No catching up

THE ECONOMIC SITUATION IN GERMANY IS DEVASTATING BUT THE STRUCTURAL CHANGE IN THE BAKERY SECTOR WOULD PROBABLY HAVE HAPPENED ANYWAY

A significant increase in sales within the past few years was only registered for industrial companies with an annual turnover of more than 250m euros. In Germany only three companies are in this league. The companies in the category 50-100m euros turnover were able to improve their position as a group, but the average turnover per company has decreased just as in all other categories.

Considering the development that is reflected in the statistical data, it becomes clear that traditional craft bakeries with fewer than 10 sales outlets take up slightly more than 40% of the total market share. Their place has been taken over by large chain stores and smaller industrial bakeries which were able to automate their production thus allowing them to deliver consistently high quality at competitive prices. The equipment in companies of this size has been developed specifically for their needs and is still flexible enough to be used for the production of a broad range of individual products tailor-made for the target group. The companies have incorporated those features precisely that craft bakeries were acknowledged for earlier: Quality, flexibility, individuality and customer orientation, while "real" industrial companies operate high-performance plants to deliver mass products

which have to compete Europe-wide in terms of quality and price. The reason why the traditional craft bakery trade is about to be eradicated except for a couple of highly specialized or niche suppliers is simply that it cannot offer more than its competitors. They do it better providing more consistent quality, lower prices, higher hygiene levels, and last but not least larger companies mostly employ experienced commercial and marketing managers. All "back-to-the-

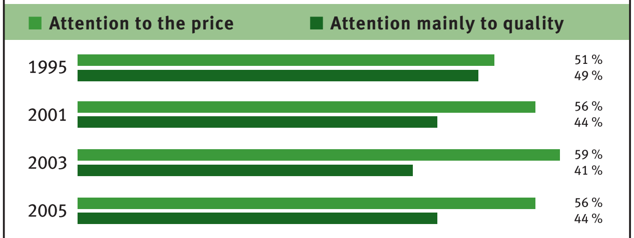
Statistical data on sales volume

Sales volume categories	Number of companies				Sales volume in m EUR			
	2000	2001	2002	2003	2000	2001	2002	2003
up to 1 m EUR	18092	17109	16525	16065	5084.1	4847.4	4615.1	4417.6
1 – 10 m EUR	2077	2122	2051	1945	4949.1	5078.4	4975.8	4762.5
10 – 50 m EUR	112	110	111	112	2320.9	2096.7	2147.3	2142.6
50 – 100 m EUR	10	13	12	13	683.7	799.5	749.5	785.4
100 – 250 m EUR	8	5	5	7	1178.4	697.8	719.0	1082.8
more than 250 m EUR	3	4	3	3	1516.7	193.6	1789.8	1948.4

Frozen baked goods in food retail, turnover and sales

	Sales volume in '000 EUR			Sales in tons		
Turnover and sales for bread and bake-off products (in markets with more than 200 m² floor space January to October 2005; excluding Aldi)	2004 1.–44. week	2005 1.–44. week	% change	2004 1.–44. week	2005 1.–44. week	% change
baked goods (total)	303,044	329,617	8.8	91,962	100,289	9.1
rolls & croissants	57,575	63,806	10.8	28,924	32,014	10.7
small baked goods	72,866	83,182	14.2	13,645	15,880	16.4
cakes	38,914	42,086	8.2	13,723	14,872	8.4
other baked goods	11,500	11,812	2.7	5,737	5,709	-0.5
strudel	11,733	13,080	11.5	5,866	6,790	15.8
dough	13,379	13,006	-2.8	5,941	5,789	-2.5
gateaux	97,082	102,650	5.7	18,132	19,240	6.1

Increasing demand for quality



Source: GfK-Trendsensor Konsum 1995 bis 2005

Prime cost for mixed rye bread

500 g, cut, in self-service, November 2005	EUR
Food retail with less than 800 m² floor space	0.88
Consumer markets	0.88
Self-serve markets	0.61
Discounter	0.49
Compared to that: mixed rye bread, 1000 g, loaf, bought in artisan bakery	2.23

Source: ZMP Rohdatenanalyse auf Basis des GfK Haushaltspanels

roots" movements will not change this development in the long run, because medium-sized and larger companies use fewer additives than smaller bakeries because they have the technology available to get around without. Opportunity for the craft bakery trade is only provided when it addresses the consumer directly and meets his requirements for complete packages which means not only delivering the birthday cake and the bread for a party but rather selling the entire catering package for the special occasion from breakfast to the dinner party at night.

The trend to turn away from the bakery trade is worsened by the continuing success of frozen baked goods. 90% of all simple wheat rolls which can be bought in Germany in the morning are bake-off products, irrelevant of where the consumer buys them, at the gas station, the supermarket or the specialized bakery. The differences in quality are minimal and the price is significantly lower. Consequently the consumers have turned to the cheaper products offered by pre-bake stations in the retail trade, the discount bakeries or in the freezers in the supermarket. In the past year, sales figures for frozen rolls and croissants have increased by more than 10%.

The trend that has been established for rolls and croissants can also be anticipated for the bread market. Sales of frozen breads at bake-off stations and food service areas are growing. Today it is mainly standard articles that are offered in this sector. However, several frozen bread producers are preparing to introduce new concepts and brands with higher quality and at a higher price. The price difference for bread between the discounter and the artisan baker provides room for such experiments.

The ideas correspond also with the slow emergence of the new mega trend for "conscious nutrition" which includes strong benefits such as environmentally-friendly production and animal welfare as well as aspects like wellness, fitness, health and an uncertain desire for quality. ▶

Following the trend "stinginess is cool!" the pendulum seems to be slowly swinging in the other direction.

The consumer doesn't always turn voluntarily to special product ranges. Since the number of people suffering from allergies is constantly increasing the demand for compatible baked goods increases as well. This trend is headed by gluten-free products designed for people suffering from celiac disease. As in Scandinavia, a number of gluten-free frozen baked goods are emerging in Germany as well. However, the prices for such types of frozen rolls for example exceed everything else when compared to their common frozen counterparts. You can expect to pay 3.50 Euros for a consumer pack of six gluten free frozen rolls. +++

Advertising pays

GERMAN BAKERIES ARE FINDING IT DIFFICULT TO USE ADVERTISING TECHNIQUES TO BOOST THEIR SALES

Industrial as well as artisan bakeries in Germany rarely use real image promotions. The advertising of certain sales events is limited to banners, ceiling displays, and posters in the windows of the sales outlet. It is only prices that are promoted within and in front of the stores or in magazines/newspapers. However, the positive advertising effect of a good website has already been recognized by bakers with many craft bakers now being present on the World Wide Web with very attractive sites providing consumer information. Occasionally, larger chain bakeries try to promote one or more of their products with flyers, advertisements or large posters in public areas to establish their brand. They are often successful. Even the most direct advertising action, tasting within the store, is still much neglected. It is only in rare cases that products are offered and explained by the sales personnel. In general there is an old saucer or a cardboard plate sitting on the counter carrying small pieces of a product which are likely to dry out during the day, thus only demonstrating how the baker values his own products. The consumer often looks in vain for information on the kinds of product being offered. It seems now that consumers are more open-minded about advertising messages than ten or twenty years ago. According to a market survey by AC Nielsen, it is clear that fewer households in Germany categorically decline advertisements. Only a quarter of the persons asked said that they feel harassed by advertisements. After all, 24% of German consumers often buy the products recommended in the handout. This is in particular applicable to younger households with or without children. Even though advertising is considered to be useful and interesting, apparently it does not influence purchasing behavior to a large degree. The same can be said of personally addressed advertisements arriving in the consumer's mailbox: more than a quarter of the households in Germany considers this as superfluous while only 15% believe that these offers are reputable. 22% of consumers seem curious as to what is behind the advertising letters with their personal address on them. However, if a free sample is included, the acceptance is significantly increased. Almost half of the people questioned are pleased with such letters in the mailbox, and about 55% try the sample. +++