New Market Trends
in the European Bakery Sector

Bakery market drivers and brakes through 2018

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by Anne Fremaux

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What GIRA does

Expertise in Bakery:
products/countries/circuits

- Consulting
- Individual market research
- Strategic multiclient research
- Market due diligence

All along the food & drink and distribution chain - throughout the world

- Update of Bake-off Survey+ (2015)
- Bakery in Russia (2014)
- Bakery Ingredients France (2014)
- Bakery Panorama EU-27 & Turkey (2012, 2007)
- Savoury Pastry Snacks EU-16 (2011)
- Fresh Bakery Strategies in Modern Retail France (2007)

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• An overview of the European bakery markets
  Need to adapt to new consumer trends

• Future challenges in bakery products distribution
  Who will lead the growth?

• The new shape of the industry
  Now and in the future

• To sum up
  Some major trends
An overview of the European bakery markets

Need to adapt to new consumer trends
Bakery products and production methods

The same definitions used in all countries

- **Fresh bread**
- **Industrial prepacked bread**
- **"Artisanal"**
  - Made from scratch on the premises
- **Industrial**
  - Fresh
  - Bake-off
The European bakery market in 2013:

Over 40 million tons and EUR 130 billion

- Overall bakery consumption has **decreased** by -0.2% in the past 10 years
- Consumption should remain **steady** in the near future.
Bread & fresh products dominate

*But suffer from increasing competition*

**Bakery products consumption volumes by products, 2013 Europe**

1. Bread: 79%
2. Savoury pastry: 3%
3. Patisserie: 10%
4. Viennoiserie: 8%

Source: Gira

**Bakery products consumption volumes by technology, 2013 Europe**

1. Fresh: 68%
2. Prepacked home-baking: 4%
3. Prepacked long-life: 28%

Source: Gira
Long-term trends have stopped or slowed down: *bread has benefited from the crisis*…


- **Viennoiserie & Patisserie**
  - 2001/2006: 2% growth
  - 2006/2012: 0% growth
  - 2012/2018: -1.0% growth

- **Bread**
  - 2001/2006: 2% growth
  - 2006/2012: 0% growth
  - 2012/2018: 1% growth

(Source: Gira)

(Size of bubble denotes value in EUR mio)

Market volume ('000t)

© Gira 2014
Bakery consumption will show contrasted future growth towards 2018.
Trends in bakery products consumption: polarization of the bakery market

- Trading down for basic products:
  - Success of low-price standard daily bread
  - Success of hard-discount stores

- Trading up:
  - High quality and more expensive bread specialities
  - Success of artisan breads ("Pain de Tradition Française")
  - Hamburger frees o.s. from fast-food

Retailers and manufacturers need to fill the gaps!
Main consumption drivers:
- Bread: natural and cheap
- New tastes and new shapes
- Search for snack and food-on-the-go
- Looking for meal solutions

Bakery - Deli - Breakfast - Lunch - Brunch
Maple Products - Gluten Free Bakery

Bakery products consumption drivers and brakes

Brakes on consumption growth:
- Effect of the economic downturn on indulgence and added value products
- Sweet products: *a treat and not a need*
  - Health concern
  - Competition from alternative savoury snacks
- Return to home-baking
The major health challenges in bakery

*Without affecting products' quality*

- "Better-for-you" bakery:
  - Salt intake reduction
  - Fat alternatives
  - High-fibre, high protein options
  - Functional and fortified foods

- Free-from…
  - Gluten
  - Wheat
  - Allergens
  - Sat fats
  - Palm oil

- Clean-label formulations

*BUT the consumer still want a wide variety of tasty bakery goods!*

*Bakery and ingredients producers need to adapt!*

- New ingredients formulations: enzyme-based, technological, flavour…
- Special requirements also imposed on technology: specific production lines, even custom-built machines
Avoiding food waste:
- 25% of bread products in high-income countries are wasted
- At retail & consumer level, during storage & processing

Buying local to support local economy:
- Manufacturers buying local flour
- Consumer buying in local stores or directly to producers

Carbon footprint:
- Bakery products contain a wide spectrum of ingredients from different origins
- New processes which make smarter use of natural resources

Sustainability is omnipresent…
Future challenges in bakery products distribution

Who will lead the growth?
Modern retailers now hold 45% of distribution… expected to increase further…

Bakery products distribution channels, Europe, 2001/2017 trends (by volume)

Source: Gira

© Gira 2014
Modern retailers now hold 45% of distribution… *expected to increase further…*

**Bakery products distribution channels, Europe, 2001/2017 trends (by volume)**

- **Artisan bakers =>** Services & foodservice
- **Modern retailers =>** "Freshly baked": key in driving footfall and more frequent visits
- **Bakery chains =>** A mixed positioning between a traditional bakery & a fast-food outlet
- **Foodservice sector =>** Expansion of coffee shops and cafes/bars
Artisan bakers generally have the highest price positioning

Fresh bread price positioning by retail sector - 2012

Index 100 = average country price

Source: Gira
New types of bakery stores: threats or opportunities?

- Single product bakery
- "Yesterday's Bread" in France
- Bread vending machine in Belgium
- "Click & collect" bakery
- Discount bakery stores in the UK
The new shape of the industry

Now and in the future
Industrial bakers supply 67% of bakery

*With main opportunities for bake-off*

European bakery products production: artisanal versus industrial, 2013

Artisanal supply: 33%
- Artisan bakers 29%
- Prepacked home-baking 5%

Prepacked long-life 28%
Retailers in-store 3%
Other retail & catering 1%
Fresh finished 19%
Bake-off 15%

Industrial supply: 67%

Source: Gira
Craft bakers still represent huge volumes...

...But almost no potential

(Consumption figures)

Source: Gira

IAOM MEA, 3-6 December 2014 © Gira 2014
Biggest growth is foreseen for bake-off, everywhere!

Growth prospects in bakery products production – 2013/2018

Source: Gira
To sum up

Some major trends
### The main trends - And their likely effect on Industrials & Millers' activities

<table>
<thead>
<tr>
<th>Drivers</th>
<th>Brakes</th>
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<tbody>
<tr>
<td>▪ Bread: staple &amp; healthy</td>
<td>▪ Bread &amp; fresh products: mature markets</td>
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<tr>
<td>▪ Snacking, on-the-go, savoury</td>
<td>▪ Trading down</td>
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<tr>
<td>▪ Expansion of modern retail</td>
<td>▪ Increasing health concern</td>
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<td>▪ Industrial production</td>
<td>▪ Declining artisans &amp; in-store scratch baking</td>
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<table>
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<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tr>
<td>▪ Target both ends markets</td>
<td>▪ Rising cost and raw material prices</td>
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<td>▪ Answer to the still big standard markets</td>
<td>▪ Volatility</td>
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<td>▪ Add value to bakery products and flours</td>
<td>▪ Pressure on selling prices / on quality</td>
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<td>▪ Branding</td>
<td>▪ ISB in hard-discount</td>
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<tr>
<td>▪ Opportunities for differentiation</td>
<td>▪ Threat for bake-off margins</td>
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<tr>
<td>▪ New ingredient formulations</td>
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<td>▪ ISB in hard-discount</td>
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<td>▪ Opportunities for bake-off volumes</td>
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Is bake-off now at a turning point?

<table>
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<th>Bake-off at production level: sustainability will be the key</th>
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<tr>
<td>- Trends are moving towards clean-label products</td>
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<td>- Carbon footprint: bake-off is energy intensive</td>
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<td>➢ New formulation and new ingredients</td>
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<td>➢ Upgrade bakery processes</td>
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<th>Bake-off at consumer level: &quot;Defrost&quot; labelling regulation?</th>
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<td>- Positive impact of &quot;freshly baked&quot; or &quot;baked in-store&quot;</td>
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<td>- &quot;Freshly baked&quot; a misleading label?</td>
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<td>➢ Emphasizing scratch baking whenever possible</td>
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<td>➢ UK, Slovakia, Czech Republic, Greece</td>
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<td>➢ Aldi (DE) and Coles (AU) taken to court</td>
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<td>➢ It is a still ongoing legal battle…</td>
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Thank you for your attention!

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