

Increasing demand for modern baked goods

THE NUMBERS OF VISITORS AT IBA SHOWED THAT THE BAKED GOODS MARKETS IN THE MUSLIM COUNTRIES FROM TURKEY THROUGH THE ARABIC REGION AND DOWN TO AFRICA ARE ABOUT TO CHANGE. **HANS SIMÉE** WORKS AS A CONSULTANT IN TURKEY AS DOES **JOHANNES GÖTZ** IN SAUDI ARABIA. BBI TALKED TO BOTH ABOUT THE BAKED GOODS MARKETS IN THIS PART OF THE WORLD



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Consultant in Turkey



++ Johannes Götz
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+ bbi: What are the characteristic features of the baked goods market in Turkey and Saudi Arabia and in what direction are they heading?

+ Simée: About 35,000 bakeries are active on the Turkish market with only approximately 1 percent of them being industrial bakeries which in turn serve about 9 percent of the market. Some of the industrial bakeries are municipal or state controlled companies. The artisan bakeries produce traditional breads, predominately with just one or two people, and do not always comply with the hygienic conditions required today.

The prices for flour are subject to free competition, but they are state-controlled, sometimes through subsidies; the same goes for the ordinary types of bread. The market is a mono-market; 90 percent of it is Ekmek, the traditional soft white bread. The other 10 percent are also wheat baked goods, for example, international products such as toast or crusty breads being offered in hotels and more recently also in special baking shops in major cities and tourist regions. There are several approaches towards expanding the product range either by adding rye or vitamins or by using sourdough. But all this is still in its infancy.

+ bbi: Where do people buy their bread in Turkey?

+ Simée: They buy it mainly at the store around the corner or at the bread kiosks of the state bakeries. The consumers

demand warm, fresh, crusty bread for immediate consumption. Bread older than two or three hours is basically discarded. Packed bread – toast bread or hamburger buns – is offered in the supermarkets and consumers do accept it even though it is not freshly baked. The supermarkets are also the places where new products, for example German hard rolls, are being launched although they are only achieving rather limited success. We are just about to establish a chain store to address people with average income but with a higher educational level, people who think in a more modern way and are more international in their outlook and who have certain demands on the products such as how they were made and presented, for example, in terms of hygiene. The prices are in a range that makes them affordable to average people. We offer bread with added vitamins, made from sourdough or with a certain amount of rye. Our message is that tasty bread need not be expensive and that variety and quality are affordable.

+ bbi: How about the baked goods market in Saudi Arabia?

+ Götz: The mills are all state-owned; the flour is subsidized. The standard flat bread in Saudi Arabia must be offered at a fixed price. This makes it impossible to achieve product profitability and therefore companies try to offer higher quality products such as sandwich bread and hamburger buns in order to extend their profit margins. The flour qualities deviate which creates problems, in particular, for

smaller bakeries and shops found in the supermarkets. Flat bread is freshly baked 24 hours a day, without any acidification. It is only consumed when fresh. Packed bread must have a shelf life ranging from seven to 12 days or more, which proves to be difficult considering the climatic conditions. Flat bread and toast bread are mainly purchased at the mom-and-pop stores or in a typical supermarket; both are served by the industry. There are now eight industrial bakeries which have been in business from between ten to thirty years. Currently, new businesses are emerging. Consumer habits are only changing marginally, away from Arabic bread towards the European and Anglo-Saxon types although this is only true for the upper classes of the population. The most important product besides flat bread is Samoli. This is a type of hot dog bun which is offered in small bakeries as well as in larger outlets. The taste of the bread in Saudi Arabia is rather bland for European palates; maybe a little sweet. There are about 28m inhabitants in Saudi Arabia; 8m of them are foreigners with many of them coming from Asia – this also has an impact on the market.

+ bbi: Are there distribution outlets in chain stores or baking stations?

+ Götz: If at all, baking shops are only located in shopping centers or hypermarkets. Some supermarkets have in-store bakeries which impress with freshness and present high quality. But this development is still in its infancy. In the past few years, many hypermarkets and shopping centers have been built, partly by international chains, which makes shopping a real pleasure. In Saudi Arabia, shopping is a weekend amusement for the entire family and this increasingly includes the purchase of groceries.

+ bbi: Does this mean that industrial bakeries in both countries have to rely on supermarkets which are not necessarily market leaders in bread?

+ Götz: Not at all! The industrial bakeries have their own distribution net and supply their flat bread and other baked goods to all the mom-and-pop stores, supermarkets and hypermarkets. The mom-and-pop stores sell industrially produced goods as well as the products made by small local suppliers.

+ Simée: This is slightly different in Turkey. Some supermarket chains operate in-store bakeries where the products are made from scratch. However, the quality is often poor. The semi-state industrial bakeries have their own distribution network consisting of kiosks at tram stops for instance. The other larger industrial bakeries – about 15 – mostly sell packed goods via supermarkets and operate a shop situated next to their production site. Apart from that, they serve the HORECA (hotels, restaurant, catering) channel. The group of companies I work for is an exception; we are setting up a bakery branch network which is served partly by our own industrial bakery and partly by our bakery producing exclusively for these stores. This facility bakes all artisan type of

morning goods, cookies and snacks where an automatic production for the time being would not be justified.

+ bbi: Who triggers the product development in these markets?

+ Götz: In Saudi Arabia, it is the industrial companies that launch new or improved products. There has been a lot of development in the past few years. Today, for example, you can buy packed filled croissants with a long shelf life which resemble the products available in Italian or Greek supermarkets. Currently, they are a sales hit, but other novelties such as Swiss rolls (often offered as miniature products) and cheese pastries, which are Danish pastries filled with feta cheese, are also proving popular.

Catering in the schools used to be done by local producers. Today, it is centralized and the state orders a company to supply breakfast to the schools. The current supplier, for example, also produces Danish pastries. With the new generation, the consumption behavior of the entire society is changing. Ten years ago, there were no frozen baked goods available in Saudi Arabia. Today, there are national as well as international frozen baked goods producers on the market.

+ bbi: Will the frozen baked goods only be supplied to the HORECA establishments or are they also available to the final consumer? ▶

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+ Götz: Currently, the goods are supplied to hotels, coffee shops and similar establishments. They are not yet offered to the final consumer in supermarkets or shopping centers, but this will probably change soon.

+ Simée: There are three key sources for new products: First of all the supermarkets which create an awareness for the varieties of bread which were not available in the past. Secondly, the hotels that want to be international and therefore offer a broad range of high quality. Thirdly, people who travel a lot, visit other countries and get to know and appreciate other products. All these three sources together promote the expansion of new ideas and products which are then developed by the bakeries. Moreover, there are many Turkish people who have lived at least for some time in Germany, who know the German baked goods market and who expect a respective variety. This makes it easier in Turkey to introduce a new product range.

+ bbi: Is there any state control of the markets apart from regulation of the price?

+ Götz: State control is there for hygiene issues which are to a very high level. Besides flat bread and Samoli, the prices are not regulated.

+ Simée: In Turkey, bread is a staple food; the flour is subsidized and the price for common bread is regulated by the

state. A higher quality standard bread would not yield a higher price because consumers are used to focus on the prices for ordinary bread and not the quality. More money is spent on other products, but not by 80% of the Turkish population who belong to the lower society classes and/or live in rural areas. The main problem is the lack of education and information on healthy baked goods and their quality aspects.

+ bbi: Where does the company that you work for have its branches if it only caters for 20 percent of the entire population?

+ Simée: We are opening branch stores in the areas where customers with the purchasing power category A, B1, B2 and C1 live or work. We do not only target the customers with a lot of money but rather the ones who are educated, follow a modern lifestyle and want to pamper themselves once in a while. In total, these represent 25-30 percent of the population. In our marketing communication, we strategically opt for the imitation effect. In 2010, we plan to have up to 100 stores in Istanbul. Even in this large city, small corner shops and mom-and-pop bakeries have a market share of 85 percent. Within our expansion, we are not set exclusively on international products such as ciabatta or panini. A large portion of our range comprises traditional products which are produced in a higher quality and under strict hygienic conditions.

+ bbi: This means that 70-90 percent of the population has not been touched by the non-traditional bread market. What is the situation in Saudi Arabia?

+ Götz: Families in Saudi Arabia are quite large. Key to most of the families is feeding its many members. There is a huge demand for family or large sized packs and also for bread. In Saudi Arabia, only a small part of the population will be able to consider buying the modern, expensive baked goods that we have talked about. The mass market is occupied by good products at an affordable price. We are talking about 0.25 Riyal for a flat bread, which is 5 Eurocents. One toast bread costs 3.5 Riyal. Freshness and cleanliness in production are also playing significant roles today.

+ bbi: Where do the external influences originate from?

+ Simée: In Turkey, they clearly come from the Mediterranean region with the exception of toast bread and hamburger bread.

+ Götz: In Saudi Arabia, the influence is purely American as this comes close to the desired taste for light and fluffy products. Rye, acidification or hard crusts are rarely asked for. This of course limits the diversity. In Saudi Arabia, you can find white and whole grain toast and perhaps a few unmoulded breads and Samoli in different flavors. Other types of bread are not appreciated by the consumer unless they are modified to suit. A baguette from Saudi Arabia barely resembles a European product because it is more a crust-less white bread stick. Specialty products are only available at premium hypermarkets or supermarkets and their market share is below 1 percent.

+ bbi: What are the special challenges as a result of climatic influences for bakeries in Turkey and Saudi Arabia?

+ Götz: The production rooms are always air-conditioned and the newly erected bakeries are technically state-of-the-art. Even German bakeries would be impressed. One big challenge is to master the deviating flour qualities and still bake good quality bread. However, the biggest challenge is to have an active personnel policy as this is where the biggest shortage lies.

+ bbi: Shortage of what?

+ Götz: There are no technical staff available. Previously there were no industrial bakeries and there is nothing such as vocational training where people can be prepared for their working environment. The only way is "learning by doing". ▶

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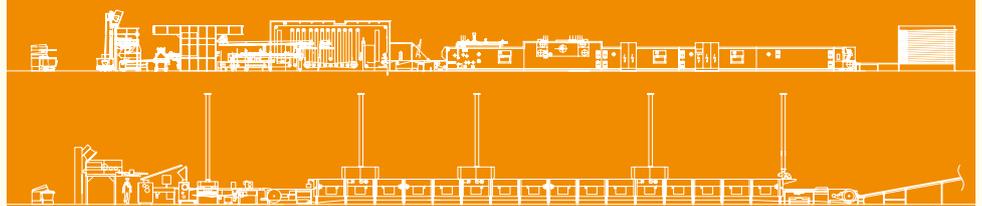


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+ bbi: Are there any plans to change this situation?

+ Götz: I have heard that there are some developments but they are still a long way off. Many immigrant workers are coming into the country to work in the factories but most of them are not trained. It would be good if there was a technical college providing American and European bakery knowledge. A traditional baker's training is probably not required but a facility for modern technical training for industrial production of baked goods and for food technicians would be desirable. In Saudi Arabia, you can study food technology at university but the graduates rarely work in production companies and they also lack practical experience.

+ bbi: What is the situation in Turkey?

+ Simée: In Turkey, there is a large market of national manufacturers which produce rather inexpensive machines, first of all for small bakeries. The industrial bakers strategically invest in high tech machines from Europe which pays off in terms of service life and consistency in quality. Many people believe that this is all you need. However, a certain basic training of the staff is still required and it is not available in most of the smaller bakeries. Finding good personnel is difficult. We try to "import" technical staff and we will provide our own training and send our apprentices to Europe in exchange. For example, if we want to bring products into German stores, we also need similar education. Even though the sourdough plant is operating automatically, I still need to know what is happening and how to handle possible problems. Multiplication of our know-how is our aim. There is no bakery school or other regulated vocational training in Turkey.

+ Götz: For the training of our employees, we cooperated with the American Institute of Baking where they participated in a distance learning course and in a half-year basic training course and subsequent advanced training courses. This is ideal but not enough in terms of the number of trained employees needed.

+ bbi: This also means that the demand for consultation in these countries will continue. What about the raw materials, in particular, their quality and availability?

+ Götz: Flour is procured nationally and via international purchases. However, the quality is not consistent because the flour is not blended. There is no competition amongst the mills. Water is also a raw material and must be purchased, examined etc. It comes in tank trucks from desalination plants. Shortening is bought in from the Far East; sugar is produced locally and is of a high quality as is salt. Additives, fillings and special fats are often imported.

+ Simée: Water is available in sufficient amounts. Grain is cultivated, to a large extent in the country and also imported in different qualities from Russia, the Ukraine, the USA, Canada etc. Buying the required flour quality is no problem. Fats, sugar and improvers are produced in Turkey.

+ bbi: What do you think the markets for baked goods in these countries will look like in 10 years from now?

+ Simée: In Turkey, the market will change for sure and orient itself towards more international variety. It will start in the larger cities and tourist regions. Today's standard products will ultimately lose their market share. In 10 years, there will be more packed goods. Products for bake-off at home are already available today. This market will grow as well as will the market for frozen baked goods. In 10 years, I expect there will be regulatory requirements on how a baked goods production must be designed, which type of energy must be used and which hygiene requirements have to be complied with etc. This will all result in a shift towards modern and with that industrially or semi-industrially operating bakeries.

+ Götz: In Saudi Arabia, there will also be a shift towards industrial bakeries. The number of smaller companies will decrease. The market, in total, will be more modern. There will be new packages, new presentations and, most of all, more frozen baked goods. These will, in particular, be in the shop areas where

they are then freshly baked-off. Only a very small part will have reached the households. This will be limited to puff pastry dough and other semi-finished products. I imagine that it will take much longer for croissants and similar products to be found on the frozen counters. I do not believe that the product range will be even more varied. There will be fewer import products and more production inside the country. This trend is already recognizable today.

+ bbi: Will prices still be regulated?

+ Götz: This issue has been discussed for more than ten years. If the price regulation is eliminated, it will be an exciting development on the market and will lead to more interesting products. However, I would not bet on the elimination of the price regulation.

+ Simée: In my opinion, the prices in Turkey will still be regulated in ten years from now. The growth in income in Turkey is rather slow. Today, an unskilled worker earns 350-450 Euros each month. He has to feed his family from this income. The bread price in Turkey will still have a political dimension in the future.

+ bbi: Gentlemen, thank you for the interview. +++



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