

# Structural changes & market reality



THERE ARE ONLY A VERY FEW CONSULTING AGENCIES SPECIALIZING IN THE BAKERY TRADE THAT ARE ALSO WILLING TO CROSS NATIONAL BORDERS. THE FUHRMANN GROUP, LÜNEBURG, GERMANY, IS ONE OF THESE COMPANIES THAT KNOWS EASTERN AND WESTERN EUROPE EQUALLY WELL. BBI TALKED TO **JENS FUHRMANN**, GENERAL MANAGER OF THE FUHRMANN GROUP

**+ bbi:** Mr Fuhrmann, you advise international baking companies in business economics. What are the most important topics?

**+ Fuhrmann:** We accompany bakeries during the set-up phase and transition processes. We focus in particular on process monitoring and the implementation of concepts and measures. Key topics are classical turnaround management – consolidation/reorganization, strategic planning and control, financing, mergers and acquisitions, follow-up regulation, marketing, controlling, personnel recruitment and human resource development.

**+ bbi:** Are there differences from one country to the next or do they differ only in terms of structural characteristics?

**+ Fuhrmann:** The problems primarily depend on structural properties but these are different from one country to the next. Depending on the type of structural characteristics in a country – external structures – or in companies – internal structures – we adapt our consultation requirements accordingly. For baking companies in Russia and the Ukraine a consultation service is rather new but they are nevertheless interested in any optimization which gives them a competitive edge. On the other hand, Germany bakeries mostly have a specific problem to be solved when they come to us for advice.

**+ bbi:** Where are the most serious problems? Is it the market orientation or more the internal structure and organization?

**+ Fuhrmann:** In German companies both are equally present. This is due to the fact that an individual market orientation or company strategy is closely related to, if not dependent on, strict management and process organization. I have almost never experienced that a well structured company has had difficulties in finding its optimum position in the market.

To make things more difficult for Western European companies, the change cycles are shortening with the result that market observation and market orientation together with internal structural changes are becoming a continuous process.

The market in Eastern Europe still offers a lot of room for action and niches for success. Therefore, market orientation is not the key criterion for entrepreneurial action. Apart from a few exceptions, companies in Eastern Europe focus on management, organization and communication. Many companies have a lot to catch up on in terms of qualified management structures.

Our experience from consultation projects in the Ukraine and Russia has shown that companies recognizing this need and asking for advice to help optimize their operational and management structures will be able to accelerate their optimization process significantly compared to competing bakeries. This in turn leads to an established market position and safeguards or extends to a successful place in competition.

**+ bbi:** Currently, the food retail trade for supplying private households with baked goods is growing significantly in both Eastern and Western Europe. How will this affect the structure of baked goods production?

**+ Fuhrmann:** This trend is clearly noticeable in Western Europe and here in particular in Germany, and it will continue. Thus the sector for industrially produced baked goods, including frozen products, will be on the rise while traditional craft bakeries will continue to lose ground.

For Eastern Europe, in my opinion, there is a more differentiated trend. Large retail chains will of course be interesting as main sales channels for the bread factories. However, advanced trade structures, as can be seen for example at Metro, require Russian and Ukrainian bakeries and bread factories to ensure consistently high quality at low prices.

Furthermore, other sales channels are being explored as alternatives because the development of new distribution channels is just under way. Currently there is an increasing trend towards the establishment of companies' own bakery outlets along with modifications of the product range by providing more high-quality goods in the premium range. This can be observed in Russia as well as in the Ukraine. Bakeries will recognize their opportunities and take advantage of them.

In my opinion, the development of bakery locations owned by producers is significant because the purchasing power is rising slowly but steadily and the people will be able to buy more high-quality baked goods.

**+ bbi:** What about the discount stores in the food or bakery sector? How important will they be in future?

**+ Fuhrmann:** The strong focus on discount stores is a rather Western European phenomenon. In Eastern Europe, the prices for baked goods are pretty low and have been subject to tight state controls for a long time. For the bakeries in Eastern Europe it will be in the future much more promising to develop high-quality products which can be sold at the right price instead of pursuing low-price strategies.

**+ bbi:** Will this mean that products will be the same everywhere; that we will buy the same breads, croissants, baguettes, ciabattas and toast breads all over the world?

**+ Fuhrmann:** Not at all. The change in market regulations will result in a "world market for baked goods" with all its varieties and different products. The past has shown that trend products from America have not changed the tradition of German baked goods. Each country will keep its typical products and product range. However, the possibilities for expanding or supplementing the product range are becoming more varied.

Supermarket concepts will also contribute to a certain type of exchangeability across borders. However, premium bakers will find their market niche and will have their chance for successful development. In this development, Eastern Europe will play the role of a supplier because large quantities of frozen baked goods are produced there. But this will mainly be limited to countries which share borders with Western Europe.

**+ bbi:** Bread used to be a product with high emotional aspects. This corresponds with the image of the industry as a supplier of a special kind of food. However, the younger the people are, the fewer emotional ties they have with bread. Bread is well on the way to becoming a food product like all others. Will the industry lose its special position and become just a common segment on the food market or do you see a chance that the bakeries can keep their identity in spite of changing structures?

**+ Fuhrmann:** In my opinion, identities can be maintained even with continuous structural changes. Today's bakeries must keep an eye on the market not only because out-of-home consumption is on the rise so that traditional identities do not necessarily have to be lost.

Nevertheless, bread consumption in Western and Eastern Europe will decrease in the long run. In Western Europe due to several trends such as out-of-home consumption, and in Eastern Europe because of increasing income and a generally broader range of food supply.

In most parts of the Ukraine and Russia, bread is still a staple food at a reasonable price. This can be seen by the example of a project initiated in Odessa. People living near the poverty line receive a chip card from the official authorities which allows them to buy bread at 40% of the retail price. In addition, bakeries and trade are given the chance to sell high-quality baked goods at prices that are 2.5 to 3 times higher than the original sales price. This concept shows that in Eastern Europe, bread has a different function than in Western Europe.

So if identities and traditional values are to be retained, they must be maintained and communicated, consistently and ►

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professionally. Unfortunately, we often experience that the bakeries have no clear strategy and key message, but the customer needs this key message in order to identify with the company, as proper quality and first-class service are taken for granted in Western Europe anyway.

The questions are: What does this bakery stand for? What are its values? Which strategies and measures does this bakery have so that the customer can associate with this identity and so that this company's identity can be communicated? In Eastern Europe, most of the population values bread as a staple food which ensures its survival. This creates a relationship to the product "bread" born from pure necessity which is not imaginable any longer in Western Europe.

**+ bbi:** How important is technical know-how and so personnel development?

**+ Fuhrmann:** Because of the different market structures in Western and Eastern Europe, personnel development has to fulfill different tasks. But the growing requirements have to be supplemented and improved by external knowledge, and this holds true for all bakeries in Europe.

For bakeries with outlets in Western Europe, the quality of the personnel is decisive while in Eastern Europe, the quantity of personnel has to be brought into line first of all. It does not make sense to employ more people than needed for a production process or for fulfilling another task, not even when the personnel are paid low wages. In Eastern Europe, the interest in and the necessity for setting up management structures is on the rise. Organization, communication and management are known in theory because most managers have an academic background but they do not have very much practical experience in management and in particular in leadership. They often have problems in acting as decision makers on their own authority. But there are also baking companies that have not yet established the management levels needed to promote self-responsible action. Managing a company requires that certain tasks and responsibilities have been defined and established.

**+ bbi:** How about your special field: business economics. What is the most common drawback for companies?

**+ Fuhrmann:** From the business economics point of view, consultation issues differ in the various Eastern and Western European countries. For most German bakeries the problems are associated with increasing management requirements. Bakery entrepreneurs at all levels feel that this requirement is asking too much from them. This is not surprising because in the past 10 years, the requirements have grown a lot.

In particular the efficient control of production processes and their optimal adjustment is a field where many bakers have problems. This results in using goods and materials and expending personnel effort far above the reasonable av-

erage in this industry. Medium- and large-sized companies complain about shortfalls in connection with human resources. Poor motivation, poor qualification and high level of sickness are creating a lot of trouble. However, we have often found that the numerous problems associated with "personnel" were in reality management problems.

Strategic management and leadership have become central topics for bakeries. Many entrepreneurs do not recognize that the strategic positioning of their company can be changed by their own actions and is not solely defined by external influences.

Strategic issues are also part of our consultation projects in other Western European countries as well. Changing the organization is difficult for many entrepreneurs, and more so in growth phases. When baking companies are growing continuously we mostly find that the organizational structures have not changed accordingly.

In Eastern Europe, the Baltic States have a specific position. Compared to Russia and the Ukraine they are further developed, especially in terms of technical issues and management structures. Only Latvia is currently experiencing a concentration process which is resulting in strong displacement competition among Latvian bakeries. The structures on the bakery market in Russia and the Ukraine are comparable. From the operational point of view, basic management structures are still missing. Most issues discussed with us are classical optimization concepts starting with the raw materials purchased and their use and ending with the improvement of all production processes and sales channels.

Another point of interest is new concepts for distribution and sales, in particular in regard to a company's own outlets. Many bakeries and bread factories in Eastern Europe have realized that they benefit from specific consultation services, from the transfer of knowledge and the experience which we have already gained from the many projects we have already successfully advised. This means for bread factories and bakeries in Eastern Europe that they can accelerate their optimization process and so improve their competitive position decisively.

**+ bbi:** Information management is linked internally with the key word "transparent company" and externally with the networking between development, research and science. Have the bakeries arrived in the information society already or do they need to catch up?

**+ Fuhrmann:** In terms of information acquisition and processing, bakeries of all sizes need to catch up – there is no doubt about that! In the ideal scenario the information systems are tailored to the individual requirements of the specific bakery. In general, the following is valid: Only purchase what you will really use.

**+ bbi:** Mr. Fuhrmann, thank you for this interview. +++