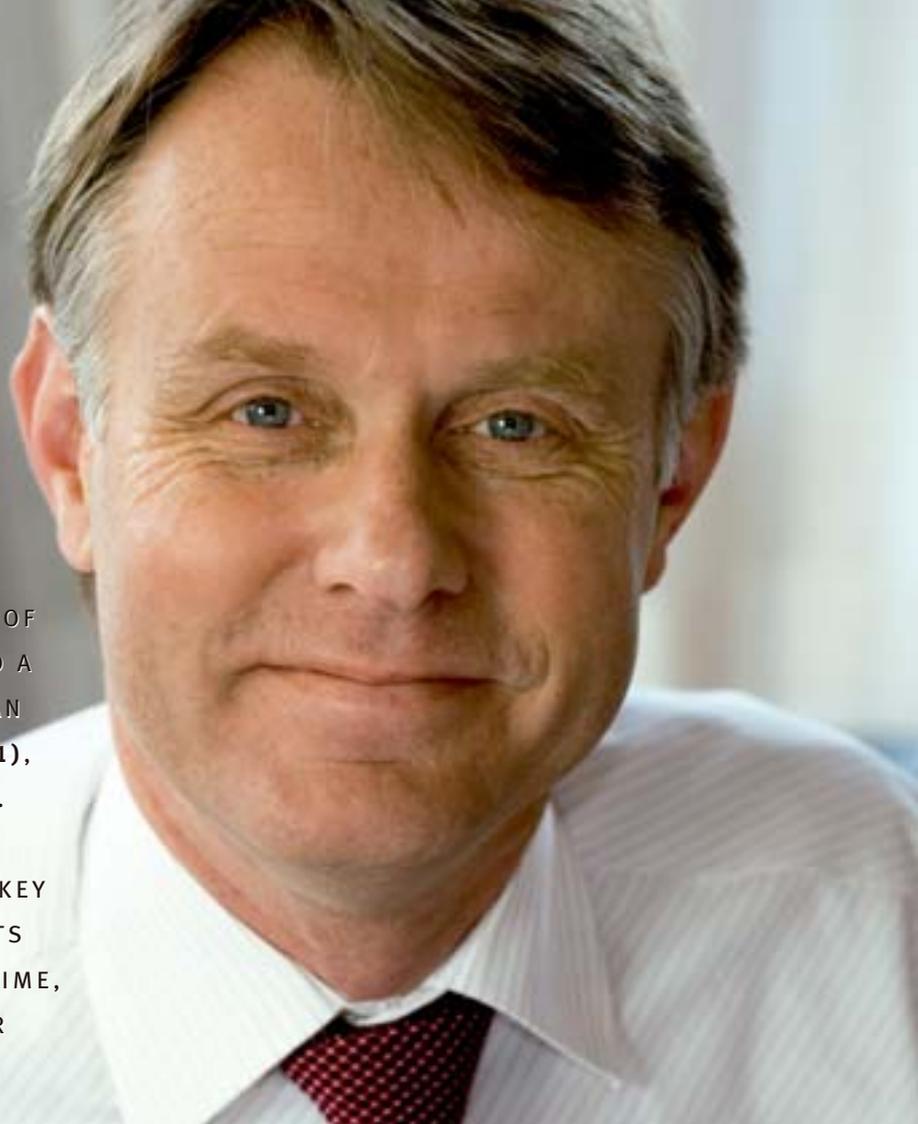


Customer intimacy in the baking industry

CSM, WORLDWIDE LEADING SUPPLIER OF BAKERY INGREDIENTS, HAS LAUNCHED A STRUCTURAL CHANGE TO ITS EUROPEAN ORGANIZATION. **GERARD HOETMER (51)**, CEO OF CSM TALKED TO HILDEGARD M. KEIL, EDITOR-IN-CHIEF OF BAKING+ BISCUIT INTERNATIONAL, ABOUT THE KEY ELEMENTS OF ARTISAN BAKERY AND ITS ANTICIPATED REVIVAL. AT THE SAME TIME, MR. HOETMER WAS SEEKING A HIGHER LEVEL OF CUSTOMER ORIENTATION.



+ bbi: Mr. Hoetmer, CSM is changing its structure. What are the main elements?

+ Hoetmer: We are building a business which is working with a European perspective, but still remains very close to the customers who want to have local elements. We will support all the local customers through a local sales force and local marketing.

+ bbi: What is the meaning of “European perspective”?

+ Hoetmer: If there are good ideas in one country, we need to bring them as quickly as possible to other places in Europe and even worldwide. Our business in the United States is as big as the business we have in Europe.

We need to bring ideas, concepts and marketing support into the various countries. For example, let's take the American types of baked products. For many years, we have been a very important supplier to the US market with our donut mixes. If you look at the UK, donuts have jumped in consumption and Germany is again appreciating the American types of products. We can bring the know-how quickly from the place of origin to all the countries where we operate.

The same is true for whole wheat bread which is taking off in the US right now. We have such a comprehensive knowledge about whole wheat bread and bread mixes here in Europe so that we can help all our customers in the US start their businesses. That's what I mean when I say that CSM can use all the strength it has in different countries, bundle it up and bring it very quickly to everyone who wants to uti-

lize it. That's quite a big change! All the local competitors don't have the power to bring all the outside knowledge into their countries.

+ bbi: European markets are quite different. You can bring in the American style of products, but you can't bring British bread to France or Germany ... can you?

+ Hoetmer: But we can bring consumer trends from the UK to some other countries and we can bring some market developments from one country to another. The UK, for example, is quite developed in terms of in-store bakeries and many other countries are following that trend. We can bring that know-how to different countries; we can bring concepts from the in-store market, such as category management, par-baking etc. back into the artisan channel to allow bakers to make a greater share of the profit.

+ bbi: Is there enough similar consumer behavior so that the bakers can benefit after all?

+ Hoetmer: In some countries this is happening already. However, we can also see that what happened in the US some years ago is getting a foothold in the UK and parts of the trend are continuing into the rest of Europe. You can see these trends, not only in baking material and biscuits but also in some other parts of the food chain.

+ bbi: What are the key elements of the new structure of the European part of the CSM Bakery Supply?

+ Hoetmer: The new structure is oriented towards the customer and the consumer alike. We now base our European organization on four business units: the artisan customer, the industrial customer, the out-of-home market and the in-store bakeries. Within our organization, we share the concepts, the know-how, everything. The customers from each country are approached by our representatives who can speak their language, who know what makes the artisan baker tick, who know about the success factors in the artisan business and who bring all these findings together.

+ bbi: Does this mean that there is no longer a national structure?

+ Hoetmer: No! There still is. The business units are operating in every country. They go to the customer and share the office which handles the invoicing, human resource matters, legal obligations, administration etc. On the European level, we have European buyers who purchase the materials for all the countries and companies in Europe as we do in the US.

+ bbi: What about research and development departments?

+ Hoetmer: The innovation center for the in-depth part of the innovation is shared on a global basis. We have two innovation centers in the US and four in Europe. They work on behalf of the entire CSM group. Development units work closely with the customers, adapting the products and making it more specific for the individual customer. They are located in each of the countries. The general research, for example, that the direction the market for fruit fillings is taking – that is centralized in Europe for CSM as a whole. The question about the color or taste of the strawberries – that application is handled in the different countries.

+ bbi: What about the sales force and communication with the customers?

+ Hoetmer: Usually localized. The artisan customers have their own units in all countries as well as the industrial, in-store and out-of-home customers. To deal with some customers who work across borders, we have a European sales force. When we deal with a big major retailer or a coffee chain, they have their own group of people looking after them. There is one European contact point for specific accounts.

+ bbi: What else is changing?

+ Hoetmer: We have also set up a European factory network. When we make a product in Germany, the factory also delivers to Belgium, France and the other European countries.

+ bbi: Are you concentrating your production facilities?

+ Hoetmer: Yes. This is for the purpose of making use of the specialization of the specific factory. It is better to be a master of one trade than to be a jack of all trades. We specialize in specific technologies in individual factories. Gerlenhofen, for example, makes mixes for Eastern Europe, It-

aly, the Benelux countries, although Portugal is a little bit too far away. We have five factories for mixes. There is one in Germany, one in the UK, one in Austria and two small factories in Portugal.

+ bbi: How many factories will CSM have after this change has been completed?

+ Hoetmer: We have made quite a substantial reduction. However, we are also trying to keep on growing organically and by acquiring companies. We acquired Kate's Cakes, in the UK, in August; the acquisition included a factory. At the beginning of the year we sold Delice de la Tour and we also sold two factories along with DLT. We are substantially restructuring in CSM right now and we are well on the way to implementing organic growth with the innovation forces we have put into the business. We have extended our innovation resources dramatically with the innovation centers and we will also acquire companies if they fit into our core business and if we consider that there is an opportunity to grow in this business. We are the number one and we want to stay the number one.

We have set up a European factory network. When we make a product in Germany, the factory also delivers to Belgium, France and the other European countries.

+ bbi: In the past years you have lost organic growth. Do you think this time is over and what are your goals for the next few years?

+ Hoetmer: We aim to grow at one to two percent above market growth in the years to come. That is our objective for the time being after the restructuring. To give you one example: in the US, we have grown in the second half of 2006 and the first half of 2007 by 4-5 %.

I am not happy with the organic growth that we have seen in Europe in the past few years; incidentally, for good reasons. There were some businesses which were not strategic. Change is always a painful exercise.

+ bbi: What will be the core business of CSM? You bought Kate's Cakes, the donut facilities in Delmenhorst have grown etc. However, you sold the frozen bread facilities of Delice de la Tour. Are you changing your core business from ingredients to baked products?

+ Hoetmer: No! We have two branches – one branch is the ingredients' section, where we are talking about bread and pastry ingredients and fats. Here, we are pretty strong and have the leadership in quite a few countries and we want to lead in Europe. These markets are quite attractive opportunities in Europe. The ingredients' business is where we want to grow. We also want to grow in pastry products; finished pastry products. We see a European trend – with people willing to pay fair prices for high quality. Kate's Cakes, for example, has one of those product portfolios that fit in with the consumer trend. It delivers very high quality in a very flexible way to our customers and that's where ►

we want to establish a major business field with key customers.

+ bbi: But only in the pastry sector?

+ Hoetmer: I think that the frozen bread sector has very good competitors with a very specialized approach. Therefore, we expect more out of the pastry sector because of the higher diversity.

+ bbi: Do you think the pastry market is growing in Europe?

+ Hoetmer: I think there are elements in the pastry market which are certainly growing. Examples are small products and “one-bite” products to take away. Coffee chains are interesting markets as well.

Customer intimacy means that you align yourself with the customer to help him to build a better business, including the full understanding of his needs.

+ bbi: Talking about health trends and the attempt to eat less fat, sugar and calories. Doesn't this harm the pastry market?

+ Hoetmer: I think people are looking for a couple of things. One trend is health and we can bring a lot of knowledge here: we offer fats that are free from trans-fatty acids, we have very healthy ingredients, we have “alles Gute” in Germany, which are very natural products – so this is where we can help our customers towards better living.

On the other side, we see indulgence as still being a trend. Everybody wants to pamper himself once in a while. People don't eat five donuts at once, they want to have one donut and in this “indulgent” situation they want to have a high quality donut. This trend is still ongoing. There is another trend called “convenience”. People are eating more and more “on the go” and that's why we have some breakthrough products as well as freezer-to-oven products. We launched these products in the US in big gas station chains where people can put them in the oven and minutes later they have a warm baked product. These are ready or almost ready baked products. We want to participate in these trends in the pastry products' sector as well.

+ bbi: When will the set-up of the new structure be completed?

+ Hoetmer: It will be ready at the end of the year. We took the first half of the year for the major changes. In every change program, especially when you do it as fast as we have, there are some things that you need to adapt. This will be our task for the second half of the year. Everything should be ready at the year end and I have to say that we give a lot of credit to all the people in BSEU (Bakery Supply Europe). We had so much support that we really were off to a flying start.

+ bbi: What benefits will there be?

+ Hoetmer: The customers will get a tailored approach as will the artisan customers as well as the industrial clients.

They will get access to the world of CSM which is much wider than the specific country. They can learn much more about consumer trends and about issues happening in other countries. With all the innovations, we can offer them another type of product or more functional products to help them to develop their business or to achieve higher margins and to build a better approach to the market and improve customer intimacy.

+ bbi: What does customer intimacy mean to you?

+ Hoetmer: It means, to me, that you align yourself with the customer to help him to build a better business, including the full understanding of his needs. One client might need more flexibility in supply, another might want the lowest price and the third customer might want to have all the information possible because he looks at the issue from a different perspective. All this is customer intimacy. It brings a lot of flexibility with all the right products at the right time to satisfy his needs. That's why a

German colleague goes to the German customer, speaks German and knows about the needs in Germany. He can translate the European pool of information into our customer's language. That's how we bring value to the customer.

+ bbi: You have just reduced your sales forces. Do you still have enough people to do this job?

+ Hoetmer: This is not a matter of quantity, but of quality. The customers want you to bring quality time and all the ideas. We have organized ourselves towards the customer; we don't want to ask the customers to organize themselves towards us. We want to have an open discussion. More and more, CSM is becoming customer focused. That is the change we have gone through in the last two years. We are putting the customer into focus and changing the orientation internally to the market.

The benefits for the shareholders will be that we expect a broader business by being better than our competitors and with that growing business we will achieve a better profit and have set-up a company that is the number one in the market place. And that is quite important for the shareholders.

+ bbi: What are your targets for the restructuring?

+ Hoetmer: The goal for 2008 is to make 8 to 10 % in return of sales and 11 to 13% in return on capital employed. We started, in 2005, on a level of 5% ROS and 8% on ROCE. Currently we are in line with our target and we are positive of fulfilling our target for 2008.

+ bbi: What about the autarchy of the local businesses? Will there still be national headquarters or will everybody report to Diemen?

+ Hoetmer: The head of the artisan department is located in Strasbourg, the out-of-home business section is located near Liverpool, UK, the head of the industrial clients is in Belgium and the in-store business is also handled from the UK. ►



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I see the local offices more as a location, where administration, human resources and the offices for the local business are situated. However, the organization is European. That allows us to do the business locally, as it is very important to us to focus on customers' needs.

+ bbi: What about the national application centers?

+ Hoetmer: They are crucial for our customers. The centers will stay and they are part of the application facilities where we do the development work, together with the customer. I don't expect our customers to fly to Spain or anywhere else. The centers are managed by the local business units, predominantly the artisan units.

+ bbi: There is still a cost reduction program called 3-S running. Mainly the cost cuttings are reductions in services to customers. Is the concentration on customer intimacy an alternative?

+ Hoetmer: We are cutting costs because we see the opportunity to improve the competitiveness of the company. I will give you an example: If you buy packaging material separately for each country, then each purchaser will get a fair price- but if you buy all the materials needed at once, you will get an even better price. From 2005 – 2008, we will save 45 million Euro globally in material costs alone with the 3-S program. This for CSM includes the US and Purac. You can also reduce costs by merging two factories which are not in effect used as individual plants. We have increased the efficiency of our operations, but not in terms of reducing our customer relationships. In principle, we are adding more value to our services.

Half of the savings we have re-invested in the company. We increased our quality control and sales expenses and increased our investments into R&D, in particular, in the new innovation centers where we made some major investments.

+ bbi: What is the meaning of increasing marketing and sales?

+ Hoetmer: Information, customer intimacy, concept development and our investment in R&D facilities, with the goal to be the fastest and the first ones with new products, new concepts and new functional ingredients.

+ bbi: Have you seen a return already in 2008?

+ Hoetmer: I expect the first successes to be visible next year and that will help us to grow 1-2 % above the market. That's an investment we are able to do and most of our competitors probably cannot. They don't have the return level to make these huge investments on top. We can do it, as we do it on a global scale.

+ bbi: You once said that the program will change the culture of CSM. Has there already been time to develop a culture as the Group is quite young?

+ Hoetmer: I think there is a culture of CSM which is based on local company cultures and values. But by changing the organization and focus, it has rapidly changed the culture

into a market driven one with a clear customer focus with the realization that we will win in the long run.

+ bbi: In Russia, CSM is still not working with its own brand. Will this also be changed?

+ Hoetmer: The positive news is that we have just started a company under the CSM brand with our own office in Moscow. We have distributors in Russia and we will build the business together. We have decided that it is now time to show our own face there.

+ bbi: You have been in Russia predominantly with your portfolio of fat products. Are you now starting with bakery ingredients as well?

+ Hoetmer: Yes, we are. We missed out on it for quite some time, but now we are on the move.

+ bbi: What will be the position of CSM on the European market in the future?

+ Hoetmer: My aim is to be recognized as the European leader or the global leader in bakery supplies. Therefore, we need R&D and good people, focusing strongly on the customer. It is similar to the yoghurt market 15 years ago. Yoghurt was only available in one liter packs. Now look how the yoghurt market is today. It has gone through an enormous development and that should be the aim of a market leader. Together, with our customers we want to bring a similar development to the baking industry.

+ bbi: The yoghurt people started to put the cake into their yoghurt products ...

+ Hoetmer: That is an opportunity we missed. There is so much we can do in terms of indulgence and health. If you ask the customers about a healthy product, eight out of ten talks about bread; but as an industry, we are doing very little with bread. We can help the market achieve this; we are making the investments to start in this field in order to make up more ground than we have up to now. We have a program for health and indulgence.

+ bbi: Focused on bread?

+ Hoetmer: Focusing on pastry and bread. With pastry, you can do a lot of things. Combine fruits with pastry – we have it all, we only have to use it. We need not only to do it for a national market, but for a European or global market and that's our strength.

+ bbi: Will artisan bakers still be customers of CSM?

+ Hoetmer: Yes, they will remain our customers. But artisan bakers are not just bakers focusing on baking bread and nothing else. They will provide healthy and indulgent baked products based on wheat or cereals. If you pass a bakery shop in the future, you will see opportunities to snack, to meet friends, to grab a coffee. The deli type store is the opportunity for the artisan bakers. I see a revival of delicacies.

+ bbi: Mr. Hoetmer, thank you for the interview. +++



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