

Situation analysis of the external environment of a bakery company

Situační analýza vnějšího prostředí pekárenské společnosti

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Abstract: The purpose of the situation analysis of the external environment is to find what is happening in the company environment now and in the future and how these factors will influence the activities and existence of the company. The paper deals with a situation analysis of the external environment of a specific company. This paper describes the external environment of the United Bakeries company using the STEPE analysis and in addition a situation analysis of the external environment was made. Next the probability estimation of the occurrence and influence of the factors is made for today, and for the near and long-term future.

Key words: industry, baking industry, external environment, opportunities, threats

Abstrakt: Obecným úkolem situační analýzy vnějšího prostředí je zjistit, co se v okolí společnosti děje, a pokusit se odhadnout, co se bude dít v budoucnu a jak to může ovlivnit její činnost a existenci. Příspěvek se zabývá situační analýzou vnějšího prostředí konkrétního podniku. V příspěvku jsou identifikovány faktory vnějšího prostředí firmy United Bakeries s využitím STEPE analýzy a je provedena situační analýza vnějšího prostředí. Dále je proveden odhad pravděpodobnosti výskytu a vlivu příležitostí a hrozeb v současnosti, blízké a vzdálené budoucnosti.

Klíčová slova: odvětví, pekárenský průmysl, vnější prostředí, příležitosti, hrozby

Baking is an important industry with a long history which has led to the existence of a large number of medium and small size bakers so that to be successful in this industry is very difficult. The companies must search for cheaper raw materials, modern technologies and must reduce energy consumption.

In addition the bakery is a fragmented industry. By the OKEČ (the Sectoral Classification of Economic Activities) the Bakery and Patisserie segment is included in the industry 15.8 – Manufacturing of other food products. It accounted for the biggest share of sales revenue (about 41.6 percent in 2006) in this sector the biggest part of bakery industry output is for daily consumption. The industry is also an important employer, having 20 000 workers. This industry is still concentrated and the horizontal and vertical relationships are connected. The product

orientation and products line of the bakery industry can influence the nutrition of the population. In the recent years, there have been many researchers who focused on the external environment, e.g. Chládková et al. (2004); Tomšík, Chládková (2005); Presová, Tvrdoň (2005); Chládková (2007); Pyšný et al. (2007); Pošvář, Erbes (2002).

The main aim of my paper was the identification of the main factors from the external environment which are the most important for the specific bakery company.

MATERIAL AND METHODS

The basic task of situation analysis of the external environment is to find what is happening in a

Supported by the Ministry of Education, Youth and Sports of the Czech Republic (Grant No. MSM 6215648904).

company's environment now and in the future and how these factors will influence the activities and existence of the company (Pošvář, Erbes 2002). My paper involved two basic steps. First was the STEPE analyses and then branch analyses. The concrete outcome was the identification of the opportunities which the company can use and the threats which the company must face.

Because opportunities and threats are variable in time, one situation can be an opportunity now but it becomes a threat later and vice versa. In my paper, the probability of the occurrence and influence of opportunities and threats to the company was estimated for today, the near future (1–2 years) and the long-term future (3–5 years). The occurrence and influence were evaluated as low (1), middle (2) and high (3). Results were formulated in the tabular form.

RESULTS AND DISCUSSION

Basic information about the United Bakeries

The United Bakeries, a joint-stock company, have been a new significant player on the bakery field of the European Union since January 1st, 2007. The market leader of the Middle European region has arisen from the merger of the two biggest Czech bakery companies, the Delta Pekárny and the Odkolek. Brothers Jaroslav Michael Pařík and Marko Pařík are founders of the United Bakeries Group operating in the food processing industry. "We have successfully finished the process of connection. We are now stronger, more competitive. The restructuring helped us immensely, production and organisation has been rationalised" stated Marko Pařík, Managing Director of the United Bakeries and the architect of the merger. The majority shareholder of the United Bakeries is the European United Bakeries of Luxembourg, holding 100 per

cent of shares. The company is also an umbrella organisation for foreign acquisitions and an important employer: a mother company and subsidiaries in four countries employ 4 270 people. The non-consolidated turnover of the Group jumped over CZK 9 billion in 2007. In the Czech Republic and Hungary, the Group is a market leader, in Poland No 1 in the frozen bread and pastry segment and in the Slovak Republic one of the most significant players in bakery industry with a 2007 turnover of SKK 1 012 billion. The United Bakeries represents a symbiosis of a more than 155 year's old valued tradition of the Odkolek brand with the dynamic and modern Delta brand. Both brands are the most trusted and the best known brands in the Czech bakery industry. The merger of Luxembourg's owners of the Delta Pekárny and the Odkolek companies was approved by the Czech Anti-monopoly Office on February 24th, 2006. Upon its formation, the United Bakeries became one of the highest valued firms of the Czech Republic in 2007 in the Agriculture and Food Industry category.

The Delta Pekárne SK, a member of the United Bakeries Group, is one of the most significant subjects on the Slovakia bakery market. Three bakery plants, based in Bratislava, Žilina and Levice support the top quality deliveries to the Slovakian market.

Interback Csoport, a member of United Bakeries Group, is the biggest bakery group in the region of the Hungarian capital Budapest with 2.5 million inhabitants and probably in the whole Hungary. Under the leadership of the Odkolek company, there has been consolidated the firms Vécsay, Interback, Delta Pékség and Dunakenyer with the goal to create a strong group named the Interback.

Vision and Credo of the company:

– we want to be one of the most significant baking companies in the European Union

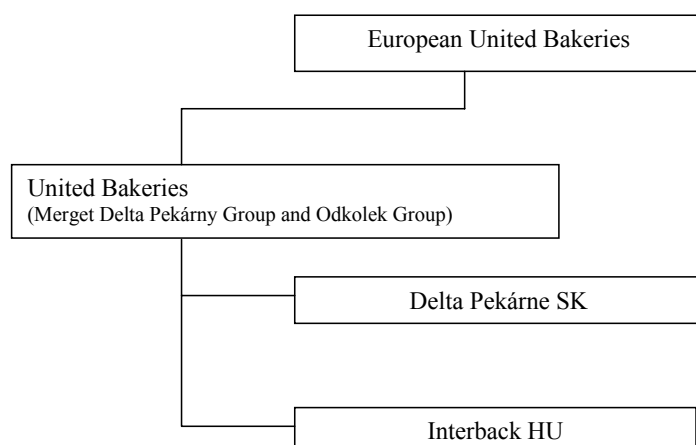


Figure 1. Company structure

Source: United Bakeries

- offer a variety of top-quality products for the best price and top-quality services
- keep an eye on new trends and come up with product range innovations
- constantly improve our brands' image and strengthen their value
- act as a responsible company with respect to our employees, the environment and society
- reinforce fair-play values in business relations and offer value to shareholders, employees and customers

The United Bakeries group is focusing on quality management, almost all plants have received the international HACCP (Hazard Analysis Critical Control Points) certificate, guarantees health sanitation of produced alimentary products. Bakeries in Brno, Uherský Brod, Uničov, Znojmo, Kladno, Plzeň, Strakonice, Pardubice, Karviná, Praha, Bratislava and Žatec have received the certificate. The bakery plant in Strakonice can be proud also of the BRC certificate, the headquarter in Prague has received the ISO 9001 and the HACCP certificates. The Delta Frozen Products company works in the HACCP and BRC standards. Other bakeries operate according to the HACCP standards already and shall receive the certificate as soon as possible.

The United Bakeries is the 45th biggest company in the world and No. 1 in the Middle European region in baking industry. The top giant among the world bakers is the Japanese Yamazaki Baking company with the annual turnover € 3.7 billion and 18 thousand employees, the second is the Grupo Bimbo, Mexico (turnover € 2.9 billion, 37 000 employees), and the third the Canadian George Weston (€ 2.6 billion, 14 500 employees). The United Bakeries, concentrating on the fresh bakery products, have with their turnover € 280 million and 4 000 employees the 45th place in the world as the biggest Middle European baking company. The 2007 ranking has been published in the *Back Business* journal, Germany, where the author stressed that only 23 of 50 mentioned top companies are oriented purely at baking while other groups included in the total turnover produce pasta, confectionery, flour or other food products. The United Bakeries Corporation sold its 50 per cent equity share in the Delta Frozen Products and the Nowakowski Piekarnie to the partner company Vanelor, Belgium, which became 100 per cent owner of both companies.

Firms based in Kladno and Warsaw are No 1 in the frozen pastry segment in the Czech Republic and Poland. The share sale has been prepared by both sides on a long-term basis.

“We continue in business partnership with the Vanelor. The reason for the sale is our concentration on the fresh pastry production while the Vanelor is a specialist in the production of frozen goods” explained Marko Pařík, Managing Director of the United Bakeries.

Basic information about branch

The baking industry is one of the most important parts of the Czech food processing industry.

The Czech baking industry has a bigger price differential compared to other European Union bakers than occurs with any other industry. The situation in this industry is complicated because baking is a fragmented industry. As already stated, according to the OKEČ, the Bakery and Patisserie segment is included to industry 15.8 – Manufacturing of another food products and it is the most important segment of them.

Statistics show that Czech bread consumption is decreasing (the same situation is typical for the EU) and the consumption of rolls, buns and cakes is growing (Table 1). Bread consumption dropped to 49.5 kilogram per capita from 1999 to 2006 which is a reduction by about 10.3%. But the consumption of buns, cakes and another wheat bakery product increased to 45.3 kilogram per capita in the same period which is the growth of about 8.3%. This change is due to the increasing bread prices according to experts. Further more and more consumers prefer a healthy life style and they prefer wholemeal products. Growth of buying power influences bread and pastry consumption because people can buy more expensive foods. The paper from the Research Institute of Agricultural Economics documents that bread consumption is more price elastic than wheat bakery products.

Figure 2 and Table 1 show that bread prices are rising and bread consumption is decreasing in the whole period under consideration. Bread is a basic food and consumers are responsive to price. Yet the decrease in bread consumption is proportionately lower than the increase in price. Furthermore, the most important is the substitution between bread consumption and wheat bakery products consumption. We suppose this trend will be growing in the future.

The changes in consumption influence bakery production. In 2005 only 349.5 thousand tons of bread were produced in the Czech Republic which is about 5% less than in 1997. However, the production of wheat bakery products increased to 289.3 thousand tons, a rise of about 13%. The consumer price of bakery products is rising but the producers incomes

Table 1. Consumption of cereals and bakery products beverages in the Czech Republic; 1999–2006; annual per capita averages (in kilogram))

Indicator	1999	2000	2001	2002	2003	2004	2005	2006	Index 2006/2005
Cereals in terms of grain weight	135.2	136.3	137.4	145.8	142.3	142.4	136.7	136.5	99.8
wheat	112.1	113.8	112.4	120.0	116.6	116.9	112.7	117.7	104.5
rye	14.5	13.8	16.3	16.9	17.0	17.1	16.4	10.2	62.0
maize	1.1	1.1	1.1	1.0	0.9	0.9	0.8	0.6	68.9
other cereals	3.2	3.2	3.2	3.1	2.8	2.9	2.8	2.8	100.0
rice	4.3	4.6	4.4	4.8	5.0	4.6	4.0	5.2	129.9
Cereals in terms of flour weight	104.0	104.7	107.0	113.8	110.9	110.2	106.3	106.6	100.2
wheat flour	86.3	86.6	87.7	93.7	91.0	91.2	87.9	91.8	104.4
rye flour	11.0	11.1	12.5	13.0	12.9	12.9	12.8	7.9	62.0
pot barley, semolina, shredded oats	1.4	1.4	1.4	1.3	1.2	0.7	0.9	1.0	103.8
other flours	1.0	1.0	1.0	1.0	0.8	0.8	0.7	0.7	100.0
rice	4.3	4.6	4.4	4.8	5.0	4.6	4.0	5.2	129.9
Cereal and bakery products									
bread	55.2	56.0	55.1	54.5	54.3	53.3	53.2	49.5	93.0
wheat bakery products	41.8	42.8	43.3	44.3	43.8	44.0	44.2	45.3	102.5
gingerbread, biscuits, crackers	7.2	7.8	7.8	7.7	7.6	8.2	8.2	8.3	101.2
pasta	5.6	6.5	6.5	6.0	5.6	6.2	6.2	6.5	103.6

Source: CSO

are stagnant and move about 20 milliards per year according to Stanislav Musil (the chairman of the Business Association of Bakers and Confectioners). Branch profit is less than 5 % in average. When pro-

ducers supply the trade chains for the first time, their profit is by far lower. Rising prices of raw materials, energy, water and fuels influenced the low business result too. For the majority of bakery production

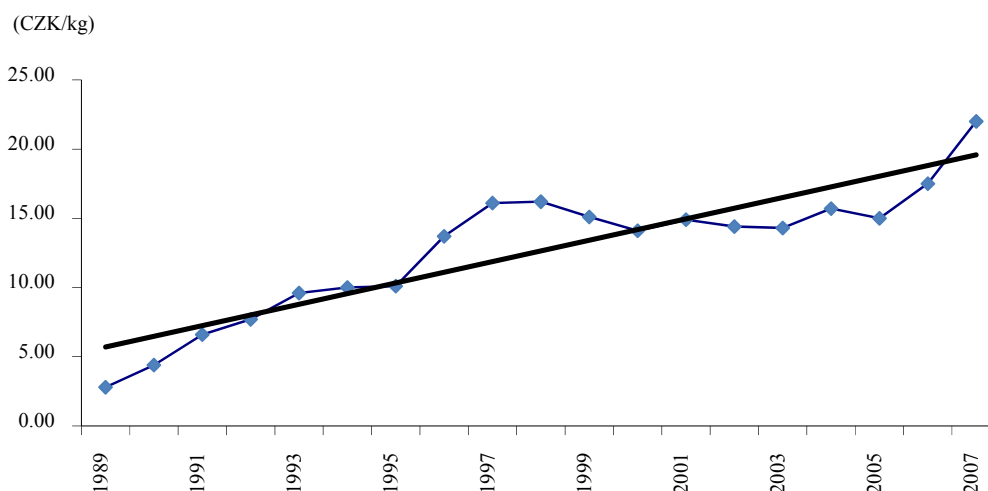


Figure 2. Trend in bread prices

Source: MA CR, CSO

(about 60%), it is difficult to negotiate such sales prices to be able to improve wages and to renew assets in this sector.

The PENAM is the most important competitor of the United Bakeries. This Brno company originated in 1999 through the unification of twelve milling and baking firms. Today the PENAM incorporated company is owned by the Agrofert Holding, Inc. Fourteen production units, scattered all over Moravia, ensure the manufacturing of almost 1,100 products (baking and confectionary goods, pasta, flours and milling products). In addition to that, the company operates a network of its own shops called the U Golema Bakery. The PENAM supplies the same trade chain as the United Bakeries (Tesco Stores, Makro, Cash & Carry, Kaufland, AHOLD Czech Republic, REWE. PENAM export to Slovakia, Poland, Estonia and Lithuania. This company employs 2 050 people and got many awards (for example 12 evaluation of the KLASA in 2003, the Zlatá Salima in 2002 and 2004).

In September 2007 the PENAM opened the first automated bakery operation in the Czech Republic. Costs of this operation with the title "Zelená louka" were over 169 million CZK and another 305 million CZK was invested in new technologies. In the operation Zelená louka, the company employed 120 people and it will supply Prague for the first time.

The most important opportunities and threats

The most important opportunity for the United Bakeries, for today and for the future, is the fact that their trade share is the biggest in the Czech Republic. The United Bakeries is the producer who determines prices and has a big bargaining power with trade chains. We suppose that the bakery markets will separate into two groups. In one of them, the big bakeries will stay, in the second the small private companies which will produce specialities. Middle-

Table 2. Identification of Opportunities (O) and Threats (T) – estimation of occurrence and influence

Factor	O/T	Today		Near future		Further future	
		occurrence	influence	occurrence	influence	occurrence	influence
Big share in the food industry results	O	3	1	3	1	3	1
Integration of mills and bakeries	O	2	3	2	3	3	3
More expensive bread in the EU	O	3	2	2	2	1	2
Healthy life style	O	1	2	2	2	3	2
Higher level of living	O	2	2	3	2	3	3
Low demand elasticity	O	3	3	3	3	3	3
Fall in bread consumption	T	2	2	2	1	2	1
Growth of wheat bakery products	O	3	3	2	2	2	2
Growth of pastries and cakes	O	2	2	2	2	3	3
Growth of prices	T	2	2	2	2	2	2
Growth of prices	O	2	1	2	2	3	3
Pressure of trade chains	T	3	3	3	3	3	3
Low wages in branch	O	3	2	3	2	2	2
Low wages in branch	T	3	3	3	3	2	2
Law and rules in the EU	T	2	3	2	3	1	3
Growth of inflation	T	1	1	2	2	2	2
Many competitors	T	3	3	2	2	2	2
Growth of input prices	T	3	3	3	3	3	3
Low profitability	T	3	3	3	3	2	2
Oversupply	T	3	3	3	2	2	2
Big bakeries control the market	O	3	3	3	3	3	3

sized bakeries will become bankrupt according to Stanislav Musil.

We suppose that the most important threats for the United Bakeries are the rising prices of inputs such as cereals, energies and fuels. We expect the same trend in the future too. Then the occurrence and the influence of this threat will be significant for them and for every bakery company. For the bakeries, it is not easy to decide what products to make. People buy a new product, which appeals to some but not to the others. Most consumers prefer the classic bread and rolls. Then, there are numerous kinds of pastries in the market: cheesecake, tart cake, plum cake, queen cake, apple pie, seedcake, shortcake, Danish pastry, buckwheat cake and so on. These products are rather expensive and not everybody does accept the price. Marketing plays a significant role too though the style waves are not so important in bakeries as in other commodities.

Probability estimation of the occurrence and influence of other opportunities and treats to the United Bakeries are shown in Table 2.

CONCLUSION

The primary task of management is to maintain the long term viability of the company based on the continuous creating of the balance between the internal and external environment. Thanks to the approval of the merger of the Bakeries International Luxembourg and the United Bakeries Luxembourg as of 24 February 2006, this company became the largest bakery group in Central Europe, with production plants in the Czech Republic, Slovakia, Poland and Hungary. This presents them with many new challenges and tasks. The company main goal will be creating a sophisticated organizational structure for the new company and quickly restructuring their production and logistics processes. Centralization of production, investments in up-to-date technological units and their efficient use in conjunction with the joint marketing management of their leading brands

Delta and Odkolek will enable them to improve the company economic efficiency. The company must change the assortment of staple products as well as the introduction of new ones. The company is also aggressively seeking to enter the European markets and to advance Czech baking against the tough international competition.

Despite the achieved success, the company must pursue the STEPE analysis and situation analysis of external environment. The company must identify its opportunities and threats and to estimate their influence for today and future.

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Arrived on 12th May 2008

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