business activities is not limited by capacity problems. The baking center, which next to the production includes a sales outlet with a café is a feast for the eyes and is also a monument that the senator has erected for himself. The "Bread Way", a path where visitors can watch the production from 3.60 m above the ground through glass walls and glass floors in detail, is used almost daily by groups of visitors who are also educated with posters, descriptions and acoustic explanations about the production process. Sometimes exhibitions on cultural aspects of bread and bread production supplement the wealth of information.

The senator's credo "in former times the people needed to get fed, today the consumer must be tempted" is reflected amongst others by the fact that he intentionally on small portions. There are no Danish pastries or sheeted cakes in the size of eating plates, but many different smaller ones which may once in a while even shrink to the size of a praline. He has succeeded in what most bakers consider not to

be practicable on the market. His customers prefer to be pampered with intense pleasure in mini format. Current fast sellers in this program of classical flour confections such as chocolate nut cake or Linzer cake or similar are products which despite their affiliations to the flour confection family can well do without this ingredient.

Pastries contribute 25% to the total sales volume while 15-18% is provided by products containing cream. All cream slices run through a freezer and are supplied to the sales outlets frozen, and in portions, eight pieces on one tablet. This does not only facilitate the handling, it also guarantees the quality and intactness of the pieces. Incidentally, the 4+1 pack for Krapfen (Austrian-type donuts) in an oblong cardboard box serves the same purpose. According to Mann, this box shape, invented by him is now copied all over Austria. When it comes to bread, Mann is known for its dark bread, a 100% rye bread appreciated by people in Vienna more than by other Austrians. However, specialty breads generate better growth rates, amongst them a range of Italian breads which are produced with prolonged resting and proofing times. The snack sector at Mann is dominated by flat bread quarters filled with spreads and salads. For products made directly in the sales outlets, the production department provides pre-portioned toppings.

Four Ströck outlets at the Vienna airport

Just after leaving the airplane at the Vienna airport, an outlet of Spröck-Brotgesellschaft mbH is one of the first things that can be spotted. The third-largest bakery company in Austria has four outlets at the airport. Upon arrival one will come almost automatically to the Ströck outlet right opposite the arrival doors. A second, smaller outlet makes waiting for the passengers in the departure hall more pleasurable. Sales outlet no 3 is a profitable canteen located in the freight terminal while outlet no 4 is found in an office building between the multi-storey parking garages.

Besides these outlets, the net of sales shops established in the early 1990s comprises 49 locations in Vienna. However, most parts of the products are supplied to the retail trade. Information is used instead of plain advertisements. In all Ströck outlets, attractive brochures are available to inform the customers on the ingredients used for the individual types of bread and baked goods as well as on potential allergens. The possible use of improvers in the recipes remains discreetly unmentioned and can only be recognized when soy is labeled as a possible allergen. Also included in the leaflet is the organic range, currently consisting of 11 types of bread and five different small baked goods, many of them carrying the organic claim as well as a claim for Health & Wellness. The organic Ströcklingsbrot for example has the shape of a little teddy bear and is aimed at the nutritional requirements and the taste preferences of children. Six cents of each Global Vital Weckerl (special type of roll) is donated to a project supporting children from Chernobyl. +++

► A list of the 30 most important bakeries in Austria is available on our website www.bakingandbiscuitinternational.com



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