



Advantages for big players

YOSSI (JOE) GOTTLIEB (48), DIRECTOR OF J. GOTTLIEB MARKETING, IS AN INTIMATE EXPERT OF THE MARKET IN ISRAEL. HE SUPPORTS COMPANIES IN THE PLANNING AND REALIZATION OF ADVANCED PRODUCTION FACILITIES. HIS ADVICE IS ALSO SOUGHT AFTER BEYOND NATIONAL BOARDERS. HILDEGARD M. KEIL, EDITOR-IN-CHIEF OF BAKING+BISCUIT INTERNATIONAL TALKED WITH HIM ABOUT THE BAKERY MARKET IN ISRAEL AND THE MOST IMPORTANT INFLUENCING FACTORS.

+ bbi: Israel is a fast growing country which now has more than seven million inhabitants. Can you tell us something about the structure of the bakery market in Israel? Who is baking, who is selling?

+ Gottlieb: The bakery market in Israel can be divided into three segments:

- a) The large industrial bakeries are Angel Bakery, Berman-Vadash and the Davidotwisch group. They cover 95% of the industrial market, the other 5% is made up of smaller bakeries like “Lechem Hai” “Lechem Tushia “ and others (“lehem” by the way means “bread” in Hebrew).
- b) The second segment consists of producers of frozen bread and savory products like Gidron, Bonjour Pillsbury and others. They sell to bakery shops or in-store baking sections in the supermarkets and also to small bake-off shops. Another niche market for them are the many small pastry shops which specialize in their own products and buy some products from other suppliers to complement their own range without having to produce them from scratch.
- c) The small neighborhood bakeries and the special bread shops, bread boutiques like Lehamim, Arcaffe and others produce artisan bread and special bread. This segment is quite small but is developing constantly.

So if we look at the total Bakery goods’ market and not only at bread bakeries, I would say that industrial bakeries cover about 60% of the market, frozen dough producers about 25% and the rest is made up of small producers, some of which are even hard to locate.

In Israel, beside the fancy artisan bread producers, you can find small bake-off shops which buy all their bakery goods frozen but will still have a small mixer, bun divider and moulder in the baking room for the production of finger rolls. These are used sometimes to get the customer into the shop and sold in some small shops for a price of 10 shekel (1.83 Euro) for 10-13 rolls.

So, the customer who wants rolls in the morning will visit the shop and purchase the required amount and as he is already in the shop, he will also buy some more Burekas, Rogalach, and maybe a baguette. This way the turnover is increased.

The small bakeries are called “partisan bakers” instead of “artisan bakers” within the baking industry since nothing is controlled here. These bakers have almost no start-up costs.

The frozen dough producers will provide the freezer/proofer and oven for free and the other equipment can be obtained second-hand and is inexpensive. They are a type of backyard bakery and make up perhaps 2% of the market and seem able to survive.

+ bbi: What market share do the supermarkets have today?

+ Gottlieb: When talking about bread, the supermarkets have about 25% of the market share since customers do not go every day to the supermarket, as this is not the only place to buy bread and they will go to one of the many local grocery stores which also sell bread.

+ bbi: One of the largest bakeries in Israel belongs to a supermarket chain. Is this becoming a trend and will the supermarkets invest more and more in their own factories?

+ Gottlieb: Here we are talking about the largest frozen bread bakery and not a regular bakery. There is no large bakery owned by a supermarket. There have been discussions before on other supermarkets acquiring frozen production bakeries, but it seems that in their calculations purchasing the frozen goods is more favorable. Another reason is that alongside Gidron there are 4-5 other large frozen products’ producers who sell to other supermarkets and the start-up of another plant by someone else will require very careful financial consideration.

+ bbi: What market share do the bake-off stations have in Israel?

+ Gottlieb: The bread share is 25-30%.

+ bbi: The nation’s people are immigrants from all over the world – is this multi-national culture also reflected on the bakery market?

+ Gottlieb: Most bread sold in Israel is state-controlled bread which people like but the trend is now towards more sophisticated products. Pita bread (pocket bread) for example, which is considered to be an Arabic product and is consumed all over middle-eastern countries is still considered to be a leading product and more popular than baguettes.

Pita bread is eaten in all Israeli restaurants as an accompaniment to salads like Humus. Almost every household will also have some pita bread at home. The advantage is that this pita bread is kept frozen (fully baked). It can be taken out of the freezer and thawed in a microwave oven or on a barbecue grill within a few minutes.

The other specialty bread is the traditional Russian dark bread. Since there are over 1.5m Russian immigrants in the country there is a healthy demand, and even if it is not a big industry there are a few Russian type bakeries that produce this type of bread for the shops.

Incidentally, when observing the Jewish market in the USA one might conclude that bagels, cream cheese and salmon are the most popular traditional food for Jewish people, but this is not the case in Israel. There is some bagel production and a few bagel shops which are in reality more sandwich restaurants.

There is no trend for Ethiopian bread – even if we have many immigrants from there. I could say that the market really sticks to tradition.

+ bbi: What are the most important bakery products on the market in terms of tons?

+ Gottlieb: Dark sliced bread at controlled prices. It is cheaper than 1 Euro for 750 grams and people like it.

+ bbi: How important are fine bakery products like cakes, cookies, puff pastry and confectionery such as cream tarts?

+ Gottlieb: This is a market in itself. There are over 600 small cake producers in the country; most of them are pastry shops which produce for their own sales' outlets. There are a few chain stores offering very high quality products, as for example Shemo in Kiriat Haim which has 3 shops and Roladin which has a big production plant with many chain shops which are mainly coffee shops selling take-away cakes.

The market for sweet cakes is quite big but influenced by the season. In the summer, when it is very hot, most people eat fruits and ice cream. Winter is for coffee and cakes.

Besides the local producers there are many housewives who bake at home and deliver to coffee shops or sell at the Friday Bazaar. I can say that this is a very important market and that the Israelis like cakes very much.

+ bbi: How important is the controlled price for simple white bread for the bakeries?

+ Gottlieb: For the consumer it is very important. We have all been used to this bread for years; it is inexpensive. This bread makes up about 50% of the production in the large bakeries. The bakeries would of course like to sell it at a higher price since margins here are on the limit and they prefer to sell other types of bread which brings in more profit. However, the market forces them to offer this product and to satisfy the demand.

+ bbi: Compared to the US or European bakery market – what is the level of automation in bakeries in Israel?

+ Gottlieb: I would say that we have nothing to be ashamed of. For a country which is only 60 years old we are very developed. The large players on the market have the most advanced production plants as you would find in Europe and in the US and in some cases they are surprisingly even more sophisticated. However, labor costs in Israel are still not as high as in Europe and the US and so there is still a high level of manual work. Also there are technologies such as cooling flour for example or fully automatic counting, quality control and packaging which are not applied here. It is important to keep in mind that except in bread production which is parve (non-dairy), the other bakeries which produce dairy products have to buy double the equipment (dairy and non-dairy). I think that the equipment producers would all agree that if every bakery in the world was strictly kosher, then they could sell double sets of production equipment and ovens.

+ bbi: You are not only a bakery specialist in Israel; you are also an international consultant for bakery production sites. What is your particular specialty that clients ask for?

+ Gottlieb: The first answer is based on the reputation that we already have and the list of projects we have already constructed. However, to go deeper into the reasons I will need to explain where we came from and then it will all be self-explanatory.

There are many equipment suppliers in Israel and also around the world. However, there are few who were bakers before and who for years had not even thought about machinery sales and gained their experience as a baker. When I was three years old my father Yeshayahu Gottlieb, who is a holocaust survivor, went into business as a bakery manager. I can still remember the working table where my mother put me next to the dough (and I can recall Berliner dough). Five years later, during the big recession in Israel my father opened his own "Gottlieb Conditorei" in Tel Aviv. This Conditorei, for years was one of the leaders in the country where ministers like Moshe Dayan and the first Prime Minister Ben Gurion used to get their birthday cakes. I spent all my holidays, since the age of 10 helping my father in the bakery. I could handle the oven all by myself and I just loved helping my father. I was also very interested in mechanical and electrical issues, so whenever there was someone repairing a machine, I was looking over his shoulder. Besides normal education, I studied electronics and mechanics as a hobby.

At the age of 12, I was already fixing small minor machinery problems. The bakery was part of our life and everyone in the family was involved.

After three years in the army I went to the United States and graduated with a B.Sc. degree at the New York Institute of Technology. In 1983, I returned to Israel with my wife and a 1 month old daughter to join my father's bakery. With all this experience and based on the understanding that I have ▶

a lot of know-how, I started my business as a bakery equipment supplier in 1985. My father's colleagues trusted my advice and I was the one who imported, sold, installed and serviced the machines. The main concern was always that each machine must work consistently and that no baker had to interrupt the production process due to a machine break-down. We do not sell machines. We sell solutions. During the first phone call, I screen the needs of the customer and whether he is suitable for improvements. Then I arrange the first meeting at the customer's site where I want to see his production in action. At that point, together with the customer we look at a total solution that will bring an increase in quality, capacity and reduce costs. In some cases I will tell the customer not to change anything.

We are now representatives, as exclusive agents, in Israel to some of the most reputable bakery machinery producers like Rondo Doge, Miwe, Mecatherm, Vulganus, Spiromatic, Tromp and more and we are well known to have the know-how to integrate a turn-key project, rather than just selling a machine. We have great relations with our suppliers and they know that when we approach them it is for a serious project and that our customers have been screened for their needs, and that they are financially capable of getting into the project, and they trust us.

Projects that have been handled by us have proved to be 100% successful and start-up is smooth. We will, of course, drive our suppliers crazy sometimes but it is for the benefit of the customer in order to have a "plug and play" start-up. In Israel we have our own service department which consists of a service manager and three engineers who are well-trained by the equipment producers. This team will make sure that everything is prepared before the installation. They will be involved in the installation and in the after sales service. We are proud to have the ISO 9001:2000 certification.

As for other countries, we do get requests from time to time to assist with designing and building bakeries. Jews have friends all over the industry and rumor spreads. Again, I will only get involved after screening for serious projects. I am proud to say that the first Rondo machine that was sold in Russia was sold by me and so was the first Salva oven (I was their agent once). In Hungary I sold the first Rondo make-up lines.

In Budapest, we designed and started the Princess bakery frozen dough production plant from scratch and this now produces over 15 tons of high quality products per day. Our service included product survey, factory layout, machine advice and start-up, including transfer of know-how for special Israeli ethnic foods.

+ bbi: The export of bakery products from Israel is growing. Are Israelis also investing in bakeries abroad?

+ Gottlieb: I can give an example of the Princess bakery in Budapest. 12 years ago the two sons of Mr. Michaeli and Mr. Gag-el graduated from a pharmacy school in Budapest and had the idea of selling baked goods, as they expected this type of business to be more beneficial.

They approached their parents. Mr. Gag-el was a jeweler and Mr. Michaeli, a doctor. They both accepted the idea of the children and now with our aid in the bakery business and their children's marketing, they are the largest bakery in Hungary, with the best quality products, with an increasing demand. They are also selling in Eastern Europe and other European countries. You could find more bakery stores like small bakers in London and many small pita bread bakeries around the world but these are more for Israeli ethnic food.

+ bbi: What are the major consumer trends on the Israeli bakery market now?

+ Gottlieb: In addition to all the above mentioned, I could assume that the reasons for the changing market and demand here are that customers are now becoming more demanding. They want good fresh bread and if possible, bread that just came out of the oven. Therefore the producers of frozen bread see an increasing demand in smaller shops and there is also an increasing demand for more natural bread with fewer chemicals, and people will even pay more for such a product. Sourdough bread is a newcomer and it may now make up 1% of the frozen bread sales. However, the presence of a small oven in any shop that sells bread and enlarging the product range with par-baked products, besides the controlled and standard bread will increase the baking smell in the shop and tempt the customer to buy more bread than he might have intended.

+ bbi: On most markets round the world, there is a shift from smaller to bigger companies – do you see the same development in Israel?

+ Gottlieb: Well, this has already happened over the last few years. Many small shops have closed since bake-off started. Bake-off shops have been added to the supermarkets and it is easier to buy cakes/bread in an air-conditioned nice place, where there is stress-free parking, where you can pay a deferred payment by credit cards, and the quality, in spite of being industrially produced is not bad.

However, over the last 3-4 years we have seen a change again with small pastry shops re-opening selling high quality products, and small bread boutiques for artisan bread are growing. This is what the equipment suppliers are looking for.

+ bbi: What factors had the most important influence on this development?

+ Gottlieb: I think that it was the efficiency in production and the reduction of production costs by automation. One place, with all the machinery supplies many shops. Who can compete with this reduction of overhead costs?

Besides don't forget we don't have an official bakery university; most employees learn from others so it is quite difficult to hire a good baker in Israel.

+ bbi: Thank you for the interview, Mr. Gottlieb. +++



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